ALWAYS FIRST – WITH SPEED AND PRECISION.

Annual Financial Report 2019
Kommunalkredit Group

Kommunalkredit at a Glance

Selected performance figures in EUR m	Austrian GAAP			IFRS		
	2017	2018	2019	2017*	2018	2019
Net interest income	32.8	37.7	45.6	35.2	49.2	58.6
EBIT**	9.0	21.8	27.0	7.9	23.9	33.2
Profit on ordinary activities/profit for the year before tax	18.3	29.7	28.7	7.1	32.6	27.3
Profit for the year after tax	18.9	30.4	30.3	18.1	14.3	29.6
Cost-income ratio	83.2%	67.0%	63.2%	87.9%	70.2%	63.3%
Return on equity before tax	8.4%	12.8%	10.8%	3.1%	14.0%	10.3%

* 2017 in accordance with IAS 39.
** Operating performance as reported in accordance with the Austrian Commercial Code (UGB) plus the operating result from the sale of infrastructure/energy financing and change in the provision required under § 57 (1) of the Austrian Banking Act (BWG), also adjusted for restructuring expense (2017, 2018) and gains from the transfer of real estate assets (2017). Profit for the year before tax under IFRS, adjusted for net provisioning for impairment losses, measurement gains/losses and restructuring expense (2017, 2018).

EUR 264m

Assets under management
since launch of the
Fidelio KA Infrastructure Debt Fund Europe 1

Diversity

20 nationalities are a visible sign
of the diversity of our corporate culture

EBIT

EUR 27m

+ 24% year on year
despite loss of SLA with KA Finanz AG

CIR*

63.2%

*based on EBIT

31%

of gross revenues from Public Finance Business
Nurseries, schools, broadband
made possible for local authorities in Austria

69%

of gross revenues from
infrastructure and energy financing

All figures – unless otherwise stated – reported under Austrian GAAP.

RoE before taxes

10.8%

Focus on Europe

32 transactions in 2019

Green electricity covering

100%

of electricity consumption at the Vienna site

„Best ESG Infrastructure Finance Europe 2019”
&
„Most Sustainable Infrastructure Project Partner Central Europe 2019”

New business volume
once again crosses one-billion threshold at

EUR 1.04bn

Placement volume
with a focus on distribution amounting to

EUR 462m

12

Sustainable Development Goals
criteria already met

Premium portfolio
with average rating of

„A-“

Clear vision. Concise mission.

What is our goal?	How do we achieve our goal?	How do we improve in terms of our core business?	What do we need to achieve this?	Why is this appealing to our shareholders?
Being the partner of choice for infrastructure investments: ▪ Increasing financing by more than double ▪ Increasing placements by more than triple	By concentrating on our core business: ▪ Customer focus ▪ Operational efficiency ▪ Strict placement criteria	▪ Expanding our product base ▪ Developing our fee business ▪ Enhancing productivity ▪ Boosting profitability ▪ Risk-return-centric management	▪ Boost our capital ▪ Invest in talent ▪ Embrace digitalisation ▪ Improve our rating ▪ Increase our underwriting capacity	▪ Increase EBIT to EUR 50m ▪ Reduce our cost-income ratio to 50% ▪ Achieve return on equity before taxes of 10% ▪ Achieve an attractive return on investment

All figures – unless otherwise stated – reported under Austrian GAAP.

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INFRA BANKING EXPERTS

Letter by the Chief Executive Officer

BE THE SHAPER. NOT THE SHAPED.

Dear stakeholders,

Our strong performance in the 2019 financial year serves as confirmation that we are on the right track in our mission to position Kommunalkredit as the partner of choice for infrastructure and energy financing, as well as public finance, in Austria and Europe. We will continue to pursue this strategy at full tilt. The results, made possible by the commitment shown by each and every employee, confirm that we are pursuing the right approach. I would like to take this opportunity to explicitly thank our employees, backers and stakeholders for our joint success.

Investments in infrastructure and measures to combat climate change are essential for our society. They form the very core of our business model. Investing in sustainable infrastructure and energy security allows us not only to establish long-term customer relationships, but also to generate attractive returns in the process, thereby strengthening our market position. New business came to EUR 1,036.3m, once again breaking the billion barrier. The increase in our EBIT to EUR 27.0m (+24%) – despite the expiry of the service level agreement with KA Finanz AG with effect from the end of March 2019 – and common equity tier 1 (CET 1) capital of EUR 303.6m attest to what we have achieved. Even in times characterised by a tense low interest rate environment, we have cut our cost-income ratio to 63.2% and generated a return on equity before tax of 10.8%, with a CET 1 ratio of 18.1%. Our non-performing loan (NPL) ratio once again stands at 0.0% – as it has every single year since privatisation back in 2015. We conduct business in a manner that is geared towards collaborative endeavours with established partners (originate and collaborate) and therefore are particularly focused on our ability to place our transactions with our business partners on the international financing market. The volume placed with insurers, asset managers, banks and our asset management platform Fidelio KA in 2019 comes to EUR 462.4m. Institutional investors are increasingly looking for alternative investments. Infrastructure investments are proving increasingly popular and make for an attractive asset class. We launched our first debt fund, Fidelio, back in 2018 in response to the interests of our business partners and stakeholders. We have already surpassed our target volume of EUR 250m this year.

This has allowed us to prove – as we will continue to do – that profitability and the environmental deployment of capital are not mutually exclusive, but rather are two sides of the exact same coin for us. We aim to continuously strengthen our capital base, allowing us to mobilise more capital for sustainable use in infrastructure that meets ESG criteria. Our efforts are also noticed on the market. We are delighted, for example, to have been recognised by the international platform “Capital Finance International” as the “Best ESG Infrastructure Finance Europe 2019” and by “Business Vision” as the “Most Sustainable Infrastructure Project Partner Central Europe 2019”. We take this responsibility very seriously and are currently fleshing out the details of the in-house catalogue of criteria to give greater consideration to ESG and SDG-related aspects when evaluating projects in the future.

The economic and financial system will play a key role in tackling the global challenges facing us. We have to ask ourselves which investments we will need to make in order to turn things around and advance towards a sustainable future. One forum that is helping to answer these questions is the MUNICIPAL SUMMER TALKS that we have been holding jointly with the Association of Austrian Municipalities for 15 years now. The event brings national and international experts from business, academic, political and media circles together with the participants to contribute food for thought and develop potential solutions to the pressing questions facing our societies. This pool of ideas gives rise to new possibilities for collaboration and interesting projects.

In other words: we combine purpose and profitability. We support long-term investments in projects that will foster prosperity for generations and promote social peace, quality of life and security in the future.

This approach is all the more justified given the outbreak of the novel coronavirus in late 2019/early 2020 in China and the ensuing spread of the virus in Europe and throughout the rest of the world. The challenges resulting from the drastic but necessary restrictions imposed on public life in response to this global health crisis show just how essential well-functioning infrastructure is for the social and economic well-being. In particular, this includes ensuring that the relevant social infrastructure (such as hospitals and care homes) is available and in good working order, but also securing energy supplies and a powerful communications infrastructure.

With its focus on infrastructure and energy financing, Kommunalkredit operates in a sector that has proven to be largely crisis-resistant in the past. Unlike with corporate financing, financing in these areas is associated with low default rates and stable recovery rates that are largely independent of economic cycles. Similarly, as a result of the current health crisis and its impact on the real economy, the maintenance and modernisation of supply, transport and social infrastructure will be at the very top of the agenda of both developed and developing countries, meaning that these areas look set to become even more relevant.

As things stand at the moment, it is almost impossible to predict what the actual health-related and real economic impact of the coronavirus pandemic in Europe and worldwide will be, although the restrictions imposed on public life are expected to translate into a marked slump in economic output both in Europe and on a global scale. It is precisely in this sort of environment that Kommunalkredit is well positioned and on hand to act as a reliable partner thanks to its solid liquidity and capital resources.

In order to continue on the path that we have carved out, we need a committed and motivated team, especially in these times full of challenges for all of us. The spread of the coronavirus pandemic and the associated challenges for the day-to-day work we perform together for our customers have again highlighted, on a positive note, just how motivated our employees are, reinforcing our confidence in our ability to achieve our goals. With its registered office in Vienna – which has been repeatedly crowned the world's most liveable city – we are ideally placed to attract talented international employees now and in the future, and to ensure that they remain loyal to us in the long term. As a result, we are committed to continue fostering an environment that allows for stimulating collaboration by helping our employees to develop their strengths while at the same time challenging them. Promoting a sense of identification with our company as an agile and success-driven entity is something that is extremely important to us. We want to benefit from our colleagues' expertise in the long run, which is why we have launched numerous development programmes to support this.

This puts us in a good position to achieve strong results again in 2020. The measure to strengthen the capital base by EUR 50.4m implemented in the first half of 2019 will support the bank's organic growth. Our underwriting capacities are increasing, we are benefiting from economies of scale and improving our resilience. We aim to always be one step ahead, showing speed and precision in laying the necessary foundation for the bank's future. We have the entrepreneurial instinct and the necessary knowledge and skills to be able to think and act in an innovative manner. This gives us a sense of confidence as we look ahead. Let us shape the future in front of us. For us and the generations to follow.

Best regards,

Bernd Fislage
Chief Executive Officer
Kommunalkredit Austria AG

Vienna, March 2020

Executive Committee

The Executive Committee – comprising the management personnel from Market, Back Office and Strategy – supports the Executive Board in day-to-day business.

From left to right: Thomas Grießler (Head of Finance), Andreas Weissenbach (Head of Risk Controlling), Claudia Wieser (Head of Bank Development), Harald Brunner (Executive Vice President IT, Banking Operations, Project & Process Management), Kors Korsmeier (Executive Vice President Finance, Risk Controlling, Credit Risk Management), Mariella Huber (Head of Corporate Services), John Philip Weiland (Head of Banking), Bernd Fislage (CEO), Jochen Lucht (CFO, CRO, COO), Reinhard Fuchs (Head of Markets).

Functions within the Company

Executive Board

Karl-Bernd Fislage, Chief Executive Officer

Jochen Lucht, Member of the Executive Board

Jörn Engelmann, Member of the Executive Board
until 31 January 2019

Supervisory Board

Patrick Bettscheider, Chairman of the Supervisory Board
Appointed by Gesona Beteiligungsverwaltung GmbH;
Managing Director Gesona Beteiligungsverwaltung GmbH and Satere Beteiligungsverwaltungs GmbH

Christopher Guth, Deputy Chairman of the Supervisory Board
Appointed by Gesona Beteiligungsverwaltung GmbH

Friedrich Andreae
Managing Director Gesona Beteiligungsverwaltung GmbH and Satere Beteiligungsverwaltungs GmbH

Jürgen Meisch
Managing Director Achalm Capital GmbH

Martin Rey
Managing Director Maroban GmbH

Alois Steinbichler

Patrick Höller
Nominated by the Works Council

Renate Schneider
Nominated by the Works Council

State Representative

Philipp Schweizer, State Representative
Federal Ministry of Finance

Bettina Horvath, Deputy State Representative
Federal Ministry of Finance; until 30 November 2019

Markus Kroiher, Deputy State Representative
Federal Ministry of Finance; since 1 December 2019

Government Representative for Cover Pool for Covered Bonds

Karin Fischer, Government Representative
Federal Ministry of Finance

Sandra Kaiser, Deputy Government Representative
Federal Ministry of Finance

Report of the Chairman of the Supervisory Board

The Supervisory Board of Kommunalkredit Austria AG (Kommunalkredit) submits its report on the 2019 financial year to the Shareholders' Meeting.

Patrick Bettscheider, Managing Director of Gesona Beteiligungsverwaltung GmbH and 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 and Satere Beteiligungs GmbH, as well as Alois Steinbichler. 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 works council are Patrick Höller and Renate Schneider. Alexander Somer was delegated to the Supervisory Board as the third employee representative with effect from 25 February 2020. At the time of reporting, the Supervisory Board comprises four capital representatives, two independent representatives and three employee representatives.

At the time of reporting, the Executive Board consists of CEO Karl-Bernd Fislage (Chief Executive Officer) and Jochen Lucht (Chief Financial Officer, Chief Risk Officer and Chief Operating Officer). Jörn Engelmann's mandate expired on 31 January 2019.

Kommunalkredit remained robustly on its growth path in the 2019 financial year. The contribution made by the core business to gross revenues rose to 69.2% under the Austrian Commercial Code (UGB) or 60.6% in accordance with IFRS. New business came to EUR 1,036.3m, once again breaking the billion barrier, while EBIT increased by 24% to EUR 27.0m under the Austrian Commercial Code or by 39% to EUR 33.2m in accordance with IFRS. This was reflected in a marked reduction in the cost-income ratio to 63.2% (IFRS: 63.3%). By continuing to expand its consulting and structuring activities, the bank was able to increase its risk-free net fee and commission income, thus significantly increasing its income quality. In Structured Finance, Kommunalkredit applied its in-depth industry expertise to not only engage in project financing but also further develop its activities in the fields of acquisition finance, hybrid/corporate finance and financial advice. The particular focus on the bank's ability to place its transactions on the international financing market is reflected in an investment volume of EUR 462.4m among insurance companies, asset managers and banks. 2019 also saw the second close of the fund "Fidelio KA Infrastructure Debt Fund Europe 1", which the bank established in 2018 and uses to offer its business partners access to infrastructure and energy financing through an asset management solution.

The Supervisory Board performed its tasks, as defined in the Articles of Association and the Rules of Procedure, at four ordinary meetings. Moreover, the committees operating in 2019 (Audit Committee, Risk Committee, Remuneration Committee and Credit Committee) held their meetings and performed their tasks in accordance with the Articles of Association. The Articles of Association and the Rules of Procedure of the Supervisory Board were amended to reflect changes in the company's circumstances. In addition, the Rules of Procedure and schedule of responsibilities of the Executive Board were adapted as a result of the appointment of two chief representatives for the back office and the resulting changes in the vertical deputy structure.

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, and under 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 Guidelines on the assessment of suitability of members of the management body and key function holders, 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 November 2019.

These annual financial statements and the management report were audited by PwC Wirtschaftsprüfung GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna. The audit did not result in any findings and the statutory provisions were adhered to. As the annual financial statements present a true and fair view of the assets and the financial position of the company as of 31 December 2019, the auditors issued an unqualified audit opinion. The Supervisory Board endorsed the results of the audit and approved the 2019 annual financial statements, which were therefore formally adopted, at its meeting held on 31 March 2020. Moreover, the consolidated financial statements as of 31 December 2019, including the management report, were examined and acknowledged by the Supervisory Board.

The Supervisory Board

Patrick Bettscheider
Chairman

Vienna, 31 March 2020

VISION. MISSION – ALWAYS FIRST

ALWAYS COMMITTED.

The infrastructure specialist

Kommunalkredit is the specialist for infrastructure and energy financing. Our aim is clear: we want to establish ourselves as a **leading name in the European infrastructure market**. Our mission: we are a small and agile institution focusing on the implementation of sustainable financing and subsidy transactions – not only as a leader in our domestic market, Austria, but also as a powerful player throughout Europe. Working in partnership with our customers, we create value that continuously improves people's lives. Our goal is to use our business model to achieve ongoing improvements in the standard of living of the general public. At the same time, we give our investors the opportunity to generate substantial returns in the long run.

We expanded our market position considerably again in 2019. The positive feedback from our business partners, customers, competitors and industry media serves as confirmation to us that we are on the right track. This is also reflected, by way of example, in the sustainability awards we recently received: first of all, the international platform "Capital Finance International" singled us out as the "Best ESG Infrastructure Finance Europe 2019". Second, "Business Vision" crowned us the "Most Sustainable Infrastructure Project Partner Central Europe 2019". At home, the renowned business magazine "Der Börsianer" put us in third place in the "Best Direct Bank" category.

Kommunalkredit was also involved in two deals that were on the receiving end of **Deals of the Year 2019** awards presented by the leading infrastructure magazine PFI (Project Finance International/Thomson Reuters) in 2019: the Finerge wind farm in Portugal was crowned "Europe Power Deal of the Year", while the Italian motorway section connecting Brescia, Bergamo and Milan was awarded the title of "Europe Bond Deal of the Year".

Our vision

We will become the most agile and nimble infrastructure bank in Europe, helping to create a better world. We combine sustainable and responsible investments with attractive returns.

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 – not just for ourselves, but also for the coming generations.
- We see infrastructure investments as a powerful tool for answering social needs and fundamentally increasing the general well-being of communities.
- We provide tangible benefits to the population at large:
  - Economic dynamism
  - Urban development and renewal
  - Strengthening rural areas
  - Job creation
  - Social cohesion
  - Measures to combat climate change
- We focus on providing a secure, stable and sustainable yield to our investors.
- We are the partner of choice for a long-term commitment.

ALWAYS SUCCESS-DRIVEN.

Our business model

The specific structure of Kommunalkredit's business model means that it is associated with a low risk: we act as a point of contact for both corporate and financial sponsors active in the construction, acquisition and/or operation of infrastructure and energy projects. And we are on hand to assist the public sector not only when it comes to advice on, but particularly also the financing of, investments in the public finance business. Our focus: we deliver sustainable **benefits to the community** by impacting key issues including economic growth, the strengthening of rural areas, job creation, social cohesion and climate protection.

We combine in-depth industry expertise and structuring know-how to provide tailor-made solutions for our clients with speed, precision and enthusiasm. We have strong relationships with both local authorities on the one hand and international clients and investors on the other. We make use of our ability to create solid value by providing flexible financing solutions across all layers of the capital structure – spanning all areas of the ESG (Environmental Social Governance) landscape. We are supported in our endeavours by two international owners with a long-term focus.

We provide an extensive range of products, from financial advisory services to structuring, arranging and underwriting of debt and subordinated capital as well as asset management through our 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 seeking sustainable investment opportunities such as insurance companies, pension funds and asset managers. Our infrastructure and energy portfolio spans a broad range of different segments.

What sets us apart

- **Our unique combination of in-depth industry expertise and structuring know-how combined with the financing capabilities of a bank.**
- **Our access to a captive asset base and investors.**
- **The strong track record of our senior team in managing growth and risk when it comes to expanding business.**
- **Our investments in the development of our employees.**
- **Our expertise in calculating risk appropriately and providing our sponsors with competent advice.**
- **Our expertise in turning economically sustainable projects into a profitable reality.**
- **The benefits of an agile bank: nimble, flexible, solution-driven and goal-oriented.**

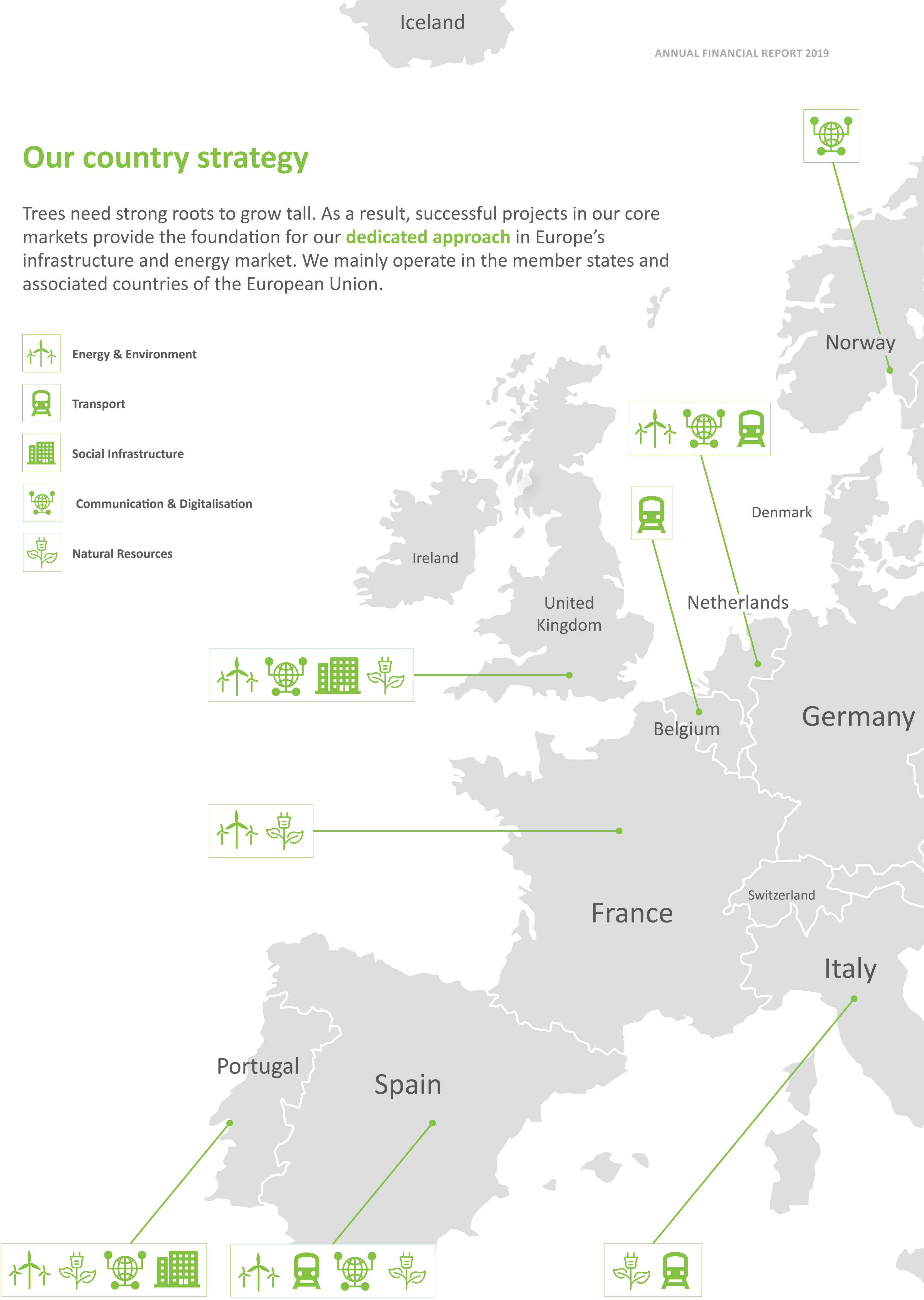
Our investment segments

Energy & Environment	Communication & Digitalisation	Transport	Social Infrastructure	Natural Resources
Energy supply & distribution Renewable energy Water supply & treatment Waste management & disposal	Broadband, Fibre optic Data centres	Roads, bridges, tunnels Airports, ports, waterways Rail/light rail, rolling stock	Nurseries, schools, universities Hospitals, nursing homes Court buildings and correction facilities Administrative buildings	LNG terminals Pipelines Storage

Our country strategy

Trees need strong roots to grow tall. As a result, successful projects in our core markets provide the foundation for our **dedicated approach** in Europe's infrastructure and energy market. We mainly operate in the member states and associated countries of the European Union.

- Energy & Environment
- Transport
- Social Infrastructure
- Communication & Digitalisation
- Natural Resources




Sweden
Finland
Estonia
Latvia
Lithuania
Belarus
Poland
Ukraine
Czech Republic
Slovakia
Moldova
Austria
Hungary
Romania
Slovenia
Croatia
Bosnia &
Herzegovina
Serbia
Bulgaria
Monte-
negro
Kosovo
North
Macedonia
Albania
Greece
Turkey

ALWAYS AMBITIOUS.

Our objectives

Kommunalkredit launched its strategic programme back in 2018, setting out clear and ambitious targets: by strengthening our capital basis, we intend to increase the EBIT to EUR 50m, reduce the cost-income ratio to 50% and generate RoE (Return on Equity) of 10% by 2022 – in short, **50 | 50 | 10.** (All figures pursuant to the Austrian 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. The generation of attractive returns and the sustainable environmental deployment of capital are for us the two sides of the exact same coin.

2019 saw us execute transactions worth EUR 1.04bn across Europe. We placed a volume of EUR 462m (45%) with investors by pursuing a collaborative approach.

2 How will we achieve this goal?

We focus on our core business. We live customer centricity and focus on operational efficiency in keeping with the ESG (Environment, Social and Governance) criteria and clearly defined placement criteria in line with the requirements of our partners in terms of returns.

2019 saw us broaden our client network and ensure repeat business with key clients in particular. The high implementation ratio in our project acquisition and execution activities confirms that our business model is the right approach.

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

By gradually broadening our product range, growing the fee business and improving productivity and profitability on an ongoing basis. We focus strongly on risk-adjusted returns and sustainable investments.

Our asset management services through our Fidelio KA Infrastructure Debt Fund platform grew in 2019, and we also expanded our financial advisory business. Our net fee and commission income increased by a further 10%.

4 What do we need to achieve this?

We aim to continuously strengthen our capital basis. This will allow us to mobilise more capital for sustainable use in infrastructure that meets ESG criteria and to benefit from economies of scale. We invest not only in our employees, but also in process digitalisation. We are committed – like in 2019 – to improving our rating.

We strengthened our capital base by EUR 50.4m in 2019. We adopted a cautious and precise approach to expand our team of international infrastructure experts. The rating agency DBRS Morningstar lifted the outlook for Kommunalkredit's long-term rating (BBB low) from "stable" to "positive".

5 Why is this attractive to our shareholders?

We aim to increase the EBIT to EUR 50m, reduce the cost-income ratio to 50% and generate RoE of 10% by 2022. All these achievements will result in an attractive RoI.

In 2019, we boosted our EBIT by 24% to EUR 27.0m despite the expiry of the service agreement with KA Finanz AG with effect from March 2019. The cost-income ratio was reduced to 63.2% and a return on equity before tax of 10.8% based on a CET 1 ratio of 18.1% was generated. (All under Austrian GAAP.)

ALWAYS RELEVANT.

Why infrastructure?

Infrastructure by its very nature is essential to the efficient functioning of society. The quality of infrastructure has a positive effect on economic growth, at local, regional, national and global levels. By giving communities improved access to essential services such as water, electricity, roads, educational facilities and hospitals, the standard of living of the public will be improved sustainably. **Infrastructure** remains an essential **backbone** of the world's developed markets, while also allowing emerging markets to make the leap to prosperity.

1 Infrastructure will always be relevant

Climate change and the increasing shortage of fossil fuels increase the need for solutions for sustainable energy supplies. Reducing CO_2 emissions is not only a declared aim, but is now the subject of legislative initiatives. This challenge is an absolute top priority across the globe and will have a direct impact on infrastructure in every single country. In addition, developed countries also need to maintain and upgrade their existing utility, transport and social infrastructure assets to cope with the demographic shift towards an ageing population and provide them with living conditions that meet their needs. In emerging countries with high demographic growth rates, infrastructure is crucial to sustained and balanced development.

2 High demand for investments in Europe

Demand for investment in infrastructure remains high. The European Investment Bank (EIB) is working towards injecting an additional EUR 500bn into the real economy by the end of 2020.[1] This will not, however, go far enough as to close the investment gap in the European Union (EU). In addition, infrastructure investments are stagnating at 1.6% of the EU's gross domestic product, the lowest level witnessed in 15 years.[2] There is a particular need for investment in energy – the focus being on renewable energy –, transport, social infrastructure and communications/digitalisation. Given the status quo, it is high time for the public sector to take action and embark on the necessary investment projects hand-in-hand with private-sector companies.

3 Increasingly recognised as an asset class

The way in which infrastructure projects are financed has changed significantly in recent years. On the one hand, the financial latitude of the public sector is decreasing due to government debt and budget caps, which is causing a shift from conventional budget finance to private funding. On the other side of the equation, institutional investors are increasingly seeking out alternative investment opportunities due to the pressure on returns from conventional investments as well as regulatory requirements. Infrastructure investments are proving increasingly popular and now represent an attractive asset class of their own with stable returns.

4 Low default and high recovery rates

Compared with corporate financing, infrastructure and energy financing is a stable investment, with recovery rates that are largely independent of economic trends including a low default risk. In the period from 1983 to 2017, average default rates over the entire project term in the infrastructure (3.2%) and energy (4.6%) sectors were several times lower than in the manufacturing industry (20.3%).[3] At the same time, recovery rates on infrastructure investments average 72%.[4] Among Kommunalkredit's focus industries, recovery rates come in between 60% and 80% (for infrastructure, telecoms) or between 80% and 100% (power).[5]

[1] EIB – European Investment Bank: Investment Plan for Europe, July 2018.

[2] EIB – European Investment Bank: Investment Report 2019/2020, November 2019.

[3] Moody's Investors Service: Infrastructure default and recovery rates 1983–2017, 2018.

[4] Moody's Investors Service: Infrastructure default and recovery rates 1983–2017, 2018.

[5] Moody's Investors Service: Default and Recovery Rates for Project Finance Bank Loans 1983-2017, 2018.

ALWAYS SUSTAINABLE.

Benefit to the community

As a specialist bank for infrastructure and energy financing, Kommunalkredit provides tangible 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 bolsters economic momentum, encourages urban development, gives regions a new lease of life, creates jobs, promotes social cohesion and is an indispensable part of the **fight against climate change**. It meets the needs of today's generation and creates opportunities for the generations to follow.

Sustainability as a key component

The concept of sustainability is firmly embedded in Kommunalkredit's business model and processes. Back in 1997, we became the first financial services provider in Europe to establish an EMAS (Eco-Management and Audit Scheme) environmental management system and we have been enhancing it to create a holistic sustainability management system ever since. The fact that we became the first Austrian issuer of a Social Covered Bond in 2017 pays testimony to just how important sustainability is to us.

EMAS
GEPRÜFTES UMWELTMANAGEMENT
AT-000293

We actively address the key global and local infrastructure trends. We have a comprehensive view of the private sector's responsibility when it comes to doing its bit for prosperity and core ethical values within society. Sustainable business – i.e. operating responsibly in economic, social and ecological terms – and core ethical values form the basis for our activities.

Our subsidiary Kommunalkredit Public Consulting (KPC) also makes a key contribution to the implementation of environmental and climate protection projects on both a national and international scale. It develops and implements environmental as well as energy support programmes. The "Climate Austria" initiative, which allows CO2 emissions to be offset voluntarily, was established by KPC back in 2008. It also provides the advisor to the Austrian representative in the **Green Climate Fund** (GCF). This climate fund provides funding for projects designed to help reduce greenhouse gas emissions and to allow developing countries to make the adjustments they need to make in response to 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 management, energy and climate finance.

CLIMATEAUSTRIA

Sustainability as a joint contribution

Kommunalkredit has a large number of sustainability ratings from renowned agencies. ISS-oekom has rated us as a "Prime" company, putting it among the ranks of those companies that the agency considers to be the leaders in their sector. imug (consultancy firm for social and ecological innovation and investment research) assigned a rating of "very positive" to Kommunalkredit's covered bonds; the performance ot the bank was rated "positive". These sustainability ratings are reviewed and evaluated at regular intervals.

The path we have carved out for ourselves is also reflected in two **sustainability awards** we recently received: "an organisation that puts sustainability at the centre of its business model and its activities and, with current projects in the fields of energy, the environment, social infrastructure, communications and transport, shows that real sustainability can be more than just a noble aim." This is how the jury of the international "Business Vision" platform, which became aware of Kommunalkredit after we were nominated by international stakeholders, explained the rationale behind its decision to award us the title of "Most Sustainable Infrastructure Project Partner 2019 (Central Europe)".

"Capital Finance International" also bestowed the title of "Best ESG Infrastructure Finance 2019" on Kommunalkredit. Capital Finance International explained its decision by pointing to Kommunalkredit's three-pronged approach to tackling social, ecological and economic issues, as well as its strong social commitment, allowing it to promote climate protection.

The annual Sustainability Report focuses on providing information on the impact the company has on the economy, the environment and society at large. The Sustainability Report is subject to an independent external review based on GRI Standards (Global Reporting Initiative) and EMAS, as well as ISO 14001, and is available at www.kommunalkredit.at.

Sustainability as a global challenge

17 goals will change the world as we know it today. In September 2015, all of the attending heads of state and government at the United Nations General Assembly adopted **the resolution "Transforming our World: The 2030 Agenda for Sustainable Development"**. This agenda comprises a political declaration, 17 Sustainable Development Goals and 169 targets for the period from 2016 to 2030, a package of measures for implementing the goals and a system for measuring and monitoring the progress made. The Sustainable Development Goals (SDG) set out intentions that will allow us to tackle the complex global challenges of our time together and leave behind a world that is worth living in for future generations. They give equal consideration to economic, social and environmental aspects.[6]

One of the biggest global challenges facing us is **climate change**. Countering this process of change requires extensive investment, particularly in the areas of infrastructure and energy. With our Energy & Environment, Social Infrastructure, Communications & Digitalisation, Transport and Natural Resources investment segments, we at Kommunalkredit are exploiting the opportunities that are arising as a result and facilitating sustainable infrastructure projects to improve quality of life. The comprehensive approach to sustainability is one that we put into practice both within our Group and in our day-to-day collaboration with our stakeholders. It provides the framework for making the **ESG strategy** (Environment, Social and Governance) a firm component of our corporate culture.

Kommunalkredit used a materiality analysis to evaluate whether the areas of "sustainable products", "price policy and conditions", "added value for society", "indirect impact" and "product portfolio" are balanced with regard to the three pillars of sustainability – economical, ecological and social. The areas of "business ethics" (legal and regulatory framework, compliance, data protection and client satisfaction), "employees" (initial and further training, motivation, health …) and "operational ecology" were also put under the microscope.

The analysis determined a series of SDG criteria that are being achieved with the help of the activities of Kommunalkredit and Kommunalkredit Public Consulting (KPC). We are currently in the process of preparing an in-house **ESG catalogue** that will allow us to evaluate future projects from this angle. Kommunalkredit not only wants to set a good example in this regard, but also aims to establish itself as a trendsetter for debt financing.

Our action plan for sustainable development – status quo

1. The Goal

The aim is to provide high-quality, dependable, sustainable and resilient infrastructure that accounts in particular for the challenges posed by climate change.

2. What are we doing for it

To this end, we concentrate on our investment segments:
- Energy & Environment
- Social Infrastructure
- Transport
- Communication & Digitalisation
- Natural Resources

3. The Sustainability Check

We feel bound by the UN's 2030 Agenda and have integrated it into our corporate culture. For each infrastructure project, we identify how compliant it is with SDG criteria and which direct and indirect effects it will have on the environment and society. We are currently making contributions to the following goals:

[6] Contributions of the Federal Ministries to the implementation of the 2030 Agenda of Sustainable Development by Austria, 2016.

Creating a better everyday life

We bring people together – in schools and universities, in care homes and hospitals, in railway stations and on roads. We help to ensure that renewable energies are available to use in as many areas as possible. We create value.

We support **infrastructure development**, financing over 480 km of roads.

We enable environmentally-friendly **transport solutions** for 27 million passengers per year.

We enable around 2.5 million households to use **renewable energy** each year.

We have created **support institutions** for around 1,500 patients.

We supply **drinking water** to 7 million people.

We participate in the **education** of around 1,100 students.

We are developing the refuelling infrastructure for **electromobility** with around 10,400 charging stations.

We contribute to **eliminating** 2.4 million tonnes of **waste**.

We **connect** over 14.2 million people with one another.

We create **accommodation** for more than 8,300 elderly and disabled people.

MANAGEMENT REPORT

KOMMUNALKREDIT GROUP

Economic environment

UNCERTAIN GLOBAL OUTLOOK.

After the global economy reached its peak in 2018 with GDP growth of 3.5%, 2019 presented a mixed picture. As a result of the coronavirus pandemic, global and European economic output is expected to fall significantly in 2020.

Impact of the coronavirus pandemic on the economic environment

The outbreak of the novel coronavirus in late 2019/early 2020 in China and its subsequent spread throughout Europe and the rest of the world in March 2020 means that all of the most recent forecasts regarding economic developments and trends have been jettisoned. In order to slow the further spread of the virus, extensive border controls were imposed across the globe within the space of only a few days, resulting in unprecedented restrictions on citizens' freedom of movement, public life and, as a result, economic life as well.

In addition to these comprehensive measures, which are essential from a public health perspective, rapid and far-reaching monetary and fiscal policy measures have also been defined, particularly in Europe and the USA, to cushion the blow to the real economy. These include both rescue packages running into the billions that were put together at short notice to support the economy as well as various monetary policy and regulatory relief measures passed by central banks and supervisory authorities. Unlike the US central bank (Fed), which slashed its key rates drastically to within a range of 0.00% to 0.25% in mid-March 2020, the ECB opted not to cut rates any further for the time being. Additional asset purchases of EUR 120 billion in the period leading up to the end of 2020 were initially announced as part of a package of measures; a short time later, this amount was increased by a further EUR 750 billion. Measures were also taken to make the conditions for longer-term bank refinancing operations (TLTRO III) more attractive and to offer additional short-term refinancing operations (LTROs) for the transition period leading up until the next TLTRO III tender to ultimately ensure favourable refinancing and sufficient liquidity for banks. Banks were also granted relief regarding the utilisation of existing capital and liquidity buffers in order to maintain the credit supply to the real economy. This also involved temporarily loosening the regulatory requirements regarding the capital ratios defined by the Pillar 2 Guidance together with the capital conservation buffer and the countercyclical capital buffer, and allowing institutions to fall below the liquidity coverage ratio if need be. Further support and relief measures are likely to follow.

In general, global and European economic output is expected to fall considerably. Further downside risks are hanging over economic development and will depend on how the coronavirus pandemic unfolds, making them impossible to predict at present. A marked slump in global economic output, at least on a temporary basis, and the need for monetary and fiscal policy support will likely push government debt levels up in both Europe and the USA, meaning that interest rates will remain low. Inflation rates are also expected to fall, in particular after Saudi Arabia and Russia, the world's leading oil producers, failed to reach an agreement on production cuts in early March 2020, sending the oil price plummeting. Oil prices are now expected to remain under pressure for some time, also due to the lower demand resulting from the coronavirus pandemic.

The actual economic impact of the coronavirus pandemic will ultimately depend on how quickly and to what extent the measures taken to curb the spread of the virus will be successful, allowing real economic activity to bounce back.

Economic environment in 2019

The global economic outlook was already subdued in 2019. The risk of a downturn had been intensified by the continued uncertainty in terms of (trade) policy and as a result of the increasingly gloomy business climate. Global GDP growth fell to 2.9% (2018: 3.5%). Growth was more robust in the USA – thanks to high consumer spending – and in some Central European economies. In China, the slow decline continued with demand for the country's imports slowing at an even faster pace. At 2.0%, global inflation was below that of the previous year (2018: 2.3%). Dogged adherence to the fiscal policy left little scope to exploit low interest rates within the context of economic growth.[7]

The global economy has been put under massive strain by the ongoing trade disputes between the superpowers USA and China and the establishment of new trade restrictions (in particular additional tariffs).[8] Global trade grew by around just 1.2% in 2019; the forecast as of April 2019 was 2.6%, which itself was a significant decline compared to the previous year's value of 3.7%.[9] This is the lowest figure witnessed since the financial crisis.

[7] OECD: Economic Outlook, Volume 2019/2.

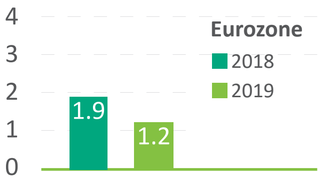
[8] OECD: Economic Outlook, Volume 2019/2.

[9] WTO: Press Release 840.

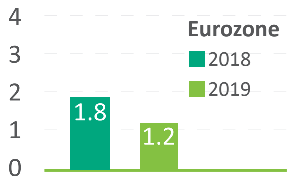
Confidence indices for OECD countries also went in all different directions, although with modest growth of just 1.7% these have fallen as a whole. In 2018 this value was still at 2.3%.[10]

Economic growth in the eurozone slowed further to 1.2% in 2019 (2018: 1.9%), with Germany and Italy most heavily affected. Inflation in 2019 was just 1.2% (2018: 1.8%).[11] Uncertainty regarding the current global trade disputes in particular, which resulted in a general decline in demand for European goods and services, contributed to a further slowdown in economic momentum. Brexit also had an adverse impact.[12]

Eurozone GDP growth in %



Inflation rate in %



The economic climate of the United Kingdom in 2019 was dominated by the political debate surrounding the solution of Brexit. Following new elections and with a new government, the British Parliament passed the Brexit Act at the end of 2019/start of 2020. Overall, this ongoing uncertainty throughout the year had a knock-on effect on economic growth and other economic indicators. Economic growth was 1.2% in 2019 as against 1.4% in the previous year. Inflation fell below the target value of 2.0% set by the Bank of England, but was still relatively high at 1.7% – in part due to the growing uncertainty regarding potential trade barriers following the departure of the United Kingdom from the European Union. Investments saw no growth in 2019.[13]

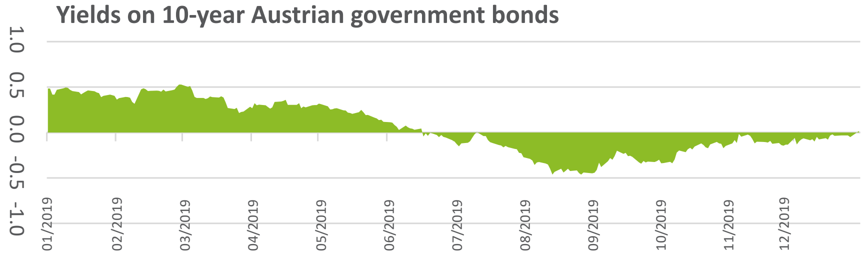
Austria saw economic growth and an inflation rate of 1.5% in 2019. Germany remained the stabilising factor of the eurozone economy in 2019, despite the automotive industry suffering painful losses. However, the weak global trade did contribute to a further decline in economic growth in Germany (from 1.5% to 0.6%), which in turn caused a deterioration in confidence indices and investment prospects. This was reflected in particular in reduced capital expenditure, which grew by 2.7% in 2019.

Inflation (harmonised consumer price index) remained at 1.3% in 2019, below the inflation target of 2.0% set by the European Central Bank (ECB).[14] As of 1 November 2019 the ECB has resumed its net purchases of securities under its Asset Purchase Programme (APP), buying up around EUR 20bn each month. It intends to maintain this reinvestment phase as long as is necessary to enhance the accommodation effect of the base interest rates. In mid-December, the European Council agreed to leave the interest rates for the main refinancing business, the marginal lending facility and the deposit facility of the ECB unchanged at 0.00%, 0.25% and -0.50% respectively.[15]

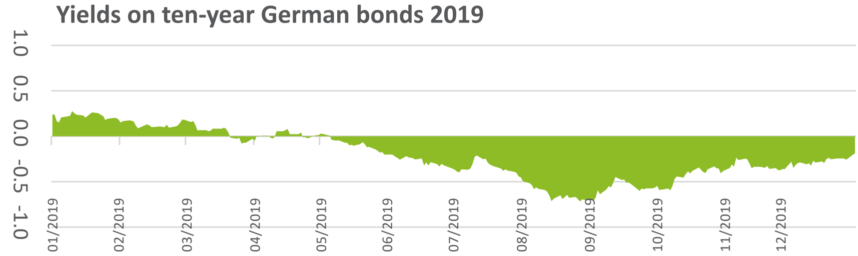
Expedited by supportive comments from the ECB and the gloomy corporate mood in the eurozone, returns on long-term government bonds as well as European bank and corporate bonds saw a downward trend throughout 2019. Returns on ten-year German and Austrian government bonds remained negative until the end of the year. There is still no normalisation in sight. Growth potential in most of the economies has diminished significantly, with expectations of base rate reductions depressing returns even further.

With the longest period of economic expansion it has ever seen, the USA was economically the most dynamic region in 2019 from a global perspective. However, a significant slow-down in economic growth was also apparent overseas due to higher import tariffs and the unchanged intensity of the trade disputes. Economic growth was 2.3% in 2019 as against 2.9% in 2018. The job market proved to be in its most resilient phase ever with an unemployment rate of 3.7%. The current expansion was being driven by private consumption and the significant growth in public deficits. Inflation in 2019 was 1.7% (2018: 2.0%). The Fed reduced the Federal funds rate three times in 2019 by 0.25 percentage points to a target corridor of 1.5% to 1.75%, most recently at the end of October.

Yields on 10-year Austrian government bonds



Yields on ten-year German bonds 2019



[10] OECD: Economic Outlook, Volume 2019/2.

[11] European Commission: International Monetary Fund, World Economic Outlook, 2019/11.

[12] OECD: Economic Outlook, Volume 2019/2.

[13] OECD: Economic Outlook, Volume 2019/2.

[14] OECD: Economic Outlook, Volume 2019/2.

[15] European Central Bank: Account of the monetary policy meeting of the Governing Council of the European Central Bank, 11–12 December 2019.

Economic growth in China slowed in 2019 to 6.2% (2018: 6.6%) due to the ongoing trade disputes with the USA and the realignment of the Chinese economy towards increased domestic demand and the development of the services sector. This trend will persist as long as the global trade conflicts continue, with GDP growth of 5.7% expected for 2020. An increase in the pace of new major projects in fields such as road transport, telecommunications and energy provided support in this transitional phase. Inflation also fell in this period from 2.5% to 2.2%.

The European infrastructure market in 2019

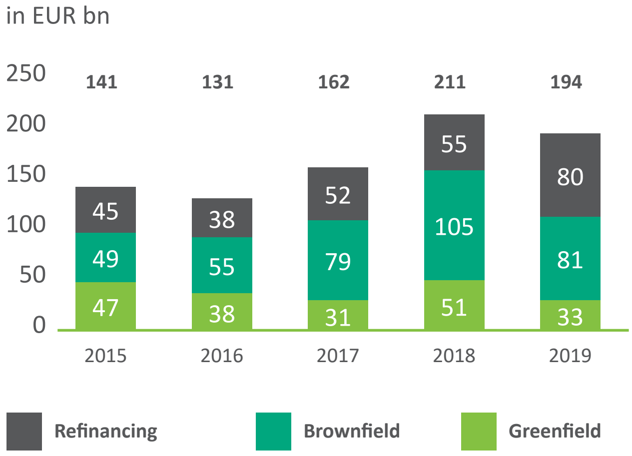
The European market for infrastructure financing proved to be robust with a total volume of EUR 194bn. When compared against the absolute boom year of 2018, however, it was somewhat weaker, falling by around 8%. That said, the absolute number of transactions concluded rose by 6% to a total of 921 projects.[16] The reduced average size of the transactions resulting from this is reflective in part of a higher share of mid-sized deals, which in turn entails greater compatibility with Kommunalkredit's strategic focus.

Major changes were observed in the geographical and sectoral distribution as well as the types of transaction (greenfield[17], brownfield[18]/M&A, refinancing), with some trends being further reinforced. Due to the likelihood of interest rates remaining low in the long term, refinancing grew substantially, reflected in a 35% rise to USD 88.6bn across all sectors.

The special European situation in an international context is illustrated by the growth in refinancing on a global basis of just 12%. The underlying factors, including the continued hesitancy in the economic growth of Europe's largest economies (Germany, France) as well as political uncertainty (elections in Spain and the United Kingdom, including the Brexit debate), have not changed substantially from 2018, but the market did react more substantially than in the previous year to the changes in the medium and long-term interest rates.

Many project sponsors therefore focused primarily on securing low interest rates on existing portfolio companies (pure refinancing) and – to a somewhat lesser degree – on acquisition financing for new projects or companies (Brownfield/M&A). Despite the beneficial interest rate conditions, there was a noticeable decline in Brownfield/M&A in 2019. However, the 2018 result had been substantially distorted by a number of mega-acquisitions (USD 19.0bn acquisition of the Spanish toll road operator Abertis by Atlantia, USD 8.8bn acquisition of Danish mobile communication company TDC Telecom by Macquarie). The largest deal in 2019 was the GBP 2.9bn takeover of a majority stake in Gatwick Airport (London) by the French company VINCI Airports. European public/private partnership (PPP) projects fell drastically by around half.

The European infrastructure market in 2019 – Transaction volumes broken down into greenfield, brownfield and refinancing



However, infrastructure equity investors benefited not only from favourable lending conditions, but also increased liquidity in the banking market as well as a much greater appetite among institutional investors (insurers, pension funds, asset managements) which encouraged increased allocations in the "infrastructure debt" sector to compensate for the partially negative returns in the traditional fixed income segment (government bonds, etc.), at least in part.

Taking a closer look at the European refinancing market in 2019, the transport sector, with a total share of one third and a 60% increase compared to 2018, is especially noteworthy. The main drivers in this area were major deals in the railway sector (e.g. the French high-speed Tours-Bordeaux line and the British Beacon Rail transaction) and in the toll road sector (e.g., the Brescia-Bergamo-Milan motorway section in Lombardy, one of the largest transactions in Italy that Kommunalkredit helped to achieve).

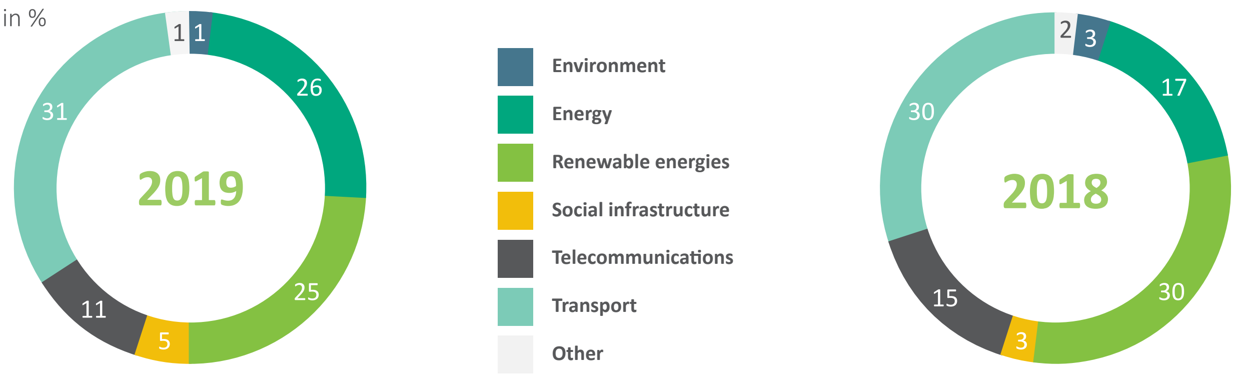
The energy sector accounted for a large part of the total transaction volume. Conventional energy segments such as gas networks (EUR 2.2bn refinancing of Gas Natural Fenosa, Spain) and natural gas and crude oil storage (acquisitions of HES International and VTTI in the Netherlands) played a dominant role. One of the largest deals in this sector (in Germany per se) was the EUR 3.5bn acquisition of Currenta (industrial estate) through Macquarie, in which Kommunalkredit participated to a significant degree. Major transactions were also executed in the Renewable Energies segment, such as the refinancing of the Portuguese onshore wind platform by First State Investments, in which Kommunalkredit participated as the mandated lead arranger. The renewable energy market also saw greater momentum in Central and Eastern Europe. Countries such as the Czech Republic, Slovakia, Poland, Romania, Bulgaria and Croatia have fallen behind substantially, and 2020 is expected to see some catching up. This encouraging

[16] All figures in this section provided by Inframation – An Acuris Company.

[17] Greenfield projects are new infrastructure assets built "on greenfield land". Depending on the sector/characteristics, they are characterised by clonstruction phases of varying length and by a variety of financing requirements up until the time of operation.

[18] Brownfield projects are pre-existing, often already-operational infrastructure assets whose financing is restructured mostly through M&A transactions (mergers & acquisitions).

Transaction volume by sector



development, however, does not even come close to compensating for the aforementioned drastic decline in the Western European Greenfield segment. The PPP sector in particular dropped to less than USD 10bn – the level of the early 2000s. A key determining factor in this connection was the complete loss of Turkey in Greenfield transactions (2018: USD 7.8bn). However, the two most important markets – Germany and France – also saw significant declines of -66% and -56%, respectively.

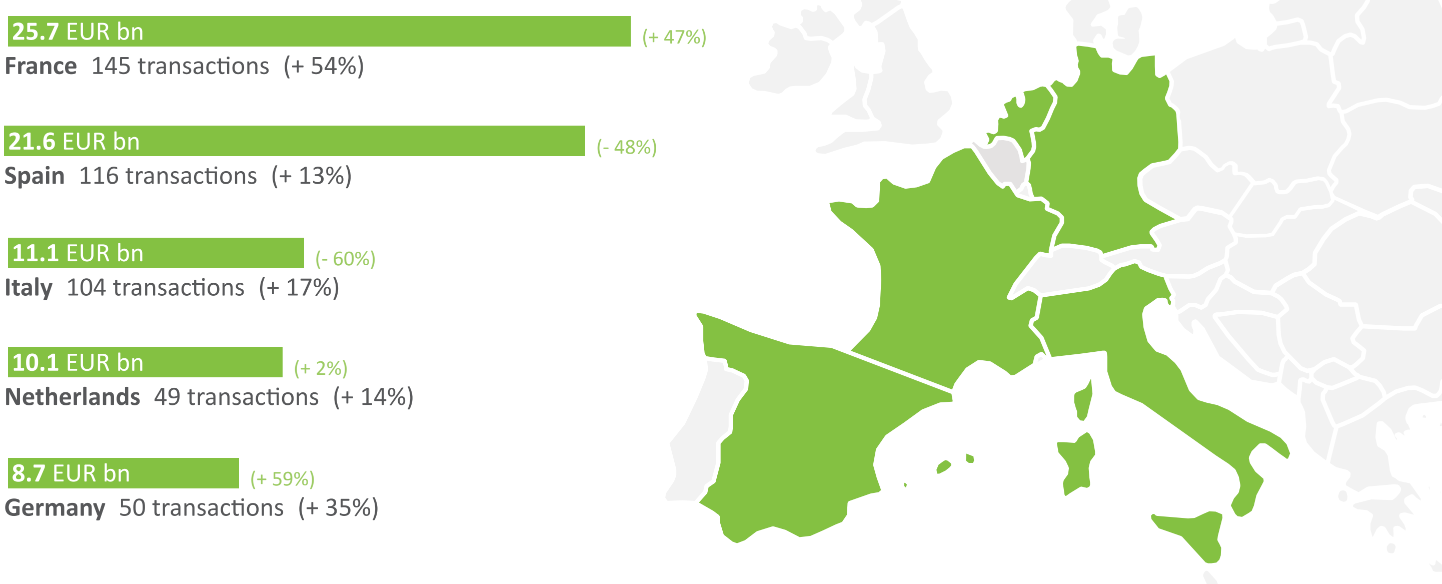
The telecoms sector also saw a noticeable reduction (-45%), although this sector has retained a high degree of momentum as shown by the outlook for 2020. The EUR 2.0bn acquisition of 8,000 telecom towers from Iliad in France and Italy by Spanish telecommunications service provider Cellnex illustrates the general strategic direction of this sector, with large telecoms companies increasingly selling parts of their infrastructure (towers, fibre networks) or bringing partners on board to help face the financial challenges of the progressive digitalisation. France has been especially active, with major transactions including the sale of mobile phone base stations by internet company Altice and the carve-out of its FTTH (fibre-to-the-home) network. Kommunalkredit was also able to successfully conclude a series of acquisitions in the digital infrastructure sector in 2019. For example, the investor DWS Infrastructure, a Deutsche Bank subsidiary, received support in acquiring two data centre portfolios in the Netherlands, while Macquarie was given assistance in the purchase of Másmóvil's fibre network in Spain.

In terms of geographical distribution, the United Kingdom had a good year despite the uncertainties resulting from Brexit. However, this development was carried by a small number of major transactions – both in the Greenfield sector (Silvertown Tunnel) and the Brownfield/M&A sector (Gatwick Airport).

For Italy and Spain, 2019 was a comparatively challenging year with falling deal volumes. With the National Energy & Climate Plan adopted by the new Spanish government, however, the path has been set for new investments in renewable energies over the coming decade. Portugal proved to be a dependable market in 2019 thanks to the country's generally encouraging economic performance. As of 1 January 2020, new rules are in effect governing own use, energy storage and energy groups in relation to renewable energy.

In 2019, the infrastructure market in France was driven by projects in the transport and digital infrastructure sectors. Germany was somewhat quieter, mostly due to the loss of transactions in the offshore wind segment. However, bells were ringing loudly at the end of the year in the digital infrastructure segment with the participation of the EQT investment group in the leading Saarland-based broadband company Inexio, while fibre-optic network developer Deutsche Glasfaser saw refinancing – with a substantial investment by Kommunalkredit – to enable them to expand broadband internet availability.

The five largest infrastructure markets in the eurozone by volume and number of transactions



Business review 2019

POSITIVE TREND CONTINUED.

Kommunalkredit's positive business performance and the achievement of the strategic objectives set in 2018 for the 2019 financial year are vindications of the path taken. The Bank combines the traits of a hidden champion in the European infrastructure market with many years of expertise in the public finance sector. The Bank's on course.

Stable earnings position | Efficient capital utilisation | Disciplined placement | Balanced portfolio

The implementation of the business strategy to sustainably position Kommunalkredit as a specialist bank for infrastructure and energy financing is showing results. The Bank consistently remained on its growth path in 2019. The contribution of the core business to gross revenues rose to 69.2% (31/12/2018: 53.5%). New business came to EUR 1,036.3m, once again breaking the billion barrier (2018: EUR 1,201.8m).

Kommunalkredit has a balance of diversity in its new business in terms of its investment classes, regions, product and customer segments. Business acquisitions focus on clearly-defined selection criteria and efficient use of capital. This involves not only preparing a risk-and-return profile for a transaction but also assessing its value for positioning among institutional investors.

New business in 2019 generated attractive risk-adjusted returns. The Bank had the opportunity to apply its considerable expertise, most notably in the field of renewable energy project financing, with 71% of the financing volume attributable to the Energy & Environment segment, 19% to Communication & Digitalisation and 10% to Transport. Regionally, business was consistently diverse across the European Union (EU) and the EU's associated countries. Kommunalkredit was especially active in Germany, Italy, the Netherlands, Portugal and Spain.

Public Finance remains a key part of the Bank's business, with new financing deals being concluded in 2019, among them nurseries, schools, residential properties, commercial properties, roads and sewer networks.

In Structured Finance, Kommunalkredit applied its in-depth industry expertise to engage in project financing as well as further develop its activities in the fields of acquisition finance, hybrid/corporate finance and financial advisory.

The Bank conducts business in a manner that is geared towards collaboration with established partners (originate and collaborate) and is therefore particularly focused on its ability to place its transactions on the international financing market. The volume placed with insurers, asset managers and banks reached EUR 462.4m in 2019 (2018: EUR 569.7m). Thanks to its fund (Fidelio KA Infrastructure Debt Fund Europe 1) established in 2018, Kommunalkredit is also capable of offering its business partners access to infrastructure and energy financing through an asset management solution. The second close came in the third quarter of 2019, and the final close in February 2020.

In 2019, Kommunalkredit participated in the execution of a number of noteworthy transactions. These included the financing for the development and establishment of a 146 MWp solar project; for Clean Sustainable Energy (CSE), a leading operator of biomass installations; for fibre optic network development in rural areas by telecommunications company Adamo – all of these are projects in Spain. In Portugal, Kommunalkredit refinanced a 908 MW wind farm for green energy provider Finerge. In Hansea we had a partner that is one of Belgium's leading local public transportation companies. In Italy, the Bank was involved in the creation of the Brescia-Bergamo-Milan toll road. As part of a debt financing, Kommunalkredit played a leading role in the development of charging stations for electric vehicles provided by Dutch company Allego. This investment related not only to the actual technical implementation of the charging stations, but also more widely to a European mobility network service model. In the latter case, the Bank acted not only as Mandated Lead Arranger, but also as Global Bookrunner, Structuring Coordinator and Underwriter.

Reference projects

Electric vehicle charging stations (Allego/Netherlands)

Kommunalkredit played a leading role as the Mandated Lead Arranger, Global Bookrunner, Structuring Coordinator and Underwriter in the EUR 120m financing for the development of electric vehicle charging stations in Europe by Dutch power grid company Allego. Allego currently operates over 10,000 charging stations in Germany, Belgium, the Netherlands, Luxembourg, France and the UK. These charging stations are used primarily by municipal authorities, private companies and transport companies. Allego is planning to develop several thousand new charging stations for the expansion and conversion of its service model over the coming years.

Local public transport (Hansea/Belgium)

Kommunalkredit acted in a a key role as Arranger for a EUR 110m financing arrangement for Hansea. Hansea is one of Belgium's leading public transport companies. It provides urban and regional public transportation services and offers school bus and passenger transport services, as well as charter services. Hansea has shown steady growth in recent years and boasts a strong market position in both Flanders and Wallonia.

The total values stated here represent the total volume of the transaction in question.

Broadband internet (Deutsche Glasfaser/Germany)

For the refinancing of and borrowing for the ongoing development of the broadband in Germany's rural regions for Deutsche Glasfaser, Kommunalkredit assumed a pioneering role as the Mandated Lead Arranger. To date, around 540,000 homes and businesses have been provided with access, with another 650,000 connections planned for the coming years.

Data centres (Ark/United Kingdom)

EUR 450m were committed to the refinancing, expansion and development of several data centres in the United Kingdom. Ark Data Centres has a broad customer base of government agencies, cloud service providers, financial institutes and other renowned customers, and is the UK's leading data centre operator. Kommunalkredit took part in the transaction as the Lead Arranger.

Solar projects (Bonete/Spain)

Kommunalkredit served as the Mandated Lead Arranger in the EUR 81.5m financing for the development of a cluster of three greenfield solar projects in Albacete, Spain. The solar installations have a combined capacity of 146.4 MWp. This transaction is also consistent with the Green Loan Principles.

Industry accolades

The Bank's success has not gone unnoticed by the market. In 2017, Kommunalkredit received its first industry accolades. Two transactions from 2018 in which the Bank was involved as the Mandated Lead Arranger were recognised in the second quarter of 2019 as "Deal of the Year" by renowned international journal IJ Global: the EUR 1bn financing of the acquisition of French water company SAUR by EQT Infrastructure in the category "European Waters" and the EUR 420m financing of the acquisition of the Belgrade Nikola Tesla Airport operating concession by VINCI Airports in the category "European Airports".

At the end of 2019, two projects that Kommunalkredit was a part of during the course of the financial year received awards from the renowned magazine PFI – Project Finance International from Thomson Reuters.

PFI Awards 2019

Europe Bond Deal of the Year: BreBeMi – toll road in Italy

Kommunalkredit played a major role in the refinancing of the A35 toll road as the Co-Lead Bookrunner, Initial Purchaser and Underwriter. The Brescia-Bergamo-Milan road (BreBeMi) is a key element of the region's infrastructure and is a safe alternative to the existing congestion and accident-plagued A4 motorway.

Europe Power Deal of the Year: Finerge – wind farm in Portugal

In the EUR 706m refinancing of the green energy provider Finerge S.A. with a wind capacity of 908 MW, Kommunalkredit served as the Mandated Lead Arranger. This was the largest loan taken out for renewable energy in Portugal. The revenue will be used to refinance the second-largest wind portfolio in Portugal.

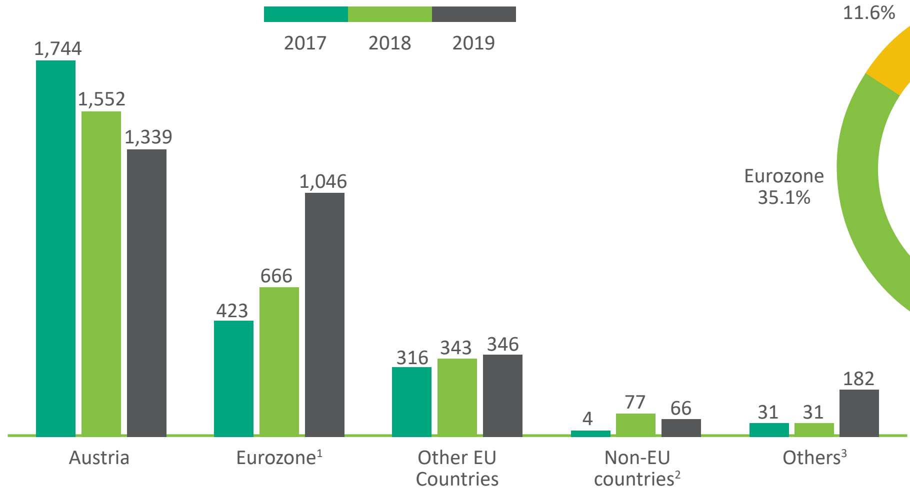
Total portfolio with high asset quality

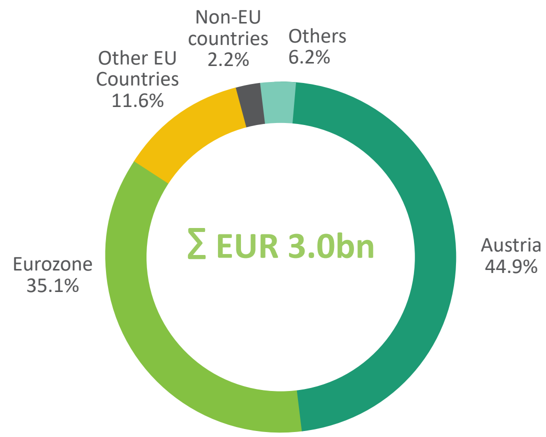
Kommunalkredit's strategic sectors are distinguished by their low default rates and high recovery rates. The bank holds a total portfolio of high asset quality without a single loan loss in the 2019 reporting year. As of 31 December 2019, it had an average rating of "A-" with 76.7% of the exposure rated as investment grade.

The loan portfolio is well balanced, comprising an increasing proportion of infrastructure and energy financing transactions and a significant volume of public sector loans. As of the end of the year, loans to municipalities accounted for 35% of the portfolio (almost exclusively Austrian municipalities), infrastructure and energy financings accounted for 34%, while loans to public sector enterprises had a share of 9%. Since the privatisation in 2015, the non-performing loan ratio (NPL) has been kept at 0.0%.

Geographically, 45% was attributable to Austria (2018: 58%), followed by the rest of the eurozone (35%) and other EU countries (12%) (2018: 25% and 13% respectively).

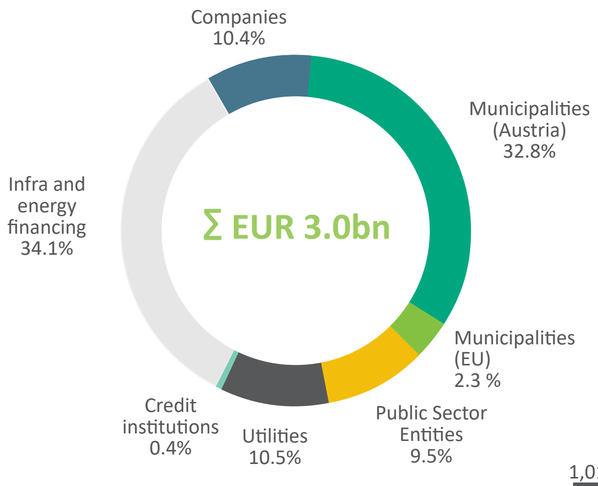
Loan portfolio by regions
in EUR m, as of 31/12/2019

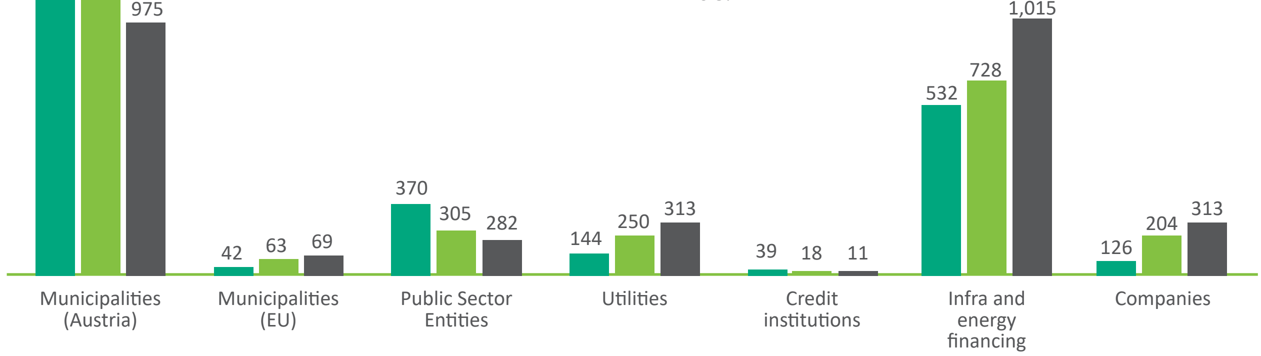




[1] Eurozone without Austria
[2] Switzerland
[3] Turkey

Loan portfolio by borrowers
in EUR m as of 31/12/2019





Diversified refinancing structure further developed

As of 31 December 2019, Kommunalkredit reported a strong liquidity position with a free liquidity reserve of EUR 308.5m (31/12/2018: EUR 278.9m). This included high-quality liquid securities (HQLA) amounting to EUR 303.8m (31/12/2018: EUR 249.0m). The Bank also held liquid securities of EUR 59.0m (nominal value) (31/12/2018: EUR 4.0m) and cash, cash equivalents and bank balances with central banks of EUR 462.6m (31/12/2018: EUR 314.4m).

Since its privatisation in September 2015 and based on historical experience, Kommunalkredit has placed great value in ensuring great diversity in its funding profile. Gradually, existing funding sources have been expanded and new ones established over recent years. In order to adequately manage liquidity risks, it is important to not be dependent on any single refinancing source. As a European bank, it focuses on infrastructure and energy financing – many of which are beneficial for society in terms of their social and/or environmental impact. This is precisely why its products appeal to investors, as they enable sustainable investments.

The liquidity reserve contributed to a liquidity coverage ratio (LCR) of 765.5% as of 31 December 2019. The net stable funding ratio (NSFR) was at 111.9%.

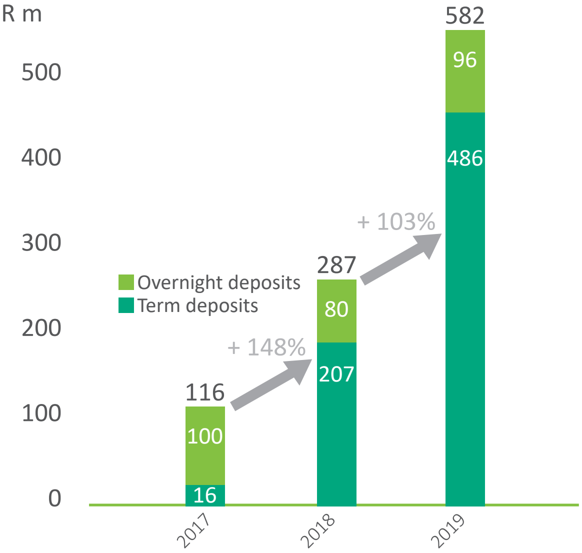
The bank succeeded in further diversifying its funding structure and broadening its investor base in 2019. Currently, refinancing is carried out via retail deposits (KOMMUNALKREDIT INVEST), wholesale deposits (KOMMUNALKREDIT DIREKT and direct business with corporate/institutional customers) as well as capital market funding via senior secured and covered bonds.

Amounts owed to customers increased to a total of EUR 1,876.3m (31/12/2018: EUR 1,456.5m). This positive development was in part driven by the increase in customer deposits by 39.0% to EUR 1,393.0m (31/12/2018: EUR 1,002.5m). Amounts owed to customers also include long-term private placements of EUR 285.1mm (31/12/2018: EUR 277.4m), liabilities from collateral received in connection with derivatives of EUR 58.9m (31/12/2018: EUR 60.0m) and other long-term liabilities to customers in the amount of EUR 139.3m (31/12/2018: EUR 116.6m).

Term deposits increased to 83.5%

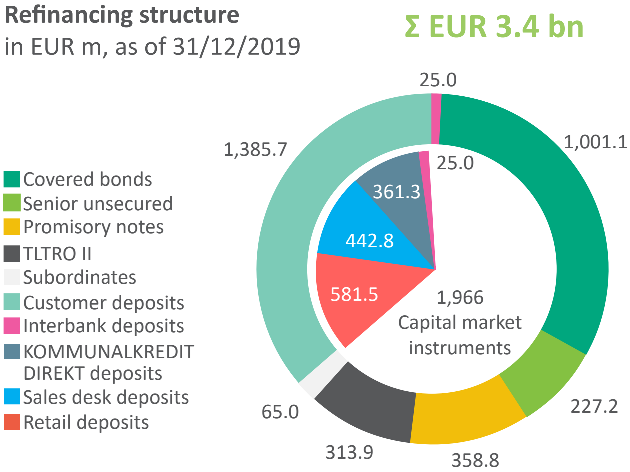
Retail deposits (KOMMUNALKREDIT INVEST): The bank conducts its retail business in Austria and Germany via its online retail platform KOMMUNALKREDIT INVEST. KOMMUNALKREDIT INVEST offers overnight and term deposits for terms of up to ten years. As of 31 December 2019, the bank had 9,790 retail customers (31/12/2018: 5,063).

Retail deposits (KOMMUNALKREDIT INVEST)
in EUR m

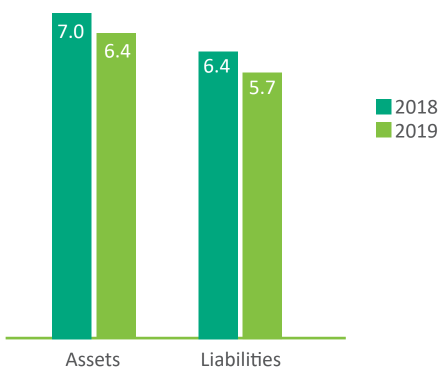


The average deposit volume per customer of EUR 59,401 represented a further increase from the already high level as of the end of 2018 (31/12/2018: EUR 56,629). The share of term deposits was increased to 83.5% (31/12/2018: 72.1%). The average term length of term deposits was 22.9 months as of 31 December 2019 (31/12/2018: 19.7 months). The deposit volume as of year-end was EUR 581.5m (31/12/2018: EUR 286.7m).

Refinancing structure
in EUR m, as of 31/12/2019

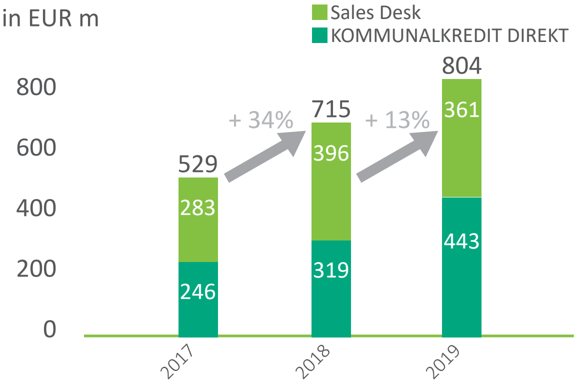


Weighted average term in years



Wholesale deposits (KOMMUNALKREDIT DIREKT and direct business with corporate/institutional customers): With its online platform KOMMUNALKREDIT DIREKT, the Bank offers an efficient investment and cash management tool for municipalities and corporates with close ties to municipal authorities. 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 fact that around a third of KOMMUNALKREDIT DIREKT depositors are also borrowers. Taking deposits by corporate and institutional customers into account, wholesale deposits increased by a total of 12.6% to EUR 804.1m in 2019 (31/12/2018: EUR 714.7m). This means that the trend towards longer maturities has continued in 2019. With an average volume of about EUR 2.3m, wholesale deposits were highly granular.

Wholesale deposits
in EUR m



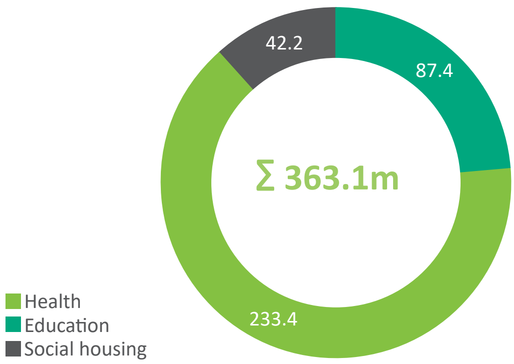
A significant increase in demand for sustainable investment products was noted both in the private customer segment and among institutional and corporate customers in 2019. Among institutional and corporate customers, this demand has been driven by their Investment Guidelines and environmental-social governance (ESG). Among private investors, the rising number of customer enquiries regarding KOMMUNALKREDIT INVEST has exhibited a noticeable trend towards ensuring that funds are used by the chosen bank in a monitored and sustainable fashion. Small-scale investors are increasingly interested in supporting sustainable business and clean infrastructure with their savings deposits. Customer interest in this field is expected to continue to rise.

Social covered bond – social asset reporting as of 31 December 2019

As of 31 December 2019, Kommunalkredit's social asset portfolio encompassed 71 loans in the fields of education, healthcare and social housing with a total volume of EUR 363.1m. In 2019, Kommunalkredit financed new social infrastructure projects – attributed to the social asset portfolio – to the value of EUR 22.5m, which compensated for some of the repayments and disposals from the portfolio.

Kommunalkredit annually reports the use of proceeds from the issuance of its social covered bond (as of 30 June).

Social asset portfolio
in EUR m



Strong liquidity ratios

The liquidity coverage ratio (LCR) measures the short-term resilience of a bank's liquidity risk profile over a 30-day scenario and is closely monitored as part of the Bank's early warning system. With a ratio of 765.5% as of 31 December 2019 (31/12/2018: 453.7%), Kommunalkredit significantly exceeded the regulatory minimum ratio of 100%. The average LCR in 2019 came to 649%.

The structural liquidity ratio (net stable funding ratio, NSFR) was also increased in 2019. According to the CRR (Capital Requirements Regulation), this requires banks to maintain a stable refinancing fund in terms of their assets and off-balance-sheet activities. As of 31 December 2019, the NSFR was 111.9% (31/12/2018: 104.7%).

Rating

Kommunalkredit's unsecured debt issues have a long-term rating of "BBB (low)" and a short-term rating of "R-2 (mid)" from rating agency DBRS Morningstar. The ratings were confirmed on 3 October 2019 with the outlook being lifted to positive. This was Kommunalkredit's second year in a row with an improved rating. In its explanation, DBRS Morningstar listed the Bank's ongoing progress in developing its infrastructure finance segment, the maintenance of a high level of capital and the solid core profitability. The agency also highlighted the well-balanced refinancing basis of deposits business and capital market sources as well as the robust liquidity profile. In addition, on 24 January 2020 Standard & Poor's confirmed its "A" rating of Kommunalkredit's covered bonds, which reflects the high quality of the underlying cover pool.

Assets, financial position and income

KOMMUNALKREDIT GROUP IFRS FINANCIAL PERFORMANCE INDICATORS.

Selected performance indicators according to IFRS

Selected performance indicators in EUR m	2019	2018
Total assets (31/12)	4,305.3	3,941.8
Total capital (31/12)	343.2	294.8
Net interest income	58.6	49.2
Net fee and commission income	24.9	18.5
Result from the disposal of assets measured at fair value through other comprehensive income[19]	4.3	3.5
General administrative expenses	-54.6	-54.1
Income from services provided to KA Finanz AG	1.7	8.6
EBIT[20]	33.2	23.9
Net provisioning for impairment losses	-2.5	-0.7
Restructuring expense	0.0	-2.5
Net result of asset valuation and realised gains and losses	-3.4	11.9
Consolidated profit for the year before tax	27.3	32.6
Income taxes	2.3	-18.3
Consolidated profit for the year	29.6	14.3
Cost-income ratio (based on EBIT)	63.3%	70.2%
Return on equity before tax[21]	10.3%	14.0%

Regulatory performance indicators in EUR m or %	31/12/2019	31/12/2018
Risk-weighted assets	1,675.7	1,334.7
Total capital[22]	356.5	323.7
Total capital ratio	21.3%	24.3%
CET 1 ratio	18.1%	19.9%

Rating	31/12/2019	31/12/2018
Long-term DBRS Morningstar	BBB (low) positive outlook	BBB (low) stable outlook
Short-term DBRS Morningstar	R-2 (mid)	R-2 (mid)
Covered bonds Standard & Poor’s	A	A

[19] In the prior-year period, the result from the disposal of assets measured at fair value through other comprehensive income was shown under net interest income.

[20] EBIT = Profit for the year before tax, not including net provisioning for impairment losses, measurement gains/losses or restructuring expense.

[21] Return on equity before tax = EBIT / core capital as of 1/1.

[22] Total capital after inclusion of Kommunalkredit’s annual profit of EUR 30.3m as reported in accordance with Austrian GAAP and the originally intended dividend of EUR 10.0m.

Selected performance indicators according to the Austrian Commercial Code (UGB)

Selected income statement in EUR m	1/1–31/12/2019	1/1–31/12/2018
Total assets (31/12)	3,802.8	3,478.8
Total capital (31/12)	273.9	223.6
Net interest income	45.6	37.7
Net fee and commission income	15.5	14.1
General administrative expenses	-44.8	-45.4
Other operating income[23]	4.8	11.1
Operating result	21.8	16.8
Operating result from sale of infrastructure/energy financing[24]	4.8	1.6
Net allocation to provision (§ 57 (1) Austrian Banking Act)[24]	0.4	0.9
EBIT (excluding restructuring expense)	27.0	21.8
Other loan impairment, valuation and sales result[24]	1.8	10.4
Profit on ordinary activities	28.7	29.7
Taxes on income	1.6	0.7
Profit for the year after tax	30.3	30.4
Cost-income ratio (based on EBIT)	63.2%	67.0%
Return on equity before tax	10.8%	12.8%

Balance sheet structure

Kommunalkredit's total assets according to IFRS amounted to EUR 4.3bn as of 31 December 2019 (31/12/2018: EUR 3.9bn). "Loans and advances to customers" amounts to EUR 1.8bn (31/12/2018: EUR 2.0bn) and includes loans of EUR 1.1bn (31/12/2018: EUR 1.3bn) and securities of EUR 0.5bn (31/12/2018: EUR 0.5bn). Financing transactions intended for opportunistic placement are reported under the item "Assets at fair value through other comprehensive income" and amounted to EUR 1.3bn as of 31 December 2019 (31/12/2018: EUR 1.2bn). Included here are loans of EUR 1.2bn (31/12/2018: EUR 1.1bn) and securities of EUR 53.8m (31/12/2018: EUR 61.2m). Furthermore, the bank held cash and cash equivalents of EUR 0.5bn as of 31 December 2019 (31/12/2018: EUR 0.3bn).

The structure of Kommunalkredit's liabilities based on the IFRS carrying amounts is as follows:

Structure of liabilities in EUR bn	31/12/2019	31/12/2018
Securitised liabilities	1.3	1.4
Amounts owed to customers	1.9	1.5
Amounts owed to banks, including ECB	0.5	0.5

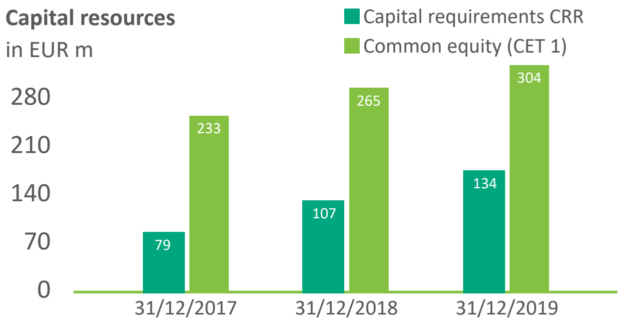
The bank's main funding sources were senior and covered bonds of EUR 227.2m and EUR 1,001.1m respectively (31/12/2018: EUR 344.4m and EUR 982.9m respectively).

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 309.9m (31/12/2018: EUR 313.9m) and liabilities from collaterals received for derivatives amounting to EUR 79.7m (31/12/2018: EUR 104.6m).

Risk-weighted assets and total capital

As of 31 December 2019, Kommunalkredit reported total capital of EUR 356.5m (31/12/2018: EUR 323.7m) and common equity tier 1 capital (CET 1) of EUR 303.6m (31/12/2018: EUR 265.5m). Risk-weighted assets increased in 2019 by 25.5% to EUR 1,675.7m (31/12/2018: EUR 1,334.7m) due to the higher weighting of new business in the field of infrastructure & energy financing compared to the amortising portfolio of predominantly Austrian municipalities.

Risk-weighted assets and total capital



[23] Mainly income from services provided for KA Finanz AG/ Kommunalkredit Public Consulting GmbH.

[24] Included in items 11 & 12 of the income statement.

As of 31 December 2019, Kommunalkredit reported a total capital ratio of 21.3% (31/12/2018: 24.3%) and a CET 1 ratio of 18.1% (31/12/2018: 19.9%). The drop in the capital ratios is due to the higher employment of capital as part of the expansion of new business, which has a positive impact on the bank's results. The leverage ratio came to 7.9% as of 31 December 2019 (31/12/2018: 7.6%).

Kommunalkredit is part of a group of credit institutions whose ultimate parent is Satere Beteiligungsverwaltungs GmbH (Satere). As of 31 December 2019, the consolidated total capital ratio came to 21.0% (31/12/2018: 23.7%) and the consolidated CET 1 ratio to 17.8% (31/12/2018: 19.4%).

Public sector covered bonds | Cover pool

As of 31 December 2019, Kommunalkredit had a well-diversified cover pool with a value of EUR 1,131.4m, while public sector covered bonds denominated in EUR and CHF in an amount of approximately EUR 1,001.1m were outstanding. The cover pool as of 31 December 2019 consisted of assets from Austria (94.8%), Portugal (3.5%) and Germany (1.6%). 87.6% of the cover pool had a rating of "AAA" or "AA" and 8.9% had a rating of "A". The level of surplus cover as of 31 December 2019 was 13.0%.

Income statement of the Kommunalkredit Group under IFRS

The Kommunalkredit Group increased its EBIT substantially in 2019 to EUR 33.2m (2018: EUR 23.9m). By continuing to expand its consulting and structuring activities, the bank was able to increase its risk-free net fee and commission income, thus significantly increasing its income quality. The strong growth of new business resulted in an increase in the contribution of infrastructure & energy financing to the net interest income. A total of 60.6% of the gross income from banking business came from infrastructure & energy financing (2018: 43.8%).

The clear increase in EBIT caused a significant reduction in the cost/income ratio to 63.3% (2018: 70.2%). The consolidated profit for the year before tax came to EUR 27.3m (2018: EUR 32.6m), and the consolidated profit for the year rose by 106.7% to EUR 29.6m (2018: EUR 14.3m).

The main income and expense items under IFRS for 2019:

EBIT

EBIT (profit for the year before tax; not including net provisioning for impairment losses, measurement gains/losses or restructuring expenses) of EUR 33.2m (2018: EUR 23.9m) comprises the following components:

Net interest income

Net interest income rose by 19.0% to EUR 58.6m (2018: EUR 49.2m). EUR 33.2m of this was attributable to the infrastructure & energy financing business (2018: EUR 19.1m), while EUR 25.4m was attributable to the public finance portfolio (2018: EUR 30.1m).

Net fee and commission income

The continued expansion of consulting and structuring activities enabled the Kommunalkredit Group to increase its risk-free net fee and commission income by 34.8% to EUR 24.9m (2018: EUR 18.5m), marking a significant improvement in its income quality. Fee and commission income from the bank's credit and services business came to EUR 11.3m (2018: EUR 4.7m), while income from the subsidy management and consulting business of the subsidiary Kommunalkredit Public Consulting (KPC) came to EUR 15.4m (2018: EUR 15.2m). This was offset by fee and commission expenses of EUR 1.7m (2018: EUR 1.2m).

Result from the disposal of assets at fair value through other comprehensive income

The result from the disposal of assets at fair value through other comprehensive income of EUR 4.3m (2018: EUR 3.5m) reflects income from the placement of infrastructure/energy financing.

Net provisioning for impairment losses

The non-performing loan ratio remained constant at 0.0% in 2019. There were no loan defaults. The EUR -2.5m net provisioning for impairment losses reported (2018: EUR -0.7m) reflects the change in the statistically calculated provision for expected credit losses under IFRS 9. This provision amounted to EUR 4.6m (31/12/2018: EUR 2.1m) as of 31 December 2019.

General administrative expenses

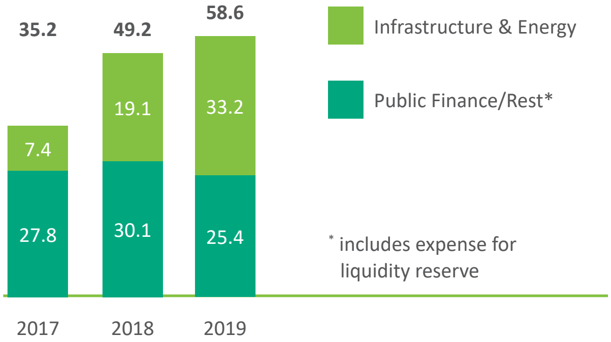
General administrative expenses increased minimally by 1.0% to EUR 54.6m (2018: EUR 54.1m). They comprise personnel expenses of EUR 35.1m (2018: EUR 35.0m) and other administrative expenses of EUR 19.5m (2018: EUR 19.1m).

Other operating performance

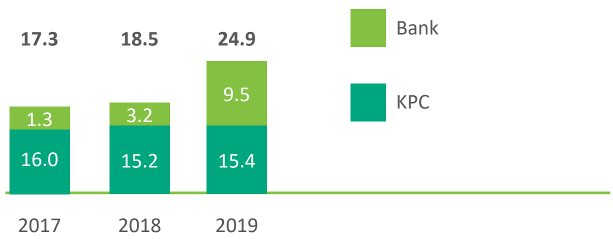
Other operating performance came to EUR 1.4m (2018: EUR 8.3m). This mainly comprises income from the provision of operating services for the operation of KA Finanz AG amounting to EUR 1.7m (2018: EUR 8.6m). The decline of EUR -6.9m is the result of the termination of the Service Level Agreement with KA Finanz AG with effect from 31 March 2019. The expense related to the stability tax payable by Austrian banks in the amount of EUR 0.6m (2018: EUR 0.6m) was also included.

IFRS indicators

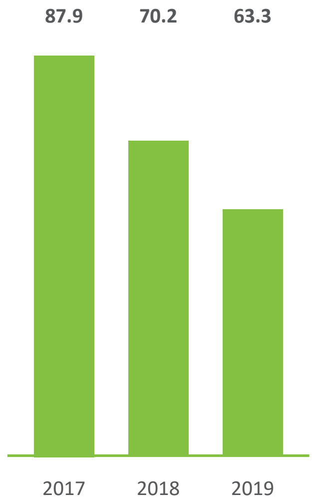
Net interest income
in EUR m



Net fee and commission income
in EUR m

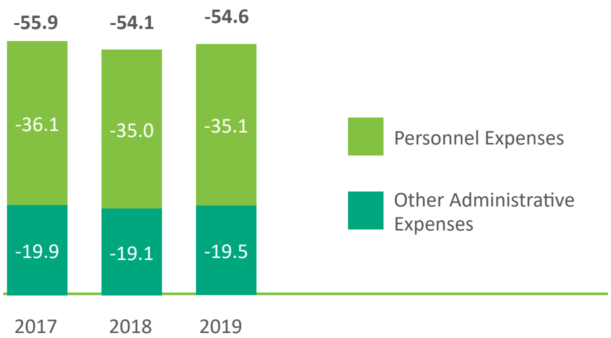


Cost-Income-Ratio
in %

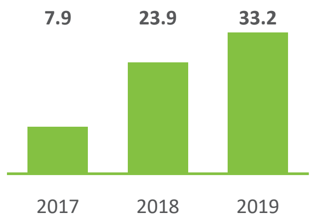


based on EBIT

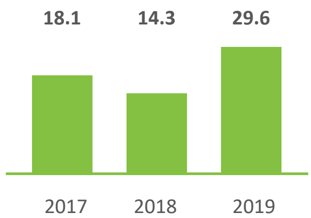
General administrative expenses
in EUR m



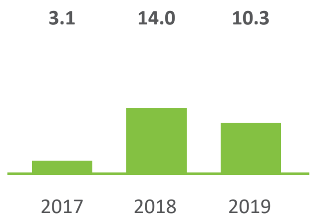
EBIT
in EUR m



Profit for the year
in EUR m



Return on equity before tax
in %



based on regulatory capital at start of period

Net result of asset valuation and realised gains and losses

The net result of asset valuation and realised gains and losses was EUR -3.4m in 2019 (2018: EUR 11.9m). This item included a positive one-off effect from the repurchase of own issues amounting to EUR 4.4m (2018: EUR 11.3m) as well as other mainly interest-related remeasurement effects amounting to EUR -7.7m (2018: EUR 0.7m).

Income taxes

Income taxes of EUR 2.3m (2018: EUR -18.3m) included a EUR 9.4m contribution from the capitalisation of tax loss carryforwards (2018: EUR -9.5m amortisation of capitalised tax loss carryforwards).

Income statement of Kommunalkredit Austria AG in the non-consolidated financial statements according to Austrian GAAP

Kommunalkredit Austria AG has reported an operating performance of EUR 21.8m for 2019 in accordance with Austrian GAAP (2018: EUR 16.8m). The Bank was able to boost its operating earnings power significantly in 2019. This is illustrated by the EBIT, which is calculated as follows: operating performance plus the operating result from the sale of infrastructure/energy financing and the change in the provision pursuant to § 57 (1) BWG (Austrian Banking Act), adjusted for restructuring expense in 2018. EBIT rose by 23.8% to EUR 27.0m (2018: EUR 21.8m). A total of 69.2% of the gross income from banking business came from infrastructure & energy financing (2018: 53.5%).

The other loan impairment, valuation and sales result came to EUR 1.8m (2018: EUR 10.4m), the main components of which were EUR 4.7m from the repurchase of own issues (2018: EUR 12.2m) and the change in statistically calculated provisions for expected credit losses of EUR -3.5m (2018: EUR -1.5m).

The profit on ordinary activities came to EUR 28.7m (2018: EUR 29.7m). The profit for the year after tax was effectively unchanged from the previous year at EUR 30.3m (2018: EUR 30.4m).

The total assets in accordance with Austrian GAAP came to EUR 3.8bn as of 31 December 2019 (31/12/2018: EUR 3.5bn). The main balance sheet items were loans and advances to customers amounting to EUR 2.6bn (31/12/2018: EUR 2.5bn) as well as bonds and debt securities amounting to EUR 0.5bn (31/12/2018: EUR 0.4bn).

Selected income statement under local GAAP in EUR m	**1/1-31/12/2019**	**1/1-31/12/2018**
Net interest income	45.6	37.7
Net fee and commission income	15.5	14.1
General administrative expenses	-44.8	-45.4
of which restructuring expense	*0.0*	*-2.5*
Other operating income	4.8	11.1
of which income from services provided for KA Finanz AG & Kommunalkredit Public Consulting	*3.7*	*10.5*
Other operating expenses	-1.0	-0.8
of which stability tax	*-0.6*	*-0.6*
Operating result	21.8	16.8
Operating result from sale of infrastructure/energy financing	4.8	1.6
Net allocation to provision (§ 57 (1) Austrian Banking Act)	0.4	0.9
EBIT (excluding restructuring expense)	27.0	21.8
Other loan impairment, valuation and sales result	1.8	10.4
Profit on ordinary activities	28.7	29.7
Taxes on income	1.6	0.7
Profit for the year after tax	30.3	30.4

Branch office and equity investments

FINE STRUCTURE. CLEAR DIRECTION.

Alongside its headquarters in Vienna, Kommunalkredit also has a branch office in Frankfurt am Main, Germany. Together with Vienna, the banking centre at the heart of Europe forms the centre point from which Kommunalkredit focuses on its role as a specialist in infrastructure and energy financing.

Focus on core business

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

Kommunalkredit Public Consulting GmbH (KPC)

Kommunalkredit Public Consulting GmbH (KPC) is a specialist provider for the management of public support programmes and consulting services for national and international organisations. It is 90% owned by Kommunalkredit.

Subsidy management

In 2019, KPC awarded subsidies of EUR 444.1m, in particular on behalf of the Federal Ministry for Sustainability and Tourism (Bundesministerium für Nachhaltigkeit und Tourismus, BMNT) and the Climate and Energy Fund. These public subsidies resulted in an investment volume of EUR 2,394.0m. KPC subsidises a broad variety of support initiatives in the energy supply, energy efficiency,

KPC in 2019

37,982
project assessments

EUR 2,394m
investment volume

EUR 444m
subsidy volume

Effects of Environmental Support 2019

Over
2,000,000 m²
of contaminated land recovered

Over
400 km
of water pipes laid

Over
300 km
of canals created

Almost
400,000 t
CO2 saved per year

Over
900,000 MWh
of energy generated from renewable energy sources each year

Just under
30,000
residents protected from flooding

Over
500,000 MWh
in energy savings per year

Three questions to Alexandra Amerstorfer & Christopher Giay, KPC Management Board

How is Austria managing to set out its path towards a more environmentally compatible society?

A coordinated and finely-tuned climate and energy policy is needed. The Federal Government has already laid the foundations for this in the form of #mission2030, the national climate and energy strategy, and the national climate and energy plan that goes with this. Now the aim is to boldly implement the action plan defined therein. This requires a defined political framework, but also an awareness that the path towards a more environmentally compatible society is more than just a matter of technology. It involves social change at many levels that will be carried by everyone.

How can the environmental support programme help to achieve this?

Taking stock of the changes and development of environmental support schemes over time, the environmental policy challenges of the era were always apparent. Climate protection has always been a top focus ever since the Kyoto Climate Change Conference in 1997. The use of renewable energy sources for the generation of heat and electricity as well as projects related to energy and resource efficiency have become increasingly important. This is where the support instruments have been especially useful.

What will 2020 and 2021 be remembered for?

We expect demand for support in environmental project to remain high, especially in relation to the main subsidised fields of energy efficiency and renewable heat generation. The topic of resource efficiency in the context of the bio-economy is becoming more and more important. In the long-term, the performance of the Austrian economy should be disassociated from resource consumption and the environmental damage that such consumption entails. A focus of the bio-economy strategy is the future reduction of fossil-based material usage in as many products as possible and the use of regenerative raw materials. We are confident that more public funds will be provided to support this change given the clear objectives of the new government. That said, it is clear that subsidies only provide incentives and the objective in the medium term is to make doing business in an environmentally friendly way more appealing by establishing the necessary legal and economic framework.

water, land reclamation, transport and e-mobility sectors. Across all of these segments, a total of 37,982 projects were approved and 29,656 projects were billed in 2019.

KPC acts as the point of contact between the subsidisers who provide the financial resources and the applicants. They oversee the entire process of a project. Their duties also include the development and implementation of support programmes. A particular success story from 2019 regarding the development of new support models was the first Europe-wide pilot project for an "output-based" support approach for the European Regional Development Fund (ERDF).

Consultancy services

As a consultancy, KPC provides services for national and international organisations and financial institutions. The range of services includes technical and economic consulting, the preparation of studies and advice on capacity development and policy, in particular in Central Europe, Southeast Europe and Eastern Europe. A new addition to the portfolio in 2019 was the Sustainable Finance segment. Clients include the World Bank, the European Commission, the European Bank for Reconstruction and Development (EBRD), the Organisation for Economic Cooperation and Development (OECD), the German Kreditanstalt für Wiederaufbau (KfW), the German Ministry of the Environment and the Austrian Development Agency (ADA).

On behalf of the Federal Ministry for Sustainability and Tourism, KPC once again served as a member of the Austrian negotiation team at the World Climate Conferences in 2019. KPC also appoints an advisor for the Austrian representative in the Green Climate Fund (GCF). This climate fund provides funding for projects designed to help reduce greenhouse gas emissions and to allow developing countries to make the adjustments they need to make in response to climate change. KPC has also offered a platform in the form of "Climate Austria" since 2008, for the voluntary offsetting of CO_2 emissions, for example in travel, in partnership with numerous businesses. The ISO certification for KPC's consulting segment was recently renewed in 2019.

In 2019, KPC received new attractive commissions as well as extensions for existing appointments to support Green Financing Facilities in the energy efficiency segment. Of particular note among the new commissions is the appointment by Finance in Motion, one of the largest asset managers in the development finance sector.

Here, KPC is providing support to a major Georgian bank for the development and implementation of green finance products and for internal processes and policies. The commission to "analyse the potential and feasibility of green finance instruments in Austria" is also part of the Sustainable Finance segment.

Fidelio KA Debt Fund platform

Kommunalkredit created a debt fund platform in 2018 with the establishment of the companies Fidelio KA Beteiligung GmbH, Fidelio KA Investment Advisory GmbH and Fidelio KA Infrastructure Opportunities Fund GP S. à r. l. The Bank expanded its range of products to include the Asset Management segment with the launch of the first debt fund and was able to successfully grow this segment in 2019 with additional commitments. It makes use of its core expertise in infrastructure financing for this purpose and has deepened its strategic partnerships with regard to placements.

Following the operational launch of the first sub-fund "Fidelio KA Infrastructure Debt Fund Europe 1", the first close took place in the third quarter of 2018, and the second close followed in July 2019. The fund volume increased by 39% in 2019 alone, meaning that the target volume of EUR 225m has been well exceeded. The final close took place in February 2020.

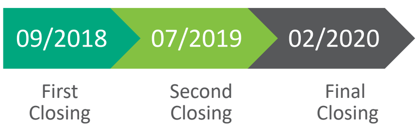
This initial fund allows Kommunalkredit to offer interested investors an attractive investment opportunity. Funds are directed towards sustainable infrastructure projects that benefit the public. The value of the fund development ensures a healthy return, which enables investors to enjoy benefits compared to traditional asset managers.

Kommunalnet E-Government Solutions GmbH (Kommunalnet)

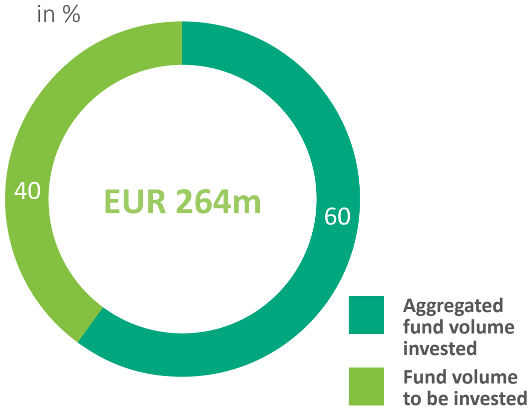
Kommunalkredit holds a 45% equity share in Kommunalnet E-Government Solutions GmbH (Kommunalnet). Another 45% is held by the Austrian Association of Municipalities, while the other 10% is held by three state associations of the Austrian Association of Municipalities. Kommunalnet is the digital work and information portal for Austrian municipalities, mayors and municipal civil servants. It offers the latest news and access to important databases for municipal authorities, and serves as an information and communication hub for the federal, state and

Facts about KA Infrastructure Debt Fund Europe 1.

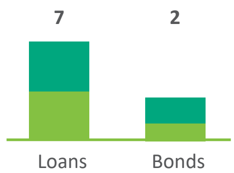
Closing Process



Portfolio Status 12/2019
in %



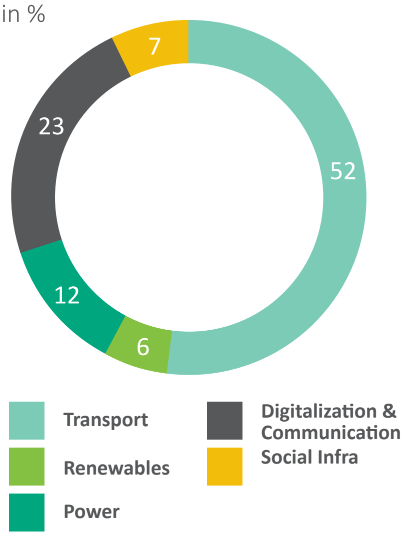
Strong quality asset pool



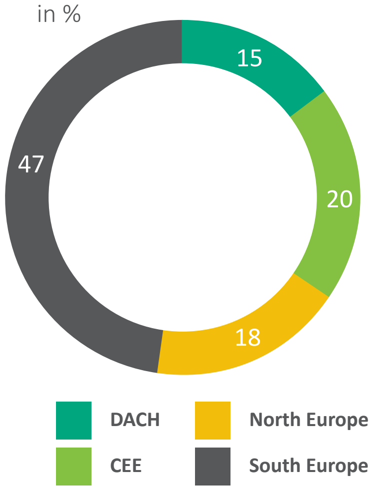
No single asset > 30% of the sub-fund's total commitments

⌀ size: ~EUR 20.0m

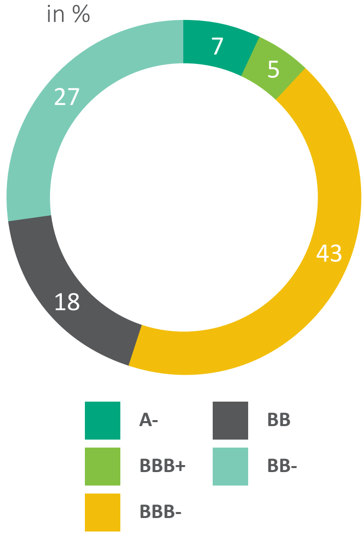
Sector Diversification
in %



Geographic Allocation
in %



Synthetic Credit Profile*
in %



* No external rating; internal rating methodology in accordance with S&P.

municipal authorities. Kommunalnet is an official component of the Austrian e-Government Roadmap.

Numerous projects were completed in 2019 to provide municipal authorities with even better assistance in their day-to-day tasks, to further expand the business segment and to leverage growth potential. The cornerstones of this were the roll-out of the new version of the master portal and the relaunch of the Kommunalnet website, which will be completed in the first quarter of 2020.

With 15,875 registered users from 2,061 Austrian municipalities and municipality associations, Kommunalnet has an exceptionally large market share in the municipal sector (96%) and thus enjoys a unique position in the Austrian market.

Since mid-2018, Kommunalnet has been cooperating with loan-boox, a fintech company that operates an online platform for municipal loans. Since it went live, 70 municipalities and banks are already represented on the platform. A total of 360 municipalities have been contacted, over 60 financing requests have been published to date via the portal.

TrendMind IT Dienstleistung GmbH

TrendMind IT Dienstleistung GmbH (TrendMind) is an IT specialist for financial products, SAP and subsidy processing software. Its service portfolio includes not only conventional software development but also consulting services and technical project management. In these fields TrendMind primarily served customers from Austria and Germany for operation and maintenance.

Kommunalkredit TLI Immobilien GmbH & Co KG

Kommunalkredit TLI Immobilien GmbH & Co KG holds and maintains the properties at Türkenstrasse 9 und Liechtensteinstrasse 13. The office premises of the properties are mainly leased to Group companies.

Kommunalleasing GmbH

Kommunalleasing GmbH is a joint venture with BAWAG P.S.K. (50:50). The company finances a portfolio of EUR 65.6m in the municipal leasing sector. The company has not engaged in any new business since August 2008 due to changes in municipal tax law.

Three questions to Lucas Sobotka, Kommunalnet Managing Director

Have the municipal authorities reached the digital age?

They did a long time ago. Municipal civil servants – from the mayor's office down – use digitalisation in their day-to-day duties. Otherwise it wouldn't be possible to offer citizens such an extensive range of services. Communication is increasingly digital. But face-to-face communication will always play a key role, because it lets me look a person in the eyes.

Could it be said that Kommunalnet has networked Austria?

That's certainly true. Kommunalnet is represented from Lake Neusiedl to Lake Constance. Over 2,000 of the 2,096 Austrian municipalities use our network for efficient information exchange. This makes collaboration easier and supports the daily activities of municipal authorities. We are creating a network for Austria's municipalities.

What will 2020 and 2021 be remembered for?

Austria's largest municipal platform will grow in a way that is fit for the future. We will continue to occupy ourselves with improvements, additions and further developments so that our users can benefit from the latest technology at a low cost. We already satisfy all relevant e-Government standards – from the Citizen Card to the combined municipal platform "Portalverbund". And we will continue to do so.

Employees

WE ARE KOMMUNALKREDIT.

Kommunalkredit's great performance depends substantially on the commitment and performance of each individual employee. We all pull together to succeed. Individual knowledge and personal abilities are applied to the benefit of the company's overall performance. Together as a team we consistently pursue our goals.

Our Code of Conduct in practice

Responsible business management is the basis for our long-term success. Professional standards and basic ethics are the norm in our day-to-day business and codified in our Code of Conduct. Kommunalkredit is committed to complying with the highest compliance standards and is aware of its corporate social responsibility. Appreciation, problem-solving, performance and innovation – both internally and externally – are key pillars of how we engage with one another every single day. With respect, transparency and dependability, we also help to maintain a positive public image of the financial industry.

Having the trust of customers, partner banks, investors, owners, regulatory authorities and supervisory authorities as well as all of our colleagues is important to us. We see an open dialogue with our stakeholders as a chance to exchange knowledge and evolve, and as an opportunity to pass on our experience. The primary objective is to foster and strengthen the trust in our company.

Internal Governance encourages and ensures fair competition and protects our customers' interests. The principle of sustainability in our business strategy is also reflected in the Bank's internal organisation. The procurement and care of materials, the supply of working resources and proper disposal must satisfy the high standards of environmental protection and sustainability.

Training and education as factors for success

We have a top-class team with extensive international know-how and a broad range of experience in the infrastructure business. And we invest selectively and carefully to build on this competitive advantage.

Recruiting and retaining talented and motivated employees and ensuring their continued development is something that we therefore see as an essential aspect of our management duties. Training, education and personnel development are essential in ensuring that employees can identify with the company and are thus also essential to the success of Kommunalkredit itself. We support both professional and personal development.

Personnel development for us means helping employees in a targeted manner to do their jobs as best they can and to overcome the challenges that they encounter in their working environment. We also understand personnel development to be a link between the corporate strategy and the employees. Its purpose is to encourage commitment and drive development among employees and managers. And it plays an important role in ensuring that we remain true to our vision and mission together and achieve our goals. This is a path that we would like to follow together, which is why we have created a "developing pool" to provide young employees with support and encouragement in their ongoing development.

Employees should see themselves not only as employees, but more as contributors and shapers. Our common goal is to create an environment where people can exploit and apply their talents and gifts to the fullest. It should be demanding and performance-oriented, but also a positive, respectful and healthy working environment. This also includes acknowledgement of the need for a healthy work-life balance. Only this creates the space needed for an arm's length or top-down perspective to generate momentum, produce ideas and foster creativity.

Employee opinions as a yardstick

Continuous discussions with our colleagues are especially important as they are the ones "out there" in the market and are therefore key ambassadors of the company. You can only do your best if you feel your best. After 2018, we again performed an employee survey for evaluation purposes in 2019 to provide us with a sounding board and to provide managers with the opportunity to optimise their areas.

With a participation rate of 65%, a high value compared to others in the sector, we have achieved very positive results. A commitment level of +21% compared to the initial survey and an enablement level of over 72% (+14%) are evidence that our training and education measures and personnel development activities are bearing fruit.

Alongside regular face-to-face employee meetings and transparent communication, we also established a number of important additional precedents in 2019:

- Launch of talent management with focus on young performers and experienced experts
- Best practice meetings with various divisions to reinforce company-wide collaboration
- Expansion of training opportunities available to all employees to encourage further development of the business model
- Review of requirements of a modern remuneration system (performance-linked payment, performance evaluation, employee-focus, employee development, motivation, retention)

Employees as the engine of the company

The company's employees are the engine that drives it. As of 31 December 2019, the number of employees of the Kommunalkredit Group was 251 full-time equivalents (31/12/2018: 253). 161 of these worked for Kommunalkredit Austria AG (31 December 2018: 162; three other employees delegated to KA Finanz AG on a full-time basis), while 90 worked for Kommunalkredit Public Consulting GmbH (31/12/2018: 88). Of the 161 banking employees, ten work from the branch office in Frankfurt am Main.

The year 2019 was also defined by the expiry of the Service Level Agreement with KA Finanz AG that had been in effect since 2009. On 31 March 2019 services were discontinued as planned, and the contractually agreed one-year period of notice was used to put migration measures in place. In connection with this and to reinforce the Bank's core business, capacities were restructured and expanded in the market and back-office units.

The share of women in the Kommunalkredit Group was 45% (34% in management positions) as of 31 December 2019. The average age was 43. The share of academics remained stable at 66%. Nine women and three men were on parental leave as of 31 December 2019; during the year, nine employees took parental leave and four employees took a "dad month" – as established in the collective bargaining agreements for births from 1 July 2011 onwards – or took "family leave" – as established for births from 1 March 2017 onwards.

The diversity of our employees is a fundamental asset and indicative of a modern, dynamic business. We address each other as respectfully and appreciatively as we do our customers. Fairness and acknowledgement of each other's skills, privacy and individual needs are key to this. Discrimination due to gender, origin, nationality, skin colour, sexual identity, age, disability, religion or worldview has no place at Kommunalkredit. Managers are expected to set a special example in this regard. As of 31 December 2019, 20 nationalities contributed to a strong corporate culture.

251 employees

66% share of academics

45% share of women

43 years average age

20 nationalities

2 locations

1 mission

Communication

CAPABLE. ACTIVE. TRANSPARENT.

Kommunalkredit places great value in communicating openly with its stakeholders – the company, customers, business partners, investors, the media, regulatory authorities, shareholders, and of course, its employees.

Engagement

In the 2019 financial year, communication measures again focused on clearly positioning the Bank as a specialist for infrastructure and energy financing as well as public finance – whether as an in-demand advisor and financier for the public sector or as a point of contact for businesses and investors who are involved in the creation, acquisition and/or operation of infrastructure or energy projects.

To engage with our stakeholders, we use a broad spectrum of communication channels. These include personal communication methods as well as digital media, conventional PR efforts and direct marketing. External communications focused on intensifying exchanges with the media, both in the Austrian domestic market and in international specialist infrastructure-related media. Marketing activities were performed most notably for the two online investment platforms KOMMUNALKREDIT DIREKT (for municipal authorities and businesses) and KOMMUNALKREDIT INVEST (for private customers).

Kommunalkredit is traditionally rooted in Austrian town, city and municipal authorities – after supporting the public sector for consulting and financing in relation to infrastructure projects (public finance), we also continued our partnerships with the two most important municipal decision-makers in Austria in 2019. At the Congress of City & Town Authorities held by the Austrian Association of Cities & Towns, we were represented just as effectively as a cooperation partner as we were at the Congress of Municipalities held by the Austrian Association of Municipalities. For 15 years now, the KOMMUNALE SOMMERGESPRÄCHE (Municipal summer talks) held jointly with the Austrian Association of Municipalities – also a minority shareholder of our Bank – have provided us with a forum that unites national and international guests from political, business, academic and media circles to Bad Aussee for active discussions.

Our experts from the Bank and also from our subsidiary Kommunalkredit Public Consulting (KPC) are highly sought-after speakers at numerous specialist events within Austria and abroad. KPC is also well-positioned in the Austrian market in the field of subsidy processing and sponsors sustainable initiatives such as the Waste Award of the Austrian Water and Waste Management Association (ÖWAV, Österreichischer Wasser- und Abfallwirtschaftsverband) and the Neptune Water Award (from the Federal Ministry for Sustainability and Tourism). KPC participated as a member of Austria's official negotiating delegation in the 2019 UN Climate

KOMMUNALE SOMMERGESPRÄCHE

MUNICIPAL SUMMER TALKS 2019

"Infrastructure is the lifeblood, the nervous system. (...) We are talking about technical infrastructure – digitalisation, broadband – we are talking about social infrastructure – education, nursing."
Alfred Riedl, President of the Austrian Association of Municipalities, Mayor of Grafenwörth (Lower Austria)

"I believe that the social quality of life is wholly dependent on how a municipality's internal structure is in relation to civil society."
Matthias Horx, Futurologist

"(...) future mobility (...). It must be affordable, must effectively combine public transportation with private means, and in particular we are researching solutions involving autonomous systems."
Jost Bernasch, Managing Director of Virtual Vehicle

"The foundations for shaping the future (...), broadband is simply essential."
Johanna Mikl-Leitner, Governor of Lower Austria

"We can see in many European countries that the municipalities would like to make investments, and indeed need to, but are unable to."
Marcel Fratzscher, President of the German Institute for Economic Research

"The social infrastructure, the digital infrastructure, but also the ecological infrastructure ... there's potential."
Wilhelm Molterer, Managing Director of EFSI

"Infrastructure is the heart of any society. We need the courage to act and to invest in revolutionary technologies with promising futures."
Bernd Fislage, Chief Executive Officer of Kommunalkredit

Change Conference in Madrid. With regard to our investor relations activities, we engage closely with investors, analysts and business partners.

We are aware of our responsibility as an employer. In internal communications, we place great value in ongoing transparency and respectful conduct within the company. To this end, we employed formats in 2019 such as town hall meetings, employee lunches, mentoring programmes, internal roadshows, newsletters and our intranet. The activities of the sustainability team and the employee committee provided support with the active exchange of information.

Research & development

PRODUCT DEVELOPMENT AND DIGITALISATION.

At Kommunalkredit, no research activities are conducted as defined by § 243 (3) Z 3 of the Austrian Commercial Code (UGB). However, its activities as a specialist bank for infrastructure and energy financing involve a clear strategic focus in a broad spectrum of different segments and a high level of diversification in products and customers. The development of made-to-order products and the expansion of the digital customer portals are therefore key to the intensification of our customer relationships.

Product development

In the high-growth infrastructure finance market, Kommunalkredit acts as a bridge between project sponsors on the one hand (infrastructure constructors and operators) and institutional investors such as insurers or pension funds on the other. We link industry expertise with structuring know-how and the financing opportunities of a bank. Kommunalkredit caters to the entire infrastructure financing value chain – from consulting to structuring and from financing to risk hedging, we develop a broad range of tailored, individual solutions for our customers and partners. This also encompasses investment opportunities for municipalities, businesses and private customers as well as recognition of support instruments. Our strategic innovations were recently awarded third place in the ranking of specialist banks by Austrian journal “Der Börsianer” in 2019.

Digitalisation

Kommunalkredit is very active in the ongoing progress of digitalisation. The two application procedures in our online investment platforms KOMMUNALKREDIT DIREKT (for Austrian municipal authorities and businesses) and KOMMUNALKREDIT INVEST (for private customers in Austria and Germany) offer user-friendly access to the portals. Developed jointly with Fintech Group AG – a provider of digital financial technologies with its registered office in Frankfurt am Main – financial services comparison site capitalo.at awarded KOMMUNALKREDIT INVEST’s term deposits with an excellent 4.8 out of 5 stars in 2019. The reason stated for this was that it was a savings product enriching the Austrian investment market.

Other material disclosures

GOVERNING BODIES. CAPITAL. SERVICE AGREEMENT.

In the 2019 financial year, the structure of Kommunalkredit's governing bodies changed. And while the Service Agreement with KA Finanz AG expired in the first quarter, the owners provided a capital increase at the turn of the half-year.

Change on the Executive Board | Broadening of the Management Board

On 31 January 2019 Jörn Engelmann left the Kommunalkredit Executive Board upon expiry of his contract. Since 1 February 2019, the Executive Board has consisted of Bernd Fislage (Chief Executive Officer) and Jochen Lucht (Chief Financial Officer, Chief Risk Officer, Chief Operating Officer). In the Supervisory Board meeting of 28 November 2019, Bernd Fislage was reappointed as CEO for a term of office of five further years.

In order to deepen the expertise in the back-office divisions and broaden the management structure, two executive vice presidents (Generalbevollmächtigte) were appointed as of 1 September and 1 December respectively. Kors Korsmeier and Harald Brunner serve as intermediaries between the Executive Board member responsible for the Back Office and the Division Heads. Jointly with the Executive Committee – comprising the management personnel from Market, Back Office and Strategy – they support the Executive Board in day-to-day business.

Capital increase for further growth

In the second quarter of 2019, a capital increase of EUR 20m was executed as planned. Shareholder Gesona Beteiligungsverwaltung GmbH (Gesona) subscribed to the entirety of the newly issued shares. In combination with the retention of the 2018 annual profit to the amount of EUR 30.4m, this results in a total capital increase of EUR 50.4m as against the previous year.

Furthermore, we plan to retain EUR 20.4m of the EUR 30.4m profit from the 2019 financial year for a capital increase.

The capital increase is a clear sign by Gesona of its support for Kommunalkredit's consistent implementation of its growth plans; its underwriting capacity is increasing and the bank can benefit from economies of scale. As of 31 December 2019, Kommunalkredit reported total capital of EUR 356.5m (31/12/2018: EUR 323.7m) and Common Equity Tier 1 of EUR 303.6m (31/12/2018: EUR 265.5m).

Expiry of the Service Agreement with KA Finanz AG

From 2009 onwards, a Service Agreement governed operating services provided by Kommunalkredit for the banking operations of KA Finanz AG; the expense was billed to KA Finanz AG. A small number of employees were also delegated to KA Finanz AG on a full-time basis under a staff services agreement (as of 31/03/2019, 3 employees).

These services were discontinued with effect from 31 March 2019. Kommunalkredit terminated the service agreement with KA Finanz AG in the first quarter of 2018 and used the contractually agreed notice period of one year to put migration measures in place and to prepare for corresponding capacity adjustments, which were implemented in the first half of 2019. The termination of the KA Finanz AG services allows Kommunalkredit to focus more closely on its core business.

Significant events after the reporting date

Following the outbreak of the coronavirus at the end of 2019/ beginning of 2020 in China and its ensuing spread into a global pandemic, all forecasts regarding economic developments and trends must be revised. Interruptions in economic production and the service sector as well as rising unemployment figures are factors of which the impact cannot be calculated at this time. Rising inflation rates are also a possibility in spite of the fact that Saudi Arabia and Russia, the world's leading oil producers, have failed to reach an agreement on production cuts since early March 2020, causing a drastic drop in oil prices. Oil prices are now expected to remain under pressure for some time, also due to the lower demand resulting from the coronavirus pandemic.

In addition to comprehensive public health measures, monetary and fiscal policy measures have been defined, particularly in Europe and the USA, to cushion the blow to the real economy. These include both rescue packages running into the billions that were adopted at short notice to support the economy as well as diverse regulatory relief measures passed by central banks and supervisory authorities. The medium- and long-term effects of these aid programmes can still not be estimated from our current standpoint. The longer the state of emergency lasts, the more severe the impact on the global economy will be. European and global economic performance is expected to fall considerably. Depending on the development of the coronavirus pandemic, further risks could materialise which could have a more severe impact. These cannot be quantified at present.

Should this special economic situation remain in place for longer, the resulting challenges will have a considerable negative impact on the liquidity position of companies. Negative effects on demand and a shrinking working population will severely impact finance markets. Liquidity bottlenecks affecting customers or projects could also lead to precautions at Kommunalkredit.

The demand for sustainability and intact infrastructure in Europe will nevertheless remain high in the future and will become more relevant as a result of the coronavirus pandemic. Public-sector and private-sector decision makers will become increasingly aware of the need to maintain, modernise and expand state-of-the-art infrastructure assets in the areas of supply, digitalisation, communication, transport and social infrastructure. Therefore, the focus will increasingly move towards infrastructure projects and public finance. Even – or especially – in this environment, Kommunalkredit will do its part to overcome the effects of the crisis.

Internal Control System

REPORT ABOUT KEY FEATURES OF THE INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM IN RELATION TO THE ACCOUNTING PROCESS.

The Executive Board of Kommunalkredit is responsible for establishing and structuring an Internal Control System (ICS) and Risk Management System that meets the needs of the company regarding the accounting process. The Audit Committee monitors the effectiveness of the ICS and the accounting process as a whole.

Definition of purpose

The ICS encompasses all processes designed by the Executive Board and executed within the company that are used to monitor and control

- the effectiveness and efficiency of the operating activities for the purpose of protecting assets against loss as a result of damage and misappropriation,
- the reliability of financial reporting and
- compliance with the statutory regulations of relevance for the company.

The objective is to assist the management in such a way that enables it to ensure the performance of effective and continuously improving internal controls regarding accounting processes. The ICS is designed to ensure compliance with policies, guidelines and regulations and to create favourable conditions for specific control measures in key accounting and financial reporting processes. Within the accounting process, the ICS is procedurally organised on the basis of an intended standardisation of processes in the Finance division and in the Accounting, Financial Reporting & Taxation teams and in Reporting & Managerial Accounting. Visual procedural descriptions, policies, guidelines and work instructions are in place for processes. The two-person-review principle defined therein for major operations is mandatory. Data and IT systems are protected from unauthorised access. Relevant information is only provided to those employees who actually require the information for their work. Results are coordinated between divisions where necessary.

The Kommunalkredit ICS comprises the five components of the COSO[21] framework: control environment, risk assessment, control measures, information and communication as well as monitoring activities.

Control environment

The control environment is based on communication and the corporate culture in which management and employees work. Kommunalkredit always works to ensure effective communication and to convey the company's own guiding principles as laid out in the "Code of Conduct". Key organisational principles include the avoidance of conflicts of interest by strictly separating market and back-office units, transparently documenting core processes and control steps in risk and control matrices, and the consistent application of the two-person-review principle. With their diverse functions and rules of business, the committees of the Supervisory Board lay out the responsibilities of the Executive Board and limit the scope of possible action at the highest level of the company.

The implementation of the ICS regarding the accounting process is also defined in the internal policies and regulations. These ensure that transactions and the sale of company assets are disclosed correctly, compliantly and in sufficient detail. Functions that play a key role in the accounting process – Finance and Risk Accounting – are clearly separated and are organised into separate divisions. Other committees (Risk Management, Fixed Valuation committee) and divisional meetings serve as interdivisional forums for various specialist divisions. Executive, transactional or administrative activities such as payments and payment booking are clearly isolated from one another or are subject to the two-person-review principle.

Within the procedural organisation in Finance as well as in the Accounting, Financial Reporting & Taxation teams and in Reporting & Managerial Accounting, standard software is used for booking, cross-checking, controls and reporting as far as possible to avoid errors based on the particular system.

Internal Audit independently and regularly reviews compliance with internal regulations relating to the accounting process. The Internal Audit management reports on a monthly basis directly to the Executive Board and on a quarterly basis to the Supervisory Board.

[21] COSO: Committee of Sponsoring Organisations of the Treadway Commission

Risk assessment

The main risk in the accounting process is that circumstances may not be accurately represented in keeping with the company's assets, financial position or income due to errors or wilful misconduct. At Kommunalkredit, risks are identified in relation to the accounting process by the process managers; these are then described and monitored in risk & control matrices in accordance with the specified methods. All identified risks must be evaluated and measures must be taken in line with the nature of the risk to protect against and mitigate these by means of optimised processes. The focus is on those risks deemed to be material. Internal control measures implemented by the specialist divisions undergo regular evaluation.

Existing control activities

All control measures are applied to current business processes to ensure that potential errors or deviations in financial reporting are prevented or are identified and eliminated.

Control activities relating to accounting are described in policies, guidelines and work directives for recording, booking and accounting for transactions and in processes and risk and control matrices. Based on risk assessments, control steps and key controls are defined for the processes. Compliance with the key controls defined in the risk and control matrices is reviewed in its entirety by the division management, with spot checks performed by the ICS Officer and Internal Audit.

The software used for accounting and reporting is market-standard software (SAP). Automated controls (validations) are performed in SAP and manual controls are performed by employees in the Accounting & Taxation team as well as the Accounting team in SAP and SAP BW. These perform extensive plausibility and data quality checks in several stages.

Control activities relating to accounting and IT security are a cornerstone of the ICS. Separation of sensitive activities by restrictively assigning IT rights and strict observance of the two-person-review principle are closely monitored. To increase the quality of controls, various divisions are involved in certain processes and agreement is required. For example, the inter-divisional new product launch process serves to ensure that the products are represented in a standardised and systematic way for accounting purposes. The processes and results of the market valuations performed by the Risk Controlling, Team Valuation & Modelling division for the given fixed valuation day are also discussed and agreed. Another example of inter-divisional agreement is the process for creating annual reports and interim reports. All divisions involved must confirm the content of these reports before they are accepted by the Executive Board. All materially affected divisions agree on the content of the annual and interim reports beforehand in editorial meetings.

Information and communication

Kommunalkredit's divisions – in particular Finance and Risk Controlling – regularly report to the Executive Board (in particular in the form of monthly and quarterly results). The Executive Board in turn regularly reports to the Supervisory Board. The Head of Internal Audit, the Risk Manager and the Compliance Officer also report directly to the Supervisory Board.

The flow of information includes the calculated data for the company (balance sheet, income statement, budget and capital planning statements, target/actual comparisons, including comments on major developments), a quarterly risk report, reports and analyses on liquidity risk for the Markets division, and reports and analyses on the Banking division's operating activities. The owners, investors and market partners as well as the public are comprehensively informed via a half-year report and the annual financial report. The requirements laid out by statutory provisions regarding ad hoc disclosures are also satisfied.

Monitoring

Financial statements to be published are subject to a final review and expressed approval by senior employees, employees of the Financial division and the Executive Board before being forwarded to the Audit Committee of the Supervisory Board.

The active monitoring of compliance with all rules aims to ensure that all operating processes are as reliable as possible and to ensure consistency with Group-wide internal and statutory regulations. If risks and flaws in control processes are discovered, remedial and preventative measures are developed promptly by those responsible and the implementation of the follow-up measures is monitored.

To ensure compliance with regulations and banking requirements, compliance with the requirements is also reviewed based on the annual audit plan laid out by Internal Audit.

In the year under review, the existing processes and control activities related to the ICT (information & communication technology) risk management in particular were expanded and documented in working directives and risk and control matrices.

Outlook

CHALLENGES. OPPORTUNITIES.

2020 will be challenging, and will require courage: Courage from politicians to make clear decisions that will cushion the economic impacts of the coronavirus pandemic on both the corporate sector and private individuals, and courage to lay the foundations for the rapid recovery of the global economy. It will also require courage on the part of the economy to stimulate investments. The path for structural reform and public investment to revive long-term growth is an opportunity to take a positive approach to overcoming these challenges.

Development of the economy

2020 is expected to bring a considerable slump in global economic output. The main risk factor lies in the consequences of the outbreak of the coronavirus pandemic – which are currently impossible to estimate realistically – and the drastic restrictions it has imposed on public and economic life. The economy was already at risk from the establishment of further trade barriers, persistent uncertainty regarding the consequences of Brexit, and the actual effect of the political measures planned to prevent an intensification of the economic slowdown in China. The global economy was heading towards a phase of de-globalisation. These risks have now been overshadowed by the current uncertainty surrounding the duration of the coronavirus pandemic and the actual impact it will have on the real economy in the short and medium term. Countless measures have already been taken to stop the public health crisis from evolving into a global economic and financial crisis.

In addition to the comprehensive measures taken to slow the further spread of the coronavirus, which are essential from a public health perspective, far-reaching monetary and fiscal policy measures have been defined, particularly in Europe and the USA, to cushion the blow to the real economy. These have included rescue packages running into the billions to support the economy as well as monetary policy and regulatory relief measures passed by central banks and supervisory authorities. The US central bank (Fed) slashed its key rates to within a range of 0.00% to 0.25% in mid-March 2020. The ECB, on the other hand, opted not to cut its rates any further, at least for the time being, but announced additional asset purchases of EUR 120bn in the period leading up to the end of 2020, which were increased a short time later by a further EUR 750bn. The ECB also reduced the conditions for longer-term bank refinancing operations (TLTRO III) and offered additional short-term refinancing operations (LTROs) for the transition period leading up until the next TLTRO III tender. The measures are aimed at ensuring favourable refinancing and sufficient liquidity for banks. Further relief regarding the utilisation of existing capital and liquidity buffers in order to maintain the credit supply will accompany these instruments. As things stand at the moment, further support measures are likely to follow.

In this dynamic environment, and once the health crisis and its consequences have been overcome, Europe has an opportunity to leverage its geopolitical advantages. The European Union (EU) is currently planning to invest an additional EUR 1,000bn by 2030 (EUR 100bn each year) to make Europe the first carbon-neutral continent by 2050. Infrastructure investments will be made in the fields of clean energy, sustainable transport and a transition to a circular economy. As an experienced and established specialist bank for infrastructure and energy financing, Kommunalkredit is ready and willing to serve as a partner in light of the EU's new strategic and political direction.

Regarding Brexit: The EU and the United Kingdom agreed on a transition phase to last until 31 December 2020 in their withdrawal agreement. During this time, the United Kingdom will continue to be treated as an EU member state. The British Financial Conduct Authority and the Bank of England have assured through their "Temporary Permissions Regime" that there will be no changes for EU banks during the transition phase (even in the event of a "no-deal" Brexit). In the event of a no-deal Brexit, Kommunalkredit has, as a precaution, received temporary approval from the Bank of England to continue its business activities temporarily for up to three years after 29 March 2019. It does not expect any significant impact on its business.

To mitigate potential effects of reduced economic output as a result of Brexit, the British government planned a substantial increase in spending, accompanied by tax relief, to boost private consumption for 2020 and 2021. The outbreak of the coronavirus pandemic and the resulting conditions are expected to have an impact on the schedule planned by both the EU and the United Kingdom regarding negotiations on a trade agreement.

At the start of 2020, the ECB had launched a "strategy review" in which the inflation target of 2%, and the achievement of it, were to be examined. The most probable scenario up to then was that the ECB would not make any changes to the base rate or the deposit rates before the conclusion of the review, which had originally been planned for the end of the year. Initial downside risks, for example from a failure of trade talks between the UK and the EU, or from US import tariffs on the European automotive sector, have been eclipsed by the outbreak of the coronavirus pandemic. The rescue packages now required to maintain the economic cycle will likely push government debt levels up further in both Europe and the USA. This means that interest rates will remain low in the longer term, even though the ECB has held back with further rate cuts so far, unlike the Fed. However, low interest rates are also likely to be supported by expectations of falling inflation rates resulting from the collapse in oil prices in March 2020. This is the result of a price war between the world's leading oil producers, Saudi Arabia and Russia, and the lower demand associated with the restrictions imposed on public and economic life across the globe.

Trends on the European infrastructure market

Although the refinancing sector is already stretched to capacity, equity investors still aim to reduce lending costs over the longest possible term. This is why a greater focus on longer-term tranches is expected for institutional investors in the fixed-interest segment.

Depending on the concrete effects of the coronavirus pandemic, we expect to see an increase in brownfield[22]/M&A activities in 2020. This is due not only to low borrowing costs but also to the high liquidity for infrastructure equity funds, which always establish larger funds and are accordingly sensitive to investment pressure. For example, the Infra Fund IV of the EQT investment group in Sweden collected a volume of EUR 9bn in 2019. Also, owners are increasingly attempting to siphon the corresponding cash flows from operating assets early by means of refinancing at a holding company level or relevering in order to increase their equity returns.

Digital infrastructure in particular will see growth in activity. Several telecoms companies are planning to monetise their tower assets; Vodafone, for example, will be opening its portfolio (around GBP 2bn) to the market, while in Spain, Telefónica has specific plans to spin off its infrastructure asset portfolio (towers, broadband network) and sell parts of it.

Activities in the greenfield segment[23] are unlikely to see a boom in 2020. However, there are some positive signals from digital infrastructure – in particular regarding the expansion of fibre-optic networks in rural areas – although the outlook for traditional greenfield PPP (public-private partnerships) remains subdued. With a range of greenfield projects, Greece (motorway, social infrastructure), Italy (hospitals) and France (digital and social infrastructure) offer a substantial pipeline of possible transactions. The mood for 2020 is also positive in Central and Eastern Europe, both in terms of brownfield/M&A activities (such as energy deals in Romania) as well as greenfield activities (e.g. road projects in the Czech Republic).

Bernd Fislage (CEO, on the right) and Jochen Lucht (CFO, CRO, COO) represent the Executive Board.

[22] Brownfield projects are pre-existing infrastructure assets that are mostly already operational, whose financing is restructured mostly through M&A transactions (mergers & acquisitions).

[23] Greenfield projects are new infrastructure assets built “on greenfield land”. Depending on the sector/condition, they are characterised by construction phases of varying length and by a variety of financing requirements up until the time of operation.

Kommunalkredit in 2020

The demand for sustainability and intact infrastructure in Europe will remain high in the future and will become even more relevant as a result of the coronavirus pandemic. Public-sector and private-sector decision makers will become increasingly aware of the need to maintain and modernise supply, transport and social infrastructure. Kommunalkredit is perfectly positioned as a specialist for infrastructure and energy financing in this environment and is a reliable partner thanks to its solid liquidity and capital resources. The infrastructure and energy sectors have already proven to be largely crisis-resistant in the past and, unlike corporate financing, are associated with low default rates and stable recovery rates that are largely independent of economic cycles. Consequently, given our deep market expertise, high level of diversification and quick reaction capabilities, we will be successfully continuing along our established path even in this environment, which is challenging for all of us. We pay particular attention to our network of project sponsors and investors and continue to further develop our range of products. This will allow us to generate high and sustainable results for our stakeholders in the future.

Public sector financing will continue to be an integral part of our business. In 2020, we plan once again to hold the KOMMUNALE SOMMERGESPRÄCHE (Municipal Summer Talks) jointly with the Austrian Association of Municipalities. For 15 years, these talks have provided opportunities to intensively discuss what occupies municipal authorities when it comes to financing.

Following the operational launch of our first sub-fund "Fidelio KA Infrastructure Debt Fund Europe 1", the final close is nearly upon us. With this fund, we have managed to generate interest among investors for sustainable infrastructure projects as ideal investment opportunities.

We don't see Kommunalkredit as just a bank. We see ourselves as a think tank, as a sparring partner for the full range of topics related to infrastructure, and as a vehicle for investment in areas of our society whose immense importance in the current environment must once again be emphasised.

Vienna, March 2020

The Executive Board of
Kommunalkredit Austria AG

Bernd Fislage
Chief Executive Officer

Jochen Lucht
Member of the Executive Board

CONSOLIDATED FINANCIAL STATEMENTS OF THE KOMMUNALKREDIT GROUP, VIENNA, FOR THE 2019 FINANCIAL YEAR

I. Consolidated statement of financial position

Assets in EUR 1,000	Note	31/12/2019	31/12/2018
Cash and balances with central banks	(24)	462,613.8	314,408.9
Loans and advances to banks	(25)	282,138.9	218,561.5
Loans and advances to customers	(26)	1,790,149.7	1,969,637.9
Assets recognised at fair value through other comprehensive income	(27)	1,280,575.1	1,178,939.7
Assets at fair value through profit or loss	(29)	254,657.3	0.0
Derivatives	(30)	184,954.6	220,886.0
Portfolio hedge		3,372.4	808.0
Property, plant and equipment	(32)	25,470.6	24,831.8
Intangible assets	(34)	246.6	203.9
Current tax assets	(36)	4,568.9	258.6
Deferred tax assets	(36)	9,141.8	6,183.3
Other assets	(37)	7,460.0	7,040.8
Assets		**4,305,349.7**	**3,941,760.3**

Liabilities and equity in EUR 1,000	Note	31/12/2019	31/12/2018
Amounts owed to banks	(38)	487,210.5	495,569.2
Amounts owed to customers	(39)	1,876,254.5	1,456,472.9
Derivatives	(40)	219,537.3	200,976.4
Securitised liabilities	(41)	1,272,827.2	1,396,053.7
Subordinated liabilities	(42)	68,536.4	69,074.4
Provisions	(43)	7,003.4	8,917.0
Current tax liabilities	(44)	1,107.1	1,135.8
Other liabilities	(45)	29,690.7	18,798.9
Equity	(46)	343,182.8	294,762.0
of which subscribed capital		*172,659.5*	*159,491.3*
of which fixed reserves		*29,620.4*	*17,868.2*
of which reserves for assets at fair value through other comprehensive income		*109,611.9*	*110,364.1*
of which other reserves (incl. consolidated net profit)		*31,126.8*	*6,873.4*
of which non-controlling interests		*164.2*	*164.9*
Liabilities and equity		**4,305,349.7**	**3,941,760.3**

II. Consolidated income statement

Consolidated income statement in EUR 1,000	Note	1/1-31/12/2019	1/1-31/12/2018
Net interest income	(47)	58,593.0	49,222.9
Interest income		*163,755.2*	*169,887.8*
Income similar to interest income		*3,045.6*	*0.0*
Interest expenses		*-105,529.2*	*-117,726.7*
Expenses similar to interest expenses		*-2,948.6*	*-2,938.1*
Net fee and commission income	(48)	24,899.8	18,467.1
Fee and commission income		*26,718.2*	*19,857.3*
Fee and commission expenses		*-1,818.4*	*-1,390.3*
Result from the disposal of assets at fair value through other comprehensive income	(49)	4,300.4	3,493.2
Net provisioning for impairment losses	(50)	-2,469.2	-699.3
General administrative expenses	(51)	-54,638.5	-54,124.0
Personnel expenses		*-35,128.1*	*-34,989.7*
Other administrative expenses		*-19,510.4*	*-19,134.3*
Contributions to the Bank Resolution Fund	(52)	-1,614.8	-1,571.0
Income from investments		216.1	192.0
Other operating result	(53)	1,423.8	8,263.1
Other operating income		*2,695.9*	*9,289.8*
of which services invoiced to KA Finanz AG		*1,684.5*	*8,601.5*
Other operating expenses		*-1,272.1*	*-1,026.7*
of which bank stability tax		*-606.7*	*-575.6*
Restructuring expense		0.0	-2,500.0
Net result of asset valuation and realised gains and losses	(54)	-3,388.8	11,863.2
Result from the disposal of financial assets measured at amortised cost		0.0	-21.5
Consolidated profit for the year before tax		**27,321.8**	**32,585.7**
Income taxes	(55)	2,283.5	-18,263.3
Consolidated profit for the year		**29,605.2**	**14,322.4**
of which attributable to owners		*29,528.1*	*14,282.2*
of which attributable to non-controlling interests		*77.1*	*40.2*

III. Consolidated statement of comprehensive income

Consolidated statement of comprehensive income in EUR 1,000	1/1-31/12/2019	1/1-31/12/2018
Consolidated profit for the year	**29,605.2**	**14,322.4**
Items to be recycled to the Income Statement	**-496.0**	**-5,772.2**
Change in assets at fair value through other comprehensive income	**-496.0**	**-5,772.2**
Assets at fair value through other comprehensive income	*-4,203.3*	*-10,718.6*
Change in credit risk provision	*1,481.0*	*563.2*
Recycled to the Income Statement	*2,061.0*	*2,459.1*
Deferred tax on assets at fair value through other comprehensive income	*165.4*	*1,924.1*
Items not to be recycled to the Income Statement	**-632.6**	**1,217.2**
Change in actuarial gains/losses	**-376.4**	**593.0**
Actuarial result from pension provisions	*-501.9*	*790.7*
Deferred tax on actuarial result from pension provisions Personnel provisions	*125.5*	*-197.7*
Changes in equity instruments at fair value through other comprehensive income	**-256.2**	**624.2**
Valuation of equity instruments at fair value through other comprehensive income	*-341.6*	*832.3*
Deferred tax on changes in equity instruments at fair value through other comprehensive income	*85.4*	*-208.1*
Total	**28,476.7**	**9,767.4**
of which attributable to owners	*28,421.4*	*9,716.3*
of which attributable to non-controlling interests	*55.3*	*51.1*

IV. Consolidated statement of changes in equity

Equity according to IFRS developed as follows in 2019 and 2018:

Statement of changes in equity 2019 in EUR 1,000	Subscribed capital	Fixed reserves[1]	Other retained earnings (incl. consolidated profit for the year)	Reserve for assets at fair value through other comprehensive income[2]	Actuarial gains/ losses IAS 19	Equity excl. non-controlling interests	Non-controlling interests	Equity
as of 1/1/2019	**159,491.3**	**17,868.2**	**5,367.9**	**110,364.1**	**1,505.8**	**294,597.2**	**164.8**	**294,762.0**
Consolidated profit for the year	0.0	0.0	29,528.1	0.0	0.0	29,528.1	77.1	29,605.2
Changes in assets at fair value through other comprehensive income	0.0	0.0	0.0	-496.0	0.0	-496.0	0.0	-496.0
Valuation of assets at fair value through other comprehensive income	*0.0*	*0.0*	*0.0*	*-3,152.5*	*0.0*	*-3,152.5*	*0.0*	*-3,152.5*
Recycling of assets at fair value through other comprehensive income	*0.0*	*0.0*	*0.0*	*1,545.7*	*0.0*	*1,545.7*	*0.0*	*1,545.7*
Change in credit risk provision	*0.0*	*0.0*	*0.0*	*1,110.8*	*0.0*	*1,110.8*	*0.0*	*1,110.8*
Changes in actuarial gains/losses	*0.0*	*0.0*	*0.0*	*0.0*	*-354.5*	*-354.5*	*-21.9*	*-376.4*
Changes in equity instruments at fair value through other comprehensive income	0.0	0.0	0.0	-256.2	0.0	-256.2	0.0	-256.2
Total	**0.0**	**0.0**	**29,528.1**	**-752.1**	**-354.5**	**28,421.4**	**55.3**	**28,476.7**
Capital increase	13,168.2	6,831.8	0.0	0.0	0.0	20,000.0	0.0	20,000.0
Profit distribution	0.0	0.0	0.0	0.0	0.0	0.0	-55.9	-55.9
Appropriation to fixed reserves	0.0	4,920.4	-4,920.4	0.0	0.0	0.0	0.0	0.0
as of 31/12/2019	**172,659.5**	**29,620.4**	**29,975.5**	**109,611.9**	**1,151.3**	**343,018.6**	**164.2**	**343,182.8**

[1] The fixed reserves include statutory retained earnings of TEUR 7,277.1, liability reserves of the parent company in line with § 57 (5) of the Austrian Banking Act (BWG) of TEUR 15,511.5 and fixed capital reserves of the parent company of TEUR 6,831.8.

[2] As of 31/12/2019, the reserves for assets at fair value through other comprehensive income included deferred taxes of TEUR -36,537.2.

Statement of changes in equity 2018 in EUR 1,000	**Subscribed capital**	**Fixed reserves[1]**	**Other retained earnings (incl. consolidated profit for the year)**	**Reserve for assets at fair value through other comprehensive income[2]**	**Available for sale reserve**	**Actuarial gains/ losses IAS 19**	**Equity excl. non-controlling interests**	**Non-controlling interests**	**Equity**
as of 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 of 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*
Change in credit risk provision	*0.0*	*0.0*	*0.0*	*422.4*	*0.0*	*0.0*	*422.4*	*0.0*	*422.4*
Change 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
Total	**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 of 31/12/2018	**159,491.3**	**17,868.2**	**5,367.9**	**110,364.1**	**0.0**	**1,505.8**	**294,597.2**	**164.8**	**294,762.0**

[1] The fixed reserves include statutory retained earnings of TEUR 5,761.9, liability reserves of the parent company in line with § 57 (5) of the Austrian Banking Act (BWG) of TEUR 12,106.2.

[2] As of 31/12/2018, the reserves for assets at fair value through other comprehensive income included deferred taxes of TEUR -36,880.1.

For details on equity, see Note 46.

V. Consolidated statement of cash flows

The consolidated statement of cash flows shows the status quo and the change of cash items of the Kommunalkredit Group. The cash and cash equivalents reported include, clearly differentiated, the cash on hand and balances with central banks.

Consolidated statement of cash flows in EUR 1,000	1/1–31/12/2019	1/1–31/12/2018
Consolidated profit for the year after tax	**29,605.2**	**14,322.4**
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	1,486.7	1,317.0
Appropriation to/release of provisions and risk provisions	555.5	2,380.4
Non-realised gains/losses from exchange rate fluctuations	-6.4	11.0
Gains/losses from the valuation of financial assets and gains from the buyback of own issues	3,388.8	-11,830.6
Income tax deferrals	-7,240.2	17,345.2
Non-cash deferrals/accruals and other adjustments	-760.7	172.4
Sub-total	**27,029.0**	**23,717.8**
Change in assets and liabilities from operating activities after correction for non-cash items		
Loans and advances to banks	-63,313.4	-107,568.6
Loans and advances to customers	178,968.6	72,372.8
Assets recognised at fair value through other comprehensive income	-101,284.2	-278,983.7
Assets at fair value through profit or loss	-254,119.8	0.0
Derivatives and portfolio hedge	43,380.4	-41,693.1
Other assets from operating activities	-419.2	892.6
Amounts owed to banks	-7,030.0	-35,918.4
Amounts owed to customers	415,905.1	422,932.0
Securitised liabilities	-120,765.7	-46,970.7
Other liabilities from operating activities	10,891.8	-59.0
Cash flow from operating activities	**129,242.6**	**8,721.7**
Proceeds from the sale/redemption of		
Property, plant and equipment and intangible assets	0.0	0.6
Payments for the acquisition of		
Property, plant and equipment and intangible assets	-357.8	-311.6

Consolidated statement of cash flows in EUR 1,000	1/1–31/12/2019	1/1–31/12/2018
Cash flow from investing activities	**-357.8**	**-311.0**
Cash inflow from capital increases/cash outflow from capital reductions	20,000.0	0.0
Dividend payments attributable to the owners of the parent	0.0	-11,500.0
Dividend payments attributable to non-controlling interests	-55.9	-61.7
Change in funds from other financing activities (subordinated capital)	-535.9	-549.3
Cash outflow from repayments on lease liabilities (2018: finance lease liabilities)	-88.1	0.0
Cash flow from financing activities	**19,320.1**	**-12,111.0**
Cash and cash equivalents at the end of the previous period	314,408.9	**318,109.1**
Cash flow from operating activities	129,242.7	8,721.7
Cash flow from investing activities	-357.8	-311.0
Cash flow from financing activities	19,320.1	-12,111.0
Cash and cash equivalents at the end of the period	**462,613.8**	**314,408.9**
of which cash flows contained in cash flow from operating activities:		
Interest received	*158,531.6*	*170,771.7*
Interest paid	*-99,177.9*	*-117,599.4*
Income taxes paid	*253.3*	*136.9*
Dividends received	*216.1*	*192.0*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KOMMUNALKREDIT GROUP, VIENNA, FOR THE 2019 FINANCIAL YEAR

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 and energy finance. It acts as a link between the developers of infrastructure facilities, 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. It is registered with the Commercial Court (Handelsgericht) of Vienna under Companies Register number 439528s.

Gesona Beteiligungsverwaltung GmbH (Gesona) owns 99.80% of Kommunalkredit, with a stake of 0.20% 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 a 100% stake in Gesona.

The consolidated financial statements of Kommunalkredit, based on the IFRS as they are to be applied in the European Union (EU), are prepared pursuant to § 59a of the Austrian Banking Act (BWG) in conjunction with § 245a of the Austrian Commercial Code (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 (BörseG) as part of this annual financial report.

2. Standards and interpretations applied

The consolidated financial statements of Kommunalkredit were produced based on all International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations of IFRS Interpretations Committees (IFRICs and SICs) approved and published by the International Accounting Standards Board (IASB), adopted into European law by the European Union (EU) and applicable on a mandatory basis as of 31 December 2019.

Overview of new standards/interpretations or changes to be applied for the first time in the 2019 financial year:

The new and/or amended IFRS, IFRIC and improvements to IFRS applicable on a mandatory basis to financial years beginning on or after 1 January 2019 are presented below:

Standard	Title	First-time adoption
IFRS 16	Leases	1/1/2019
IFRIC 23	Uncertainty over income tax treatments	1/1/2019
Amendments to IFRS 9	Prepayment features with negative compensation	1/1/2019
Amendments to IAS 19	Plan amendment, curtailment or settlement	1/1/2019
Amendments to IAS 28	Amendments to IAS 28	1/1/2019
Annual improvements to IFRS standards 2015-2017 cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	1/1/2019

The standards are applied to those financial years starting on the “first-time adoption” date.

IFRS 16 (Leases)

Kommunalkredit has been using IFRS 16, the new accounting standard for leases, since the compulsory first-time application date of 1 January 2019.

IFRS 16 specifies how a reporter will recognise, measure, present and disclose leases. The standard now provides a single lessee accounting model that does not make any distinction between operating and finance leases. This means that lessees generally have to recognise all assets and liabilities under utilisation agreements in return for payment in their statement of financial position. There is a capitalisation option for leases with an expected term of less than twelve months or lease agreements for low-value assets. The income statement is also affected because the discounting of the expense is generally higher in the early years, and lower in the latter years, of a lease. In addition, the operating expenses are replaced by interest and depreciation.

The accounting requirements for lessors have remained largely unchanged.

The impact of the first adoption of IFRS 16 on the consolidated financial statements is explained in Note 33.

IFRIC 23 (Uncertainty over Income Tax Treatments)

The interpretation includes provisions governing the recognition and measurement of tax risk positions, closing existing gaps in the relevant provisions in IAS 12 “Income Taxes”. Based on the provisions of IFRIC 23, an entity is to assume that the taxation authority has full knowledge of all relevant information. In addition, tax scenarios that are associated with a risk can have an impact on the calculation of both current tax and deferred tax. The interpretation also contains references to existing obligations regarding disclosures in the notes pursuant to IAS 1.122 and IAS 1.125–1.129 for the judgements, assumptions and estimates used when accounting for tax risk positions. It also refers to the provisions set out in IAS 12.88 and the obligation to disclose tax-related contingent liabilities and contingent assets.

The interpretation does not have any material impact on the Group’s assets, financial position and income.

Amendments to IFRS 9 (Financial Instruments)

The amendments allow for measurement at amortised cost or at fair value through other comprehensive income (FVOCI) also for financial assets which feature a prepayment option, where one party receives reasonable compensation or pays reasonable (negative) compensation upon termination.

IFRS 9 already provided for an exception in paragraphs B4.1.11 et seq. based on which the cash flow criterion set out in IFRS 9 is not breached if reasonable additional compensation has to be paid for agreed prepayment by a debtor, such as a compensation for interest income lost.

Under the newly supplemented IFRS 9.B4.1.12A, the exception that has applied to date for compensation payments in the event of termination can now also apply if the reasonable compensation for early termination referred to therein is negative, i.e. actually constitutes compensation in favour of the terminating party. As a result, the wording has been changed from “reasonable additional compensation” to “reasonable compensation”.

The amendments do not have any material impact on the Group’s assets, financial position and income.

Amendments to IAS 19 (Employee Benefits)

Pursuant to IAS 19 “Employee Benefits”, pension obligations are to be measured based on updated assumptions if a plan amendment, curtailment or settlement occurs. The amendment clarifies that, in such cases, the current service cost and the net interest for the period are to be taken into account based on these updated assumptions.

The amendments do not have any material impact on the Group’s assets, financial position and income.

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

The amendments clarify that IFRS 9 is to be applied to long-term interests in an associate or joint venture to which the equity method is not applied. This means that any impairments relating to these interests are also calculated based on the IFRS 9 rules.

The amendments do not have any material impact on the Group’s assets, financial position and income.

Annual improvements – 2015-2017 cycle (amendments to various IFRSs)

The annual improvements to IFRSs (improvement cycle 2015-2017) published on 12 December 2017 contain amendments to the following IFRSs:

- Amendments to IFRS 3 “Business Combinations” and IFRS 11 “Joint Arrangements”
  - If a company obtains control of a former joint operation by acquiring additional interests as defined in IFRS 10, the rules of IFRS 3 on step acquisitions apply and the formerly held interest is to be re-measured 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.
– However, if a company does not obtain control by acquiring additional interest, but merely obtains 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 12 “Income Taxes”
The amendment aims to clarify the recognition of the tax consequences of dividends. According to the amendment, and in line with the general fundamental provision, the income tax consequences of dividend payments are to be treated in the same way as the transaction(s) responsible for the tax consequences.
- Amendments to IAS 23 “Borrowing Costs”
The amendments explicitly clarify that, when determining the general borrowing costs for other qualifying assets for which no specific funds were borrowed, an entity is to include any outstanding borrowings originally made to obtain a specific qualifying asset from the moment when the qualifying asset in question is essentially ready for its intended use or sale.

The amendments do not have any material impact on the Group’s assets, financial position and income.

Overview of standards already adopted by the EU that have not been applied early:

Standard	Title of the standard/interpretation	First-time adoption
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards	1/1/2020
IAS 1, IAS 8	Definition of materiality	1/1/2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform	1/2/2020
The standards are applied to those financial years starting on the “first-time adoption” date.		

Conceptual Framework

References to, or quotes from, the Conceptual Framework are frequently found in the IFRSs. As this very Conceptual Framework was updated last year, it was also considered necessary to update the references.

From today’s perspective, the amendments are not expected to have any material impact on the Group’s assets, financial position and income.

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

The amendments to IAS 1 and IAS 8 are designed to standardise the definition of “material” in the IFRSs. It also clarifies that materiality is to be assessed with regard to the financial statements as a whole. The meaning of the term “users” of financial statements was also explained in greater detail.

The amendments are not expected to have any material impact on Kommunalkredit’s consolidated financial statements.

Amendments to IAS 39 (Financial Instruments: Recognition and Measurement), IFRS 7 (Financial Instruments: Disclosures) and IFRS 9 (Financial Instruments)

The amendments are linked to the interest rate benchmark reform (e.g. LIBOR or EURIBOR), specifically to the current uncertainty regarding when and how the current interest reference rates will be replaced.

The amendments to IFRS 9 and IAS 39 mean that hedges that would otherwise have to be terminated due to this uncertainty are to be continued. This is achieved by requiring entities to assume, for the purpose of certain forward-looking assessments, that the interest rate benchmark on which a hedged cash flow or the cash flows of a hedging instrument are based will not change as a result of the reform. In connection with these amendments to IFRS 9 and IAS 39, IFRS 7 has been amended to include disclosure requirements relating, in particular, to how and to what extent the entity is impacted by the interest rate benchmark reform.

The amendments include an additional adjustment to IAS 39, based on which, during the period of reform-related uncertainty, hedges can be continued even if their effectiveness falls outside the 80-125% range (provided that all other requirements are met).

Kommunalkredit launched an analysis project in the year under review to assess the impact of the interest rate benchmark reform. From today’s perspective, the amendments are not expected to have any material impact on assets, financial position or income.

Overview of regulations not yet adopted by the EU that have not been applied early:

Standard	Title of the standard/interpretation	First-time adoption
IFRS 17	Insurance Contracts	1/1/2023
Amendments to IFRS 3	Definition of a Business	1/1/2020
Annual Improvements to IFRS Standards 2018–2020 Cycle	Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41	
The date of first-time adoption in the EU is still subject to change due to EU adoption.		

IFRS 17 (insurance contracts)

The standard, published by the IASB on 18 May 2017 contains provisions governing the recognition of assets and liabilities resulting from insurance contracts for accounting purposes. These provisions not only apply to insurance companies, but rather apply across all sectors if the contracts concerned correspond to the definition of an insurance contract. The term “insurance risk” also includes product or residual value risks, for example.

IFRS 17 includes three central approaches for recognising insurance contracts:
- The Building Block Approach (BBA) is the standard model for recognising insurance contracts. It applies to all insurance contracts that fall under the scope of IFRS 17 unless one of the exemptions is applied.
- The Premium Allocation Approach (PAA) is a simplified version of the Building Block Approach and applies to all contracts for which measurement under the PAA does not result in any material deviations as against the BBA, or that have a short term.
- The Variable Fee Approach (VFA) is another variation of the Building Blocks Approach for insurance contracts with direct participating features, i.e. whose payments are linked to the return on certain underlyings.

From today’s perspective, the amendments are not expected to have any material impact on the Group’s assets, financial position and income.

Amendments to IFRS 3 (Business Combinations)

The acquisition method pursuant to IFRS 3 is only to be applied to business combinations, but not to the purchase of individual assets/ liabilities or groups of assets/liabilities. The amendment now sets out new provisions governing how to determine whether an entity has acquired a business or merely individual assets.

The amendments are to be applied to business combinations concluded after 1 January 2020, meaning that they have no impact on business combinations that have already taken place.

Annual improvements – 2018-2020 cycle (amendments to various IFRSs)

The annual improvements to IFRSs (improvement cycle 2018-2020) published on 21 May 2019 contain amendments to the following IFRSs:
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”
  Simplified application of IFRS 1 by a subsidiary adopting the IFRS standards for the first time if its parent company already applies them. The proposed amendment relates to the measurement of cumulative translation differences.
- Amendments to IFRS 9 “Financial Instruments“
  Clarification of the fees that an entity has to include when assessing whether to derecognise a financial liability.
- Amendments to IFRS 16 “Leases“
  Amendment to an Illustrative Example for IFRS 16 to reduce the potential risk of confusion regarding lease incentives.
- Amendments to IAS 41 “Agriculture”
  Amendment to the provisions governing fair value measurements in IAS 41 to bring them into line with the other IFRS standards.

From today’s perspective, the amendments are not expected to have any material impact on the Group’s assets, financial position and income.

3. Scope of consolidation

The scope of consolidation of the Kommunalkredit Group has not changed since the previous year and, in accordance with the provisions set out in IFRS 10, encompasses the following companies in addition to the parent company Kommunalkredit as of 31 December 2019:

Name and registered office	Financial statement disclosures				Financial statement disclosures (IFRS)			
	Investment		Share in capital 31/12/2019 in %	Share in capital 31/12/2018 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%	31/12/2019	7,087.8	1,703.5	882.1
Kommunalkredit KBI Immobilien GmbH, Vienna	x		100.00%	100.00%	31/12/2019	57.6	54.3	19.3
Kommunalkredit KBI Immobilien GmbH & Co KG, Vienna	x		100.00%	100.00%	31/12/2019	32,729.8	32,727.4	646.0
Kommunalkredit TLI Immobilien GmbH & Co KG, Vienna		x	100.00%	100.00%	31/12/2019	32,751.7	32,720.4	656.0
Fidelio KA Beteiligung GmbH, Germany	x		85.00%	85.00%	31/12/2019	56.6	52.4	-8.5
Fidelio KA Infrastructure Opportunities Fund GP S. à r. l., Luxembourg		x	85.00%	85.00%	31/12/2019	27.4	12.0	0.0
Fidelio KA Investment Advisory GmbH, Germany		x	85.00%	85.00%	31/12/2019	17.4	11.9	-10.9
Fidelio KA Infrastructure Opportunities SICAV-RAIF, Luxembourg		x	85.00%	85.00%	31/12/2019	166,797.5	30.0	2,912.0
2. Associates								
Associates included using the equity method								
Kommunalleasing GmbH, Vienna	x		50.00%	50.00%	31/12/2019[1]	66,658.0	5,882.9	166.0

[1] Preliminary unaudited figures.

No material risks or restrictions arise for the Kommunalkredit Group from its affiliated companies. 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 carrying amount 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 concerning the parent together with its subsidiaries, presented as a single 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 2019:
The sale of financial assets in the IFRS 9 "hold to collect and sell" portfolio represents an integral part of the Kommunalkredit Group's business model. Due to this importance, the result from the disposal of financial assets at fair value through other comprehensive income as of 1 January 2019 will be reported under the special item "Result from the disposal of assets at fair value through other comprehensive income" of the income statement. The comparative figure from the previous year was adjusted and TEUR 3,493.2 from net interest income recycled to the new item mentioned above.

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 are recognised in the profit or loss for the period to which they are attributable in economic terms. 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 first booked when a corresponding 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 a specific service are booked as income at the time of completion of the service. Contingent commissions are recognised when the required performance criteria are met.

The reporting currency of the consolidated financial statements of Kommunalkredit is the euro, as the functional currency of all of the companies included in the consolidated financial statements. 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. Based on this definition, control refers to a scenario in which the Group is exposed, or has rights to, variable returns from involvement with the investee, and has the ability to use power over the investee to affect the amount of those returns.

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 of the Group reporting date.

Capital consolidation involves the remeasurement of all identifiable tangible and intangible assets, liabilities and contingent liabilities of the subsidiary at the time of acquisition. 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 (Interests in Associates and Joint Ventures) are measured according to the equity method and recognised as interests in associates. According to the equity method, the interests 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, Kommunalleasing, that is accounted for according to the equity method (IAS 28).

6. Currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the mean rate of exchange (euro reference rate) announced by the European Central Bank (ECB) as of the balance sheet date. Non-monetary items reported at historical cost in a foreign currency are translated at the rate applicable on the date of the business transaction; non-monetary items that were measured at their contemporary fair value in a foreign currency are translated at the rate applicable on the date the item was measured. Currency translation gains and losses are reported in the income statement under the item “Net result of asset valuation and realised gains and losses”. Instruments measured at fair value and not recognised in profit and loss have their translation result from the fair value measurement (again, not recognised in profit or loss) reported in total comprehensive income.

7. Classification and measurement of financial assets

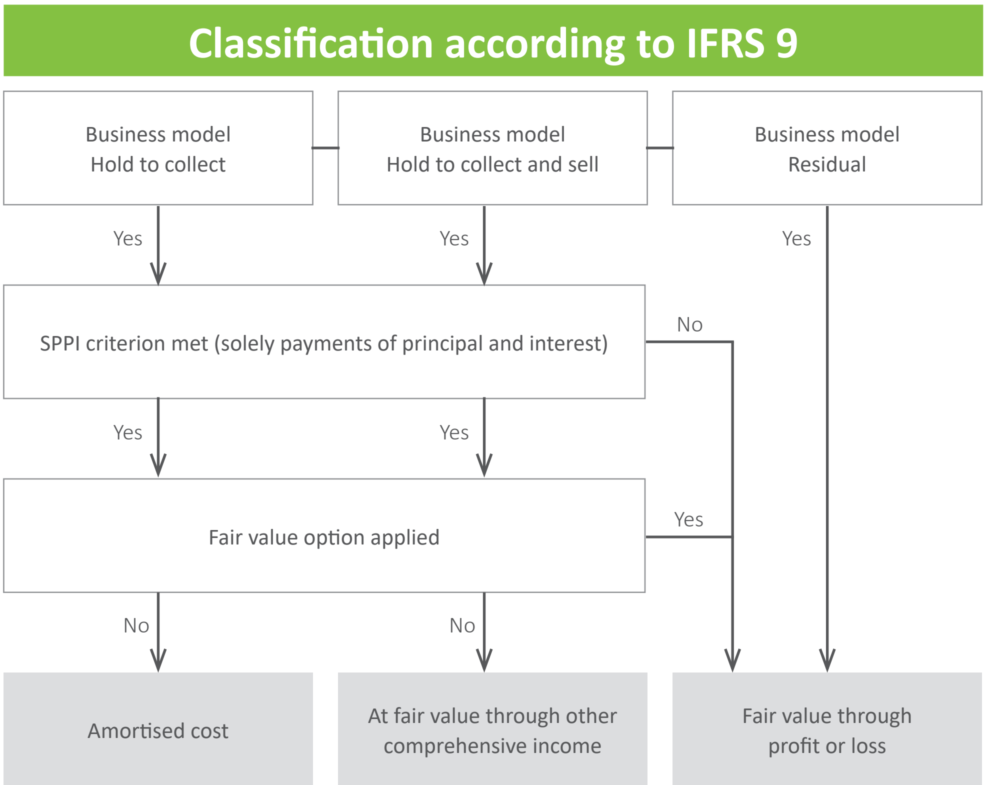
7.1. Classification principles

IFRS 9 requires all financial assets to be measured either at amortised cost or fair value depending on the features of the contractual cash flows and the business model. Measurement at fair value may be reflected directly in equity (other comprehensive income) or recognised in profit and loss through the income statement. Contractual cash flows and the business model are evaluated within Kommunalkredit upon conclusion of a transaction at the level of the individual financial asset.

Business model classification is used to analyse the purpose of a specific asset. Items solely used to generate net interest income and not held for sale are classified under the business model “hold”. Financial instruments that are expected to be sold or at least partially or fully held until their maturity are classified under the business model “hold and sell”. At Kommunalkredit, these include financing transactions intended for opportunistic placement. Financial assets with fixed, short-term syndication requirements are classified under the business model “sell”.

When **analysing the contractual cash flows** of a financial asset, it is determined whether the cash flows are solely payments of principal and interest (“SPPI criterion”) on the outstanding capital amount.

Financial assets are only reclassified if there is a strategic shift in the business model; this is by definition an exceptional occurrence. There were no reclassifications in the reporting year. The following diagram summarises the classification process according to IFRS 9:



7.2. Financial assets at amortised cost

Financial assets whose contractual cash flows solely represent payments of principal and interest ("SPPI criterion") on the outstanding capital amount and that are held in connection with a business model for the purpose of collecting contractual cash flows (business model "hold") are reported at amortised cost.

Financial assets under this measurement classification are reported in the statement of financial position under "loans and advances to banks", "loans and advances to customers" and "cash and cash equivalents". When these financial assets are recognised for the first time, they are reported at fair value (see Note 11), taking into account transaction costs. Subsequent measurements are reported at amortised cost. These costs are calculated from the amount that the financial assets were first measured at upon initial recognition less repayments, plus/less the cumulative distribution of differences arising between the original amount issued and the repayable amount upon maturity, using the effective interest method and taking into account the risk provisions (see Note 8). The result of the amortisation of the differences, applying a constant effective interest rate, is reported in the income statement under net interest income. The method of accounting for loans and receivables that represent hedged items in hedging relationships is described in more detail under Note 12.

The sale of assets just before their maturity or sales for reasons relating to creditworthiness are in principle permissible disposals from the "hold" business model. At Kommunalkredit, such transactions are studied in detail for compliance purposes and the results are reported separately in the income statement under their own item.

7.3. Reporting of financial assets at fair value through other comprehensive income

If only SPPI-compliant cash flows are associated with a financial asset and the financial asset is held under a business model aimed at generating income from both contractual cash flows and sales ("hold and sell" business model), these assets are reported at fair value through other comprehensive income directly in equity.

Financial instruments of this classification are initially and subsequently measured at fair value, taking into account transaction costs. Any difference between the cost of acquisition and the amount payable upon maturity is distributed over the term using the effective interest method and reported under net interest income. Changes in the measured fair value are reported in the statement of comprehensive income and directly result in a change to the reserve for financial assets reported at fair value through other comprehensive income within equity.

Upon disposal or other derecognition of these assets, an amount previously reported in the reserve for financial assets reported at fair value through other comprehensive income will be reported through profit or loss (recycling). Moreover, a disposal in the statement of financial position results in a direct collection of fees and transaction costs not yet amortised as of the time of disposal.

7.4. Reporting of financial assets at fair value through profit or loss

Financial assets whose contractual cash flows are not SPPI-compliant or which are classified under the “sell” business model are measured at fair value through profit or loss. In addition, there is also a discretionary right at the time of recognition to declare financial assets voluntarily at fair value through profit or loss if differences from different measurement methods can be eliminated or substantially mitigated by this method (fair value option). Kommunalkredit does not currently utilise the fair value option for financial assets or liabilities.

Financial instruments included under this classification are measured initially and subsequently at fair value. Transaction costs are reported directly in the income statement. The impacts of changes in fair value on the net result are reported under the item “net result of asset valuation and realised gains and losses” in the income statement.

Interest income and expenses related to assets measured at fair value through profit or loss are reported in accordance with the IFRIC decision of 13 March 2018 under the items “income similar to interest income” and “expenses similar to interest expense”.

7.5. Equity instruments

Equity instruments are generally measured at fair value through profit or loss. Equity instruments not held for trading are also subject to the option of reporting these at fair value through other comprehensive income; the exercise of this option is irrevocable.

Kommunalkredit has utilised this option for all equity instruments held by it as these are strategic, long-term investments. All changes to the fair value of strategic equity instruments are reported under other comprehensive income. Income from dividends from these instruments are reported in the income statement under income from investments.

Where these instruments are disposed of or where a default event occurs, value changes previously reported under the reserve for financial assets reported at fair value through other comprehensive income are reclassified to retained earnings (no recycling via the income statement).

7.6. Modifications/changes to estimates

Modifications are any contractual amendment relating to originally agreed cash flows and are primarily due to market-induced factors. Modifications may either be substantial or non-substantial. A substantial modification to contractual cash flows results in a disposal of the original financial instrument in the statement of financial position (see Note 21) on the one hand and a recognition of a modified financial instrument in the statement of financial position on the other. With non-substantial modifications, however, the carrying amount of the financial asset is simply adapted to the changes in the contractual cash flows. The change in present value brought about directly by the modification is reported through profit or loss under “net result of asset valuation and realised gains and losses”. Consequently, the differential amount relative to the repayable amount with the effective interest applied until maturity of the financial instrument is distributed under net interest income. Both quantitative and qualitative factors feature in the assessment of whether a modification results in a substantial or non-substantial change. The quantitative assessment is performed in the form of a present value test by comparing the impact of a modification on the contractual cash flows. Modification effects are assessed both for financial assets and for financial liabilities (see Note 18).

Changes to expectations regarding cash flows not involving contractual amendments (changes to estimates) are handled similarly to non-substantial modifications in that the carrying amount of the instrument is adjusted based on the newly expected cash flows. With changes to estimates, the adjustment is reported in the income statement or loss under net interest income as income or an expense.

7.7. “Purchased or originated credit impaired” financial assets (POCI)

POCI assets refers to financial instruments that, upon purchase or origin, already had impaired creditworthiness. IFRS 9 has special provisions regarding the determination of the interest income and risk provisioning for assets that are reported at amortised cost or at fair value through other comprehensive income. See Note 8 for details on the POCI instruments risk provisions.

8. Risk provisions

Risk provisions in the lending business encompass impairments (for lending business reported in the statement of financial position) and provisions (for the off-balance-sheet lending business) where the affected financial instruments are not reported at fair value through profit or loss. The impairment model of IFRS 9 requires that impairments be reported on the basis of expected credit losses.

Risk provisions for financial assets reported at amortised cost are recorded under separate accounts and the changes are reported under net provisioning for impairment losses. For financial assets measured at fair value through other comprehensive income, that part of the change in current value resulting from changes in expected credit losses is reclassified to the net provisioning for impairment losses.

The valuation allowance under IFRS 9 is calculated either as the expected 12-month credit loss (level 1) or the expected credit loss over the residual term until maturity (level 2 and level 3), depending on whether the risk of default has increased significantly since the initial recognition of the financial asset. Individual risk provisioning is required for level 3 financial assets. During its monthly assessments of whether the risk of default has increased significantly (level transfer), Kommunalkredit takes quantitative and qualitative factors into account. These include, in particular:

- The absolute level of the credit risk (“low credit risk” criterion), with financial assets in the investment grade segment generally being allocable to level 1;
- Relative change in credit risk on the basis of the probability of default;
- Changes of internal price indicators with terms and conditions remaining the same;
- Possible significant changes in contractual terms if the financial instrument had been newly issued;
- Changes in external market indicators of a financial instrument with an equivalent structure;
- Where arrears of more than 30 days have developed, an individual analysis is performed to establish if this leads to a significant increase in credit risk.

If the (quantitative or qualitative) circumstances that necessitated a downgrade in the exposure cease to apply, the exposure is transferred back.

Probabilities are factored into the calculation of the valuation allowances for level 1 and level 2, also taking into account all expected disbursements and repayments as well as the maximum contract term during which Kommunalkredit is exposed to a risk of default. Input parameters for the calculation of the expected credit losses such as the exposure at default (EAD), probability of default (PD) and the loss-given-default ratio (LGD) are determined from a combination of internal and external data. The risk provisions calculated for the future are discounted on the balance sheet date and aggregated; the discount rate is equal to the interest rate effective in the statement of financial position. The inclusion of forward-looking information in input parameters is based on a macro-economic model that incorporates GDP growth, unemployment rates and changes to various indices. The derivation of macro-economic scenarios as a basis for the probability-weighted calculation of expected credit losses takes into account the specifics of Kommunalkredit’s portfolio and undergoes regular validation.

Valuation allowance requirements (IFRS level 3) are evaluated within Kommunalkredit for individual transactions, with financial assets and their associated credit commitments being individually taken into account for each transaction.

To define default events, Kommunalkredit applies the definition of a default as laid by Art. 178 CRR. This includes both receivables that are more than 90 days in default (overdue receivables) and the criterion “unlikeliness to pay”. A receivable is deemed to be 90 days in default if the overdue receivable exceeds the approved and communicated total amount by more than 1.0%, and is at least EUR 500.00. In level 3, cash flow estimates are applied on the basis of the specific transaction.

To identify, monitor and manage partners with elevated credit risks, there is a multi-stage risk control process in which all exposures/ partners are classified into four risk levels:

- **Risk level 0:** Regular business
  Standard risk level for all exposures that exhibit no anomalies and therefore do not fall in the subsequent risk levels.
- **Risk level 1:** Intensive care – not distressed
  Exposures exhibiting an elevated credit risk or other anomalies and therefore requiring close monitoring (intensive care). These exposures are not deemed to be at risk of default and do not yet exhibit any need for individual valuation allowances.
- **Risk level 2:** Work out – restructuring
  Exposures in distressed loan processing classified as restructuring cases.

- **Risk level 3:** Work out – winding down
  Exposures where there is little point to loan restructuring and collection measures are defined.

From risk level 1, the need to form a risk provision (impairment test) is performed monthly. Individual valuation allowances (IFRS level 3) must be formed if it is to be expected that a receivable – including interest – cannot be collected in full or at all. The need to form an individual valuation allowance is also reviewed if the regulatory default definitions are met or if at least one of the conditions is satisfied for a loan exposure:

- Waiver of the ongoing application of interest due to creditworthiness-related reasons
- There has been a significant adjustment to the credit risk, e.g.:
  – Rating downgrade to the B level or lower
  – Default rating from an external rating agency
  – Reduction of current market price by more than 25%
  – Termination and immediate demand for payment of a receivable for creditworthiness-related reasons
- Forbearance for creditworthiness-related reasons
- Bankruptcy protection proceedings or a comparable procedure have been initiated or ordered on the customer's assets, or the initiation of bankruptcy protection proceedings has been denied due to a lack of assets to cover the debt, or a debtor has been dissolved as a legal person due to the ruling of a court of law or administrative authority.
- Availability of major negative information

Individual valuation allowances are formed amounting to the difference between the carrying amount of the financial asset and the present value of the expected future cash flows, discounted by the original effective interest rate of the financial asset. The application of interest on the impaired financial assets is also neutralised so that contractually agreed interest income is no longer recorded. Instead, the interest income is determined by applying interest to the present value of the expected cash flows over the reporting period with the aid of the originally-used effective interest rate applied when determining the impairment loss. As soon as it is known that payment will not be received, the receivable is derecognised against the impairment.

IFRS 9 applies special rules in terms of how the risk provision is determined for assets already impaired upon their first-time recognition (POCI). These relate to assets that are subsequently reported amortised cost or at fair value through other comprehensive income. The POCI asset is reported at fair value when first reported in the statement of financial position. This value already accounts for the elevated credit risk and the existing adverse impacts on the contractually agreed cash flows. Because the cash flows are already reduced to account for expected losses, no risk provision is to be formed upon initial recognition. Subsequently, any cumulative changes to the credit loss expected over the term of the credit are reported in profit or loss.

9. Derivatives

Derivatives are mainly concluded at Kommunalkredit to hedge against interest rate and/or currency risks.

The balance sheet item "Derivatives" encompasses derivatives used in hedges (fair value hedges) and other derivatives.

Derivatives are declared at fair value. Positive fair values are reported under assets under the balance sheet item "Derivatives", while negative fair values are also reported under "derivatives", but this time under equity and liabilities. Changes in the value of these derivatives based on the clean price are reported in the net result of asset valuation and realised gains and losses in the income statement, while interest income and expenses are expressed as gross values in the net interest income. Interest income from derivatives not part of hedges are reported separately.

The fair values of derivatives are determined in accordance with IFRS 13 and this process is described under Note 11.

10. Financial guarantees

A financial guarantee is a contract in which the guarantor is required to make certain payments to a guarantee beneficiary for a loss arising because a certain debtor has not complied with their payment obligations in a timely fashion and has accordingly not met the conditions of a debt instrument. If Kommunalkredit is the guarantor, the potential obligation to pay is reported in the statement of financial position from the time Kommunalkredit becomes a party to the contract. It is first recognised at fair value. In a standard market transaction, this corresponds to either the premium received upon conclusion of the contract, or a value of zero if the premium is not paid upon conclusion of the contract because the payment is expected to equally offset the consideration received in return. For subsequent measurements, the higher amount of a valuation allowance or the originally recorded amount, less any cumulative income as appropriate, is recorded.

If Kommunalkredit is the guarantee beneficiary, the guarantee is not recorded in the statement of financial position.

Premiums received and paid are accrued in their respective reporting periods over the time to maturity and are reported in the income statement under net fee and commission income.

11. Fair value calculation

Fair value is calculated according to IFRS 9 in conjunction with IFRS 13 following the measurement hierarchy of IFRS 13.72 (see also Note 68).

Listed prices on an active market are applied for the measurement of **securities**, provided that the conditions of an active market are met. If no listed price is available, the credit spread for comparable securities is drawn upon as a reference for determining fair value. If there is no active market, measurement is performed using recognised market-standard measurement methods based on empirical data. This data is adjusted as necessary with risk premiums. Non-empirical data (such as parameter estimates) may only be used if no empirical data is available.

Loans are measured by means of an internal model based on the discounted cash flow method. Expected cash flows are discounted on the basis of current interest rate curves, taking standard market credit spreads into account. If the cash flows are not deterministic, models are generated on the basis of conditions deemed to be economically significant.

The credit spreads required for the discounted cash flow method are determined for infrastructure transactions (new business) on a transaction-by-transaction basis; an individual credit spread is determined for each transaction. Both internal and external information on comparable transactions (internal database, InfraDeals) are compiled using a balanced scorecard approach for this purpose, with a sector-specific spread being prepared first. Secondly, transaction-specific features are evaluated using criteria catalogues; these features are then linked with the sector-specific spread. In addition, recent (partial) sales of comparable portfolio positions as observable and relevant secondary market transactions are also included in the calculation for the final credit spread. Spread developments are discussed for each deal in quarterly Spread Assessment Team meetings, with the involvement of the Risk Controlling, Banking and Credit Risk divisions. This results in credit risk premiums agreed on a bank-wide basis that reflect the risk inherent in the transaction as accurately as possible.

Clusters are formed for the Public Finance Portfolio (segment, rating class) and a curve for value increases is recalculated on a quarterly basis for each of these clusters. These value increases are monitored on the basis of recently conducted transactions and comparable offerings in the relevant loan segments in the markets and applied for various segments and rating classes depending on the time to maturity.

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 valued using market-standard option pricing models (e.g. Hull-White, Dupire, Libor Market Model).

OIS curves (overnight index swaps) are used for discounting the cash flows of OTC (over-the-counter) derivatives. For the measurement of 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 relate to the respective indicator and are used to derive forward rates for determining cash flows.

For derivatives in several currencies (e.g. cross-currency swaps), a cross-currency basis is used in line with prevailing market standards, in addition to the adaptation of forwards by basis swap spreads. In the simplest case with collateralised derivatives, the OIS discount factor curve for the side not matching the collateral currency is compared against the collateral currency using cross-currency basis spreads. With complex structured trades, the cross-currency basis is also reflected in the calculation of the cash flows.

Pursuant to IFRS 13, counterparty and own credit risks (credit value adjustment [CVA] and debt value adjustment [DVA]) are also taken into account for determining the fair value of derivatives. Both components are collectively presented as BCVA (bilateral CVA = CVA-DVA). Kommunalkredit determines the BCVA for all derivatives without daily cash collateral margin calls. The BCVA is considered to be immaterial for collateralised derivatives with daily margin calls. The BCVA is calculated using the potential exposure method (based on Monte Carlo methods) in relation to the counterparty in accordance with IFRS 13.48.

12. Hedge accounting

Both IAS 39 and IFRS 9 lay out standards on hedge accounting to avoid economically unjustifiable effects in the income statement from the differing valuation of hedged items and hedging instruments. These rules aim to ensure that changes in the value of hedging instruments and changes in the value of the hedged transactions are recognised as serving to offset one another. In respect of micro-hedge accounting, Kommunalkredit has applied the provisions of IFRS 9 since 1 January 2018. Fair value hedges for a portfolio against interest rate risks are accounted for in accordance with IAS 39 (IAS 39.89A). Hedges for cash flows and net investments in foreign operations are currently not a matter of relevance within Kommunalkredit.

a. **Fair value hedges:** The fair value hedges used by Kommunalkredit serve to hedge the fair value of assets or liabilities. This form of hedging is used to hedge against interest rate and/or currency risks. Interest rate swaps and interest rate currency swaps are used as hedging instruments. Derivatives used as hedging instruments are reported at their fair value, with changes in values being reported in the income statement under the item "net result of asset valuation and realised gains and losses". For the collateralised asset or liability, changes in fair value resulting from the hedged risk (interest rate and/or currency risks) are also included in the same item in the income statement. In the statement of financial position, the measurement gains/losses associated with the hedged risk are reported under the item where the corresponding hedged item is also reported.

   To be able to apply the rules of hedge accounting, evidence of an economic relationship between the hedged item and the hedge itself must be provided. Kommunalkredit establishes such a hedge relationship by means of prospective (matching of the components determining the current value) and retrospective effectiveness tests. Prospective effectiveness testing involves a comparison or review of all parameters of the hedged item and the hedge itself affecting the scope of the hedged value change to determine whether value changes of the hedged item or the hedge itself usually offset one another as regarded the hedged risk. Retrospective effectiveness testing involves a review of how effectively the current values of the hedged item and hedging item oppose one another in respect of the hedged risk.

b. **Portfolio hedge:** The portfolio hedge, which was implemented at Kommunalkredit upon the introduction of IFRS 9, is used to hedge the fair value of a portfolio of financial assets. This form of hedging is used to hedge against fixed interest rate risks in relation to a portfolio. Interest rate swaps are used as hedging instruments.

   Kommunalkredit applies the "bottom-layer" approach for modelling the hedged item (in line with the IAS 39 carve-out). This creates a theoretical combined hedged item from all fixed-interest items that are not individually hedged; this theoretical hedged items is then compared against hedging derivatives. The change in fair value of the theoretical hedged item attributable to the hedged risk is reported under the separate balance sheet item "portfolio hedge"; in the income statement, this is reported under "net result of asset valuation and realised gains and losses". Derivatives used as hedging instruments are reported at their fair value, with changes in values offset in the same item in the income statement.

   To provide evidence of an effective portfolio hedge relationship between the hedged item and the hedge itself, Kommunalkredit applies prospective and retrospective effectiveness testing. Prospective effectiveness testing involves a quarterly review of the portfolio fair value hedge by comparing the progression of the hedged item and hedge itself to determine if a hedge relationship still applies. Retrospective effectiveness testing of the portfolio fair value hedge recognises it as effective if the fair value changes from the hedging instrument and the offsetting effect of the hedged item in a reporting period – in relation to the hedged risk – provide compensation of between 80% and 125%.

Ineffectivities arising at Kommunalkredit primarily as a result of OIS discounting of interest rate derivatives or as a result of credit risk components of unsecured interest rate derivatives are reported in the income statement.

13. Categories of financial instruments

Kommunalkredit differentiates between the following categories of financial instruments:

Categories of financial instruments	Reporting in balance sheet
Cash and balances with central banks	Amortised cost
Financial assets	
At fair value through profit or loss	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
Fair value through profit or loss	Fair value
At fair value through profit or loss: fair-value option	Fair value
Derivatives designated as hedging instruments	Fair value
Contingent liabilities	Off-balance-sheet
Other off-balance-sheet liabilities	Off-balance-sheet

The following classes of financial instruments were not used as of the balance sheet date of 31 December 2019:

- Financial assets: reported at fair value through profit or loss (fair value option)
- Financial liabilities: reported at fair value through profit or loss
- Financial liabilities: reported at fair value through profit or loss (fair value option)

14. Investments in associates

Associates are measured using the equity method in accordance with IAS 28 (associates and joint ventures) (see also Note 5). At every balance sheet date, an impairment test is performed on the basis of financial forecasts.

15. Property, plant and equipment

Property, plant and equipment includes land, buildings that are largely used by the company itself, office furniture and equipment, and also rights of use in accordance with IFRS 16 “Leases”.

Land is reported in the statement of financial position at cost. Buildings, office furniture and equipment are measured at cost, less depreciation on a straight-line basis. The following time periods are applied as expected useful lives:
- Buildings: 40 years
- Office furniture and equipment: 4 to 10 years
- IT investments: 3 to 4 years
- Artistic assets: No depreciation

If there are indications of impairment, the assets are written down if the carrying amount exceeds the higher of net realisable value or value in use. If the reasons for impairment cease to apply, these impairments are reversed up to a maximum of depreciated cost.

16. Leases

a. **Kommunalkredit as a lessee:**

If there is a lease governed by IFRS 16 in which Kommunalkredit is the lessee, this is recorded in the statement of financial position as a right of use that grants an entitlement to use the underlying asset, along with a corresponding lease liability.

Upon conclusion of a paid usage agreement, an assessment is conducted to determine if the contractual agreement constitutes a lease. A review is also conducted to determine if,
- the asset governed by the agreement is a specifically identifiable asset,
- Kommunalkredit as the lessee is largely entitled to avail itself of all economic benefits from the use of the asset,
- Kommunalkredit is entitled to determine how the asset is used.

If these three conditions are collectively met, then the agreement is recognised as a lease in accordance with IFRS 16.

When first recognised, a lease liability amounting to the present value of the lease payments payable according to the lease contract over the term of that contract is reported under the item "other liabilities". Corresponding to the recorded liability, a right of use of the leased object is capitalised at the same amount (possibly increased to account for secondary expenses directly allocable to it).

The term of the lease is generally the contract period in which ordinary termination is not possible. Extension and termination options granted to the lessee are only accounted for if they can be exercised with reasonable certainty. When assessing whether certain options can be exercised or waived with reasonable certainty, all relevant circumstances and factors are considered, including in particular the costs of termination, costs relating to the determination of an alternative asset value, and material installations. Rights of termination granted to the lessor do not shorten the reported term of leases. If a review of all factors results in a maximum term of twelve months from the date of delivery, this is referred to as a short-term lease.

The discount interest rate for lease payments is the interest rate laid out under the terms of the lease. If a lack of information means that it is not possible to determine this rate without further action, discounting is performed at the incremental borrowing rate of Kommunalkredit for the relevant term length.

Lease liabilities are amortised over subsequent periods in line with financial mathematical convention. Lease payments are divided into interest expenses and repayment components. The lease liability is remeasured if there is a change in an estimate made during the initial measurement regarding payment expectations upon first-time recognition.

The right of use of the leased object is reported at depreciated cost and depreciated over the expected useful life.

Kommunalkredit makes use of the option to refrain from capitalising short-term leases with a term of less than twelve months and instead reports payments from these agreements under expenditure throughout the term of the lease. Also, a usage agreement for office furniture is not reported as a lease in the statement of financial position, as the reporting of such leases would result in a disproportional amount of work relative to the relevance of the information that this would provide, and the new value of the furniture that this relates to would not exceed TEUR 15.0.

b. **Kommunalkredit as a lessor:**

Kommunalkredit has concluded no agreements in which it serves as lessor.

17. Intangible assets

The only intangible assets are software licences acquired against payment. These are amortised on a straight-line basis over three to five years under general administrative expenses.

If there are indications of impairment, the assets are written down if the carrying amount exceeds the higher of net realisable value or value in use. If the reasons for impairment cease to apply, these impairments are reversed up to a maximum of amortised cost.

18. Financial liabilities

At the time of their initial recognition, financial liabilities are declared at fair value under equity & liabilities and also take into account transaction costs. Subsequent recognitions are at amortised cost using the effective interest method. Long-term, discounted bonds (e.g. zero-coupon bonds) and similar liabilities are accounted for using the effective interest method. No financial liabilities are maintained in the fair value portfolio. Please refer to Note 12 for details on how liabilities that constitute hedged items in hedging relationships are accounted for.

19. Provisions

Provisions for pensions, severance pay and jubilee bonus obligations are calculated annually by an independent actuary according to the projected-unit-credit method in accordance with IAS 19. The "AVÖ 2018-P calculation bases for pension insurance – Pagler & Pagler", in their version for salaried employees, are used as a 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 1.00% to 1.25% (2018: 2.00% to 2.25%) for pensions, 0.50% (2018: 1.50%) for obligations from severance pay, and 0.25% (2018: 0.50%) for obligations from jubilee bonuses;
- a rate of increase of active salary and pension payments of 2%, unchanged;
- a career trend of 1.5%, unchanged;
- assumed pensionable ages of 60 for women and 65 for men, taking into account the transitional provisions of the 2003 Austrian Budget Framework Act (Budgetbegleitgesetz) and the provisions on age limits for women of the Act on Occupational Old-Age Provision (BVG Altersgrenzen);
- a personnel turnover 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 towards 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, subsequent adjustments will only be required in the event of underperformance or "premature" payment of benefits.

Pension obligation provisions are equal to the present value of the defined benefit obligations less the fair value of the plan assets. Actuarial gains and losses based on experience adjustments and changes to actuarial assumptions are reported in total comprehensive income in equity in the period in which they arise. Other expenses are reported in the income statement under the item "personnel expenses" as part of general administrative expenses.

Provisions for severance payments are calculated by an independent actuary in accordance with the same actuarial principles as applied to statutory and contractual entitlements. Actuarial gains and losses are treated in the same way as pension commitments.

For other benefits payable to employees in the long term, namely jubilee bonuses, a jubilee bonus provision is also formed in accordance with the same principles as described above. Actuarial gains and losses are reported entirely through profit or loss under personnel expenses in the reporting period in which they arise.

20. 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 in the statement of financial position 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 utilised in the near future. The possibility of utilising 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 Austrian Corporate Income Tax Act was formed, with Satere as the group parent and Gesona, Kommunalkredit, Kommunalkredit Public Consulting GmbH (KPC) and TrendMind IT Dienstleistung GmbH (TrendMind) as group members as of 31 December 2019. 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.

21. 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 largely retains all 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 carrying amount 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.

22. Revenue from contracts with customers

IFRS 15 "Revenue from Contracts with Customers" sets out principles governing whether or not, when and in what amount revenue from contracts with customers is recognised. Based on these provisions, revenue from fees and commissions is recognised in the statement of financial position when control over the goods and services is passed, meaning that the contractual performance obligations vis-à-vis the customer have been fulfilled.

Kommunalkredit receives fee and commission income from various services that it provides for its customers. This is reported under net fee and commission income (see Note 48).

23. Significant assumptions and estimates

The preparation of financial statements according to IFRS requires management to make discretionary decisions and assumptions regarding certain categories of assets and liabilities. Areas in which this is necessary 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 determination of the term of lease agreements (see Note 16), the measurement of provisions (see Note 19), the recognition and measurement of deferred tax assets (see Note 20), and the assessment of legal risks (see Note 70).

These assessments and assumptions 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 carry out this task. 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

24. Cash and cash equivalents

Cash and cash equivalents in EUR 1,000	31/12/2019	31/12/2018
Cash on hand	9.4	9.2
Balances with central banks	462,604.4	314,399.7
Total	**462,613.8**	**314,408.9**

25. Loans and advances to banks

Loans and advances to banks in EUR 1,000	31/12/2019	31/12/2018
Repayable on demand	105,588.3	83,777.1
Securities	176,608.8	134,807.0
Provisions for expected credit losses	-58.2	-22.6
Total	**282,138.9**	**218,561.5**

Loans and advances to banks repayable on demand include cash and cash equivalents provided as cash collateral for negative current values of derivatives according to ISDA/CSA arrangements in the amount of TEUR 83,240.0 (31/12/2018: TEUR 56,490.0) and positive balances with credit institutions in the amount of TEUR 22,348.3 (31/12/2018: TEUR 13,840.0). Securities, i.e. listed bonds, in the amount of TEUR 176,608.8 (31/12/2018: TEUR 134,807.0) are recognised at amortised cost.

26. Loans and advances to customers

Loans and advances to customers in EUR 1,000	31/12/2019	31/12/2018
Repayable on demand	106,003.5	102,770.3
Loans	1,139,516.3	1,332,591.4
Securities	546,337.6	534,019.2
Provisions for expected credit losses	-1,707.7	-1,048.4
Other loans and advances	0.0	1,305.4
Total	**1,790,149.7**	**1,969,637.9**

Loans and advances to customers only include assets vis-à-vis customers that are recognised at amortised cost.

Loans and advances to customers repayable on demand include cash and cash equivalents provided as collateral for negative current values of derivatives (transactions with non-bank financial institutions) according to ISDA/CSA arrangements in the amount of TEUR 106,003.5 (31/12/2018: TEUR 102,520.2).

Securities include TEUR 351,060.4 (31/12/2018: TEUR 283,621.5) in public listed bonds.

In the reporting year, Kommunalkredit did not sell any financial assets belonging to the “hold to collect” business model. In the previous year, assets with a nominal value of TEUR 10,000.0 were sold on account of an impending deterioration of credit risk.

27. Assets recognised at fair value through other comprehensive income

Assets at fair value in EUR 1,000	31/12/2019	31/12/2018
Loans	1,225,105.2	1,115,735.8
Securities	53,833.1	61,223.0
Equity instruments	1,636.8	1,980.8
Total	**1,280,575.1**	**1,178,939.7**

Securities include public bonds in the amount of TEUR 27,678.3 (31/12/2018: TEUR 25,499.2), of which TEUR 24.8 (31/12/2018: TEUR 24.7) are listed, and other listed bonds in the amount of TEUR 26,154.8 (31/12/2018: TEUR 20,418.6).

Details on the calculation of the fair values can be found in Note 11. A breakdown based on the fair value hierarchy categories pursuant to IFRS 13.72 and a detailed description in this regard can be found in Note 68.

As of 31 December 2019, risk provisions (see also Note 8) for financial assets measured at fair value through other comprehensive income amounted to TEUR 2,724.5 (31/12/2018: TEUR 803.5).

The equity instruments reported are long-term, strategic investments measured at fair value through other comprehensive income, as permitted by IFRS 9. The carrying amounts and the dividends earned are as follows:

in EUR 1,000	Carrying amounts 31/12/2019	Carrying amounts 31/12/2018	Dividend earned 1/1/2019–31/12/2019	Dividend earned 1/1/2018–31/12/2018
Strategic investments in equity instruments	1,636.8	1,980.8	216.1	192.0

The carrying amounts 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 in equity to retained earnings in the reporting year.

28. Risk provisions

28.1. Development in risk provisions

Risk provisions included in “Loans and advances to banks”, “Loans and advances to customers”, “Assets recognised at fair value through other comprehensive income” and “Provisions” developed as follows:

Risk provisions in EUR 1,000	Stage 1	Stage 2	Stage 3	Total
	12m ECL	Lifetime ECL	Lifetime ECL	
Risk provisions as of 1/1/2019	**1,980.1**	**121.8**	**0.0**	**2,101.9**
Changes with impact on P&L	-18.8	276.2	0.0	257.4
Addition of new financial assets	2,095.3	0.0	0.0	**2,095.3**
Changes in risk parameters (PD/LGD/EAD)	1,145.0	0.0	0.0	**1,145.0**
Fair value effects	-585.8	-36.5	0.0	**-622.3**
Foreign currency effects and other changes	6.7	13.5	0.0	**20.3**
Disposals of financial assets/repayments	-426.4	0.0	0.0	**-426.4**
Total net change in P&L during the reporting period	**2,216.0**	**253.2**	**0.0**	**2,469.2**
Risk provisions as of 31/12/2019	**4,196.1**	**375.0**	**0.0**	**4,571.1**
of which from assets at amortised cost	*1,471.6*	*375.0*	*0.0*	*1,846.7*
of which from assets at fair value through other comprehensive income	*2,724.5*	*0.0*	*0.0*	*2,724.5*

As in the previous year, Kommunalkredit's portfolio did not contain any POCI assets measured at amortised cost or at fair value through other comprehensive income in the 2019 financial year.

As of 31 December 2019, the total provisions for expected credit losses according to IFRS 9 amounted to TEUR 4,571.1 (31/12/2018: TEUR 2,101.9), of which TEUR 1,846.7 (31/12/2018: TEUR 1,289.4) were set up for loans and securities measured at amortised cost and reduced the carrying amount accordingly. A provision of TEUR 2,724.5 (2018: TEUR 803.5) was set up for expected credit losses from loans and securities measured at fair value through other comprehensive income. A provision of TEUR 531.0 (31/12/2018: TEUR 198.7) was set up for expected losses from credit commitments (see Note 50). Moreover, an amount of TEUR 39.4 (31/12/2018: TEUR 28.9) was booked for expected credit losses from other financial assets and trade receivables.

Assuming a change in the GDP growth rate and the unemployment rate in the underlying macroeconomic model (+/- 1.0%), this would result in the following change in risk provisions:

ECL sensitivity in the event of a change in the gross domestic product growth rate	plus 1.0%	-19%
	minus 1.0%	+26%
ECL sensitivity in the event of a change in the unemployment forecast	plus 1.0%	+2%
	minus 1.0%	-3%
ECL sensitivity in the event of a change in the share indices	plus 20.0%	-5%
	minus 20.0%	+22%

The comparative figures for the period from 1 January 2018 to 31 December 2018 are as follows:

Risk provisions in EUR 1,000	Stage 1	Stage 2	Stage 3	Total
	12m ECL	Lifetime ECL	Lifetime ECL	
Risk provisions as of 1/1/2018	**1,255.2**	**147.4**	**0.0**	**1,402.7**
Changes with impact on P&L	0.0	0.0	0.0	0.0
Addition of new financial assets	960.8	0.0	0.0	**960.8**
Changes in risk parameters (PD/LGD/EAD)	-103.0	-15.0	0.0	**-118.0**
Fair value effects	245.7	-10.6	0.0	**235.0**
Foreign currency effects and other changes	-1.5	0.0	0.0	**-1.5**
Disposals of financial assets/repayments	-376.9	0.0	0.0	**-376.9**
Total net change in P&L during the reporting period	**724.9**	**-25.6**	**0.0**	**699.3**
Risk provisions as of 31/12/2018	**1,980.1**	**121.8**	**0.0**	**2,101.9**
of which from assets at amortised cost	*1,176.6*	*121.8*	*0.0*	*1,298.4*
of which from assets at fair value through other comprehensive income	*803.5*	*0.0*	*0.0*	*803.5*

28.2. Development of gross carrying amounts in connection with risk provisions

The following table shows the gross carrying amounts of the financial assets that are relevant to the calculation of risk provisions, broken down by rating class:

Carrying amounts in EUR 1,000	31/12/2019				
	Stage 1 12m ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Not rated	Total
AAA	82,470.2	0.0	0.0	0.0	82,470.2
AA+	25.2	0.0	0.0	0.0	25.2
AA	990,976.8	0.0	0.0	0.0	990,976.8
AA-	238,352.2	0.0	0.0	0.0	238,352.2
A+	238,735.3	0.0	0.0	0.0	238,735.3
A	234,259.0	0.0	0.0	0.0	234,259.0
A-	114,726.2	0.0	0.0	0.0	114,726.2
BBB+	177,921.6	0.0	0.0	0.0	177,921.6
BBB	347,453.7	0.0	0.0	0.0	347,453.7
BBB-	364,704.2	0.0	0.0	0.0	364,704.2
BB+	90,199.7	0.0	0.0	0.0	90,199.7
BB	222,810.9	0.0	0.0	0.0	222,810.9
BB-	145,822.6	6,001.7	0.0	0.0	151,824.3
B+	79,563.4	0.0	0.0	0.0	79,563.4
B	6,535.9	15,228.7	0.0	0.0	21,764.6
Not rated	0.0	0.0	0.0	1,647.5	1,647.5
Gross carrying amounts	**3,334,557.0**	**21,230.4**	**0.0**	**1,647.5**	**3,357,434.9**
Risk provisions	**4,196.1**	**375.0**	**0.0**	**0.0**	**4,571.1**
Carrying amounts after risk provisions	**3,330,360.9**	**20,855.4**	**0.0**	**1,647.5**	**3,352,863.8**
of which assets at amortised cost	*2,051,424.7*	*20,855.4*	*0.0*	*8.6*	*2,072,288.7*
of which assets at fair value through other comprehensive income	*1,278,936.3*	*0.0*	*0.0*	*1,638.8*	*1,280,575.1*

The carrying amount of TEUR 1,647.5 (31/12/2018: TEUR 2,227.5) in the “Not rated” category relates primarily to investments that are not part of the scope of consolidation and are included in the “Assets at fair value through other comprehensive income” item.

There were no modifications, either substantial or non-substantial, in stage 2 financial instruments during the reporting year. Kommunalkredit had no stage 3 financial instruments during the reporting year, as in the previous year. There were no downward stage transfers due to modifications during the reporting year.

The comparative figures as of 31 December 2018 are as follows:

Carrying amounts in EUR 1,000	31/12/2018				
	Stage 1 12m ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Not rated	Total
AAA	35,961.9	0.0	0.0	0.0	35,961.9
AA+	7,639.4	0.0	0.0	0.0	7,639.4
AA	1,147,114.0	0.0	0.0	0.0	1,147,114.0
AA-	266,132.9	0.0	0.0	0.0	266,132.9
A+	223,837.8	0.0	0.0	0.0	223,837.8
A	185,125.0	0.0	0.0	0.0	185,125.0
A-	66,204.0	0.0	0.0	0.0	66,204.0
BBB+	211,326.6	0.0	0.0	0.0	211,326.6
BBB	184,564.8	0.0	0.0	0.0	184,564.8
BBB-	512,537.3	0.0	0.0	0.0	512,537.3
BB+	62,875.2	0.0	0.0	0.0	62,875.2
BB	271,905.1	0.0	0.0	0.0	271,905.1
BB-	137,058.7	0.0	0.0	0.0	137,058.7
B+	24,532.6	0.0	0.0	0.0	24,532.6
B	0.0	0.0	0.0	0.0	0.0
B-	15,123.7	15,074.5	0.0	0.0	30,198.2
Not rated	0.0	0.0	0.0	2,227.5	2,227.5
Gross carrying amounts	**3,351,939.1**	**15,074.5**	**0.0**	**2,227.5**	**3,369,241.1**
Risk provisions	**1,980.2**	**121.8**	**0.0**	**0.0**	**2,102.0**
Carrying amounts after risk provisions	**3,349,958.8**	**14,952.8**	**0.0**	**2,227.5**	**3,367,139.1**
of which assets at amortised cost	*2,171,019.2*	*14,952.8*	*0.0*	*2,227.5*	*2,188,199.4*
of which assets at fair value through other comprehensive income	*1,178,939.7*	*0.0*	*0.0*	*0.0*	*1,178,939.7*

28.3. 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 rated BB- (2018: a counterparty with a B+ rating), with a carrying amount after risk provisions of TEUR 5,725.5 (31/12/2018: TEUR 5,860.9) was classified as a forbearance exposure ("forbearance performing") as of 31 December 2019. The exposure is assigned to stage 2 for the ECL calculation, with provisions being set up based on the lifetime ECL.

29. Assets at fair value through profit or loss

Assets at fair value through profit or loss in EUR 1,000	31/12/2019	31/12/2018
Fair value through profit or loss	215,874.2	0.0
At fair value through profit or loss: mandatory	38,783.1	0.0
Total	**254,657.3**	**0.0**

The assets at fair value through profit or loss are assets with fixed, short-term syndication requirements. The category “At fair value through profit or loss: mandatory” is used to report those assets whose cash flows are not solely payments of principal and interest on the outstanding principal amounts.

At present, Kommunalkredit does not make use of the fair value option for financial assets.

Details on the calculation of the fair values can be found in Note 11. A breakdown based on the fair value hierarchy categories pursuant to IFRS 13.72 and a detailed description in this regard can be found in Note 68.

30. 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	31/12/2019	31/12/2018
Interest-related transactions	173,701.5	204,144.9
of which in fair value hedges	*172,013.2*	*197,221.6*
of which in portfolio hedge	*0.0*	*64.2*
Currency-related transactions	11,253.1	16,741.0
of which in fair value hedges	*0.0*	*949.4*
Total	**184,954.6**	**220,886.0**

The structure of the derivative financial instruments, including their current values, is shown in Note 65.

31. Investments in associates

The carrying amount of the investment in Kommunalleasing GmbH remains unchanged at TEUR 0.0. The value in use, calculated on the basis of the present value of the expected future cash flows, also confirms this value as of 31 December 2019. There were no non-recognised losses for this at-equity investment for Kommunalkredit in the reporting year or on a cumulative basis.

As of 31 December 2019, the assets and liabilities of this company amounted to TEUR 66,658.0 (31/12/2018: TEUR 72,194.0) and TEUR 60,775.2 (31/12/2018: TEUR 66,477.1), respectively; revenues amounted to TEUR 471.8 (1/1-31/12/2018: TEUR 440.6), and the profit for the year according to IFRS came to TEUR 166.0 (1/1-31/12/2018: TEUR 567.6).

32. Property, plant and equipment

The development and composition of property, plant and equipment is shown in Note 35. The value of land and buildings used mainly by the Group, as shown in the statement of financial position, is unchanged from the previous year and includes a land value of TEUR 3,961.1.

Property, plant and equipment in EUR 1,000	31/12/2019	31/12/2018
Land and buildings	21,656.6	22,570.1
Office furniture and equipment	2,089.6	2,261.8
Right-of-use assets	1,724.4	0.0
Total	**25,470.6**	**24,831.9**

For information on the composition and development of right-of-use assets, please refer to Note 33.

33. Leases

Kommunalkredit applied IFRS 16 "Leases" for the first time as of 1 January 2019 using the modified retrospective method. This approach means that the comparative figures are not adjusted. As part of the first-time adoption of the standard, Kommunalkredit elected to recognise right-of-use assets corresponding to the same amount as the lease liability at the time of transition, and not to include initial direct costs when measuring the right-of-use asset.

The first adoption of IFRS 16 with regard to leases previously classified as operating leases under IAS 17 resulted in the recognition, at the time of initial adoption, of a right-of-use asset and a corresponding lease liability of TEUR 196.8, which are recognised under property, plant and equipment and other liabilities respectively. This obligation, which was already in place as of 31 December 2018 (nominal value of future rent payments TEUR 199.6), relates to the rental of an office building which was discounted, after taking extension and termination options into account, with Kommunalkredit's incremental borrowing rate at the time of initial adoption of 0.9%. This obligation, which cannot be terminated, was reported off-balance sheet under IAS 17, with the leasing instalments periodically recognised as expenses. In addition, there were obligations from short-term leases and leases of low-value assets as of 31 December 2018 that were still in place in the 2019 financial year.

The first adoption of IFRS 16 resulted in a drop in other expenses of TEUR 88.1, an increase in depreciation in the amount of TEUR 86.0, and an increase in interest expenses of TEUR 3.8 in 2019. This means that, all in all, there was no material impact on the income statement or on relevant key figures of Kommunalkredit in 2019.

The right-of-use assets capitalised in 2019 resulted from lease agreements relating to the rental of buildings and leased vehicles. These are included under property, plant and equipment in the statement of financial position.

The right-of-use assets showed the following development in 2019:

Right-of-use asset in EUR 1,000	Buildings	Leased vehicles	Total
Carrying amount 1/1/2019	196.8	0.0	196.8
Additions 1/1-31/12/2019	1,566.8	46.8	1,613.6
Depreciation 1/1-31/12/2019	-74.3	-11.7	-86.0
Carrying amount 31/12/2019	**1,689.3**	**35.1**	**1,724.4**

The addition to buildings in the amount of TEUR 1,566.8 relates to a lease agreement for office premises in Frankfurt.

Agreements regarding the stability of lease payment values have been agreed with some lessors. In 2019, the development of indices did not result in any adjustments being made to lease payments prompting the remeasurement of lease liabilities. Adjustments expected after the balance sheet date have not been included in the measurement of lease liabilities.

Kommunalkredit elects not to recognise short-term leases with terms of less than twelve months, instead recognising payments made under these agreements as expenses over the term of the lease. This scenario relates exclusively to the lease agreement for a particular property. In addition, an agreement on the use of office equipment is not recognised as a lease, as the recognition of these leases would involve disproportionate reporting effort in relation to the benefit provided by this information, and the replacement value of the equipment in question does not exceed TEUR 15.0 in each case.

Expenses for short-term leases came to TEUR 38.9 in 2019. The expenses for low-value leases, which relate to an agreement on the use of office equipment with the leasing instalment also including maintenance and consumables, amounted to TEUR 92.4 in 2019.

The cash outflows from lease agreements (both capitalised leases, and short term leases and leases of low-value assets) amounted to TEUR 218.1 in 2019.

34. Intangible assets

Intangible assets exclusively comprise purchased software. The development and composition of this item is shown in Note 35.

35. 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 of 31 December 2019, the Schedule of Non-current Asset Transactions is as follows:

Schedule of non-current asset transactions 2019 in EUR 1,000	Acquisition costs					Cumulative depreciation and amortisation				Carrying amounts	
	as of 1/1/2019	Additions	Disposals	Reclassifi-cations	as of 31/12/2019	as of 1/1/2019	Additions	Disposals	as of 31/12/2019	Carrying amount 31/12/2019	Carrying amount 31/12/2018
Property, plant and equipment	**45,693.1**	**1,827.0**	**0.0**	**0.0**	**47,520.1**	**20,664.4**	**1,385.0**	**0.0**	**22,049.5**	**25,470.6**	**24,831.8**
Land and buildings	37,791.5	3.6	0.0	0.0	37,795.1	15,221.4	917.0	0.0	16,138.5	21,656.6	22,570.1
Office furniture and equipment	7,704.8	209.8	0.0	0.0	7,914.6	5,443.0	382.0	0.0	5,825.0	2,089.6	2,261.8
Right-of-use assets	196,8[1]	1,613.6	0.0	0.0	1,810.4	0.0	86.0	0.0	86.0	1,724.4	0.0
Intangible assets	**4,530.1**	**144.4**	**0.0**	**0.0**	**4,674.4**	**4,326.2**	**101.6**	**0.0**	**4,427.8**	**246.6**	**203.9**
Total of property, plant and equipment and intangible assets	**50,223.2**	**1,971.4**	**0.0**	**0.0**	**52,194.5**	**24,990.6**	**1,486.7**	**0.0**	**26,477.3**	**25,717.2**	**25,035.7**

[1] Effect from first adoption of IFRS 16: as of 1/1/2019, obligations from rental agreements in the amount of TEUR 196.8 were capitalised (see Note 33).

Schedule of non-current asset transactions 2018 in EUR 1,000	Acquisition costs					Cumulative depreciation and amortisation				Carrying amounts	
	as of 1/1/2018	Additions	Disposals	Reclassifi-cations	as of 31/12/2018	as of 1/1/2018	Additions	Disposals	as of 31/12/2018	Carrying amount 31/12/2018	Carrying amount 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
Facilities under construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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**

36. Tax assets

Tax assets in EUR 1,000	31/12/2019	31/12/2018
Current tax assets	4,568.9	258.6
Deferred tax assets	9,141.8	6,183.3
Total	**13,710.7**	**6,441.8**

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.

Deferred tax assets and liabilities include taxes arising from temporary differences between the values recognised according to IFRS and the amounts calculated for tax purposes. 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 of 31/12/2018	Change recognised in P&L	Change recognised in OCI	as of 31/12/2019
Deferred taxes from temporary differences in asset-side positions				
Tax loss carryforwards	14,276.1	1,001.0	0.0	15,277.1
Loans and advances to banks[1]	4,608.7	-6,327.3	0.0	-1,718.6
Loans and advances to customers[1]	-13,093.7	-10,975.6	0.0	-24,069.3
Assets at fair value through profit or loss	0.0	12,651.5	0.0	12,651.5
Assets recognised at fair value through other comprehensive income	-38,250.3	-3,033.8	250.8	-41,033.3
Derivatives	-43,714.6	5,462.0	0.0	-38,252.6
Portfolio hedge	-202.0	-641.1	0.0	-843.1
Investments in associates	107.1	-26.8	0.0	80.4
Property, plant and equipment	-11.4	-586.4	0.0	-597.8
Deferred taxes from temporary differences in liability-side positions				
Amounts owed to banks	0.0	0.0	0.0	0.0
Amounts owed to customers	-682.4	3,147.4	0.0	2,465.0
Derivatives	41,521.6	4,887.9	0.0	46,409.5
Securitised liabilities[1]	39,614.1	-5,742.4	0.0	33,871.8
Subordinated liabilities	386.8	-134.0	0.0	252.8
Provisions	1,387.8	-588.1	125.5	925.2
Provisions for expected losses	53.1	318.0	0.0	371.2
Other liabilities	182.1	3,169.9	0.0	3,352.1
Total	**6,183.3**	**2,582.3**	**376.2**	**9,141.8**

[1] Deferred tax in these items relate primarily to differences between the values recognised according to IFRS and the amounts calculated for tax purposes in the context of hedge accounting.

The comparative figures as of 31 December 2018 are as follows:

Deferred taxes in EUR 1,000	as of 31/12/2017	IFRS 9 Reclassification effect and change recognised in P&L	Change recognised in OCI	as of 31/12/2018
Deferred taxes from temporary differences in asset-side positions				
Tax loss carryforwards	31,394.0	-17,117.8	0.0	14,276.1
Loans and advances to banks[1]	-8.7	4,617.4	0.0	4,608.7
Loans and advances to customers[1]	-11,414.4	-1,679.4	0.0	-13,093.7
Assets at fair value through profit or loss	-32,351.5	32,351.5	0.0	0.0
Assets recognised at fair value through other comprehensive income	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		107.1
Property, plant and equipment	-11.4	0.0	0.0	-11.4
Deferred taxes from temporary differences in liability-side positions				
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[1]	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**

[1] Deferred tax in these items relate primarily to differences between the values recognised according to IFRS and the amounts calculated for tax purposes in the context of hedge accounting.

The asset item booked for deferred tax assets in the amount of TEUR 9,141.8 (31/12/2018: TEUR 6,183.3) comprises TEUR 15,277.1 (31/12/2018: TEUR 14,276.1) in capitalised tax loss carryforwards and TEUR -6,135.3 (31/12/2018: TEUR -8,092.8) in temporary differences, as shown in the above table.

Of the tax loss carryforwards as of 31 December 2019 in the amount of TEUR 61,108.6 (31/12/2018: TEUR 96,653.0), the full amount (31/12/2018: TEUR 57,105.0) 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 15,277.1 (31/12/2018: TEUR 14,276.1). For the calculation 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 (for details see Note 20) were taken into account.

Given a tax rate of 25%, the use of tax loss carryforwards in the reporting year amounted to TEUR 8,362.6 (previous year: TEUR 7,610.0)

The capitalised tax loss carryforward as of 31 December 2019 is to be realised within the coming twelve months in an amount of TEUR 5,389.0. The balance of TEUR 9,888.2 is expected to be used in the following four years.

37. Other assets

Other assets in EUR 1,000	31/12/2019	31/12/2018
Other assets	6,706.7	6,351.9
Prepaid expenses	753.2	688.9
Total	**7,460.0**	**7,040.8**

Other assets comprise the following material items: trade receivables in the amount of TEUR 2,173.1 (31/12/2018: TEUR 4,003.8) and receivables from the settlement of payments under support programmes in the amount of TEUR 516.9 (31/12/2018: TEUR 445.5).

The prepaid expenses mainly comprise fees and other general and administrative expenses recognised according to the accruals concept.

38. Amounts owed to banks

Amounts owed to banks in EUR 1,000	31/12/2019	31/12/2018
Repayable on demand	79,883.3	104,584.9
Other liabilities	407,327.2	390,984.2
Total	**487,210.5**	**495,569.2**

Amounts owed to banks repayable on demand include cash and cash equivalents received as cash collateral for positive current values of derivatives according to ISDA/CSA arrangements in the amount of TEUR 79,882.9 (31/12/2018: TEUR 104,584.9). Other amounts owed to banks include TEUR 309,889.0 (31/12/2018: TEUR 311,162.2) in medium-term funds from the TLTRO II programme (Targeted Longer-Term Refinancing Operations) of the European Central Bank (ECB) and TEUR 57,299.3 (31/12/2018: TEUR 59,763.0) in collateralised loans of the European Investment Bank.

39. Amounts owed to customers

Amounts owed to customers include the following:

Amounts owed to customers in EUR 1,000	31/12/2019	31/12/2018
Deposits by corporates, municipalities and quasi-municipal enterprises	807,696.0	714,735.8
Deposits by retail customers – KOMMUNALKREDIT INVEST	585,276.0	287,681.5
Cash received as collateral for positive current values of derivatives	58,852.8	60,001.3
Other long-term liabilities to customers	424,429.7	394,054.3
Total	**1,876,254.5**	**1,456,472.9**

Amounts owed to customers include TEUR 174,186.1 (31/12/2018: TEUR 157,955.5) repayable on demand.

40. 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 11) and shown in the following table (including interest accruals/deferrals):

Derivatives in EUR 1,000	31/12/2019	31/12/2018
Interest-related transactions	209,994.7	193,803.4
of which in fair value hedges	*93,943.3*	*83,095.4*
of which in portfolio hedge	*77,697.3*	*73,070.3*
Currency-related transactions	9,542.6	7,173.1
of which in fair value hedges	*0.0*	*5,739.3*
Total	**219,537.3**	**200,976.4**

The structure of the derivative financial instruments, including their current values, is shown in Note 65.

41. Securitised liabilities

Securitised liabilities in EUR 1,000	31/12/2019	31/12/2018
Bonds issued	934,428.8	991,970.8
Other securitised liabilities	338,398.4	404,082.9
Total	**1,272,827.2**	**1,396,053.7**

The securitised liabilities reported under "Bonds issued" and "Other securitised liabilities" comprise covered bonds issued by Kommunalkredit with a carrying amount of TEUR 1,134,462.2 (31/12/2018: TEUR 1,135,843.3) 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 172,091.4 (2019: TEUR 93,612.1) will fall due in 2020.

In the reporting period, Kommunalkredit redeemed securitised liabilities in the amount of TEUR 93,612.1 (1/1/2018-31/12/2018: TEUR 21,703.4) at maturity according to schedule, and bought back/prematurely redeemed securitised liabilities with a value of TEUR 26,221.7 (1/1/2018-31/12/2018: TEUR 103,703.4).

42. Subordinated liabilities

As of 31 December 2019, subordinated liabilities were broken down as follows:

Type of liability	Interest rate 31/12/2019	Currency	Nominal value in EUR 1,000	Carrying amount in EUR 1,000
Subordinated bonded loan 2007-2022	4.67%	EUR	10,000.0	10,988.9
Subordinated bonded loan 2007-2022	4.67%	EUR	10,000.0	10,988.9
Subordinated bonded loan 2007-2047	5.02%	EUR	10,000.0	10,222.4
Subordinated bonded loan 2007-2047	5.02%	EUR	9,000.0	9,200.2
Subordinated bonded loan 2007-2037	5.08%	EUR	10,000.0	10,284.2
Subordinated bonded loan 2007-2037	5.08%	EUR	800.0	822.7
Subordinated bonded loan 2007-2037	5.08%	EUR	10,200.0	10,489.9
Subordinated bond 2006-2021	5.40%	EUR	5,000.0	5,539.2
Total			**65,000.0**	**68,536.4**

The comparative figures as of 31 December 2018 are as follows:

Type of liability	Interest rate 31/12/2018	Currency	Nominal value in EUR 1,000	Carrying amount 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**

Kommunalkredit's subordinated liabilities add up to a nominal value of TEUR 65,000.0, unchanged from the previous year, and carrying amounts of TEUR 68,536.4 (31/12/2018: TEUR 69,074.4). The difference between the carrying amount and the nominal value is due to hedge accounting according to IFRS 9 and interest accruals/deferrals.

Interest expenses for all subordinated liabilities in the reporting period amounted to TEUR 2,672.7 (1/1-31/12/2018: TEUR 2,674.8). 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 tier 2 capital for regulatory purposes.

43. Provisions

As of 31 December 2019, mainly long-term personnel provisions were reported under provisions (see also Note 19 for details on provisions).

Provisions in EUR 1,000	Changes			
	Initial value 1/1/2019	reported in income statement	reported in total comprehensive income/equity	End value 31/12/2019
Provisions for pensions	1,037.7	38.8	83.2	1,159.6
Provisions for severance pay	4,947.8	-247.9	418.7	5,118.7
Provisions for jubilee bonuses	232.8	-38.7	0.0	194.1
Provision for restructuring[1]	2,500.0	-2,500.0	0.0	0.0
Provisions for expected losses on credit commitments	198.7	-32.4	364.7	531.0
Total	**8,917.0**	**-2,780.1**	**866.5**	**7,003.4**

[1] The provision for restructuring was used up in full in 2019.

The actuarial provision requirement for personnel provisions changes in 2019 as follows:

Change in personnel provisions in EUR 1,000		**Provision for**			**Total**
		pension obligations	**severance pay**	**jubilee bonuses**	
as of 31/12/2018 Present value of defined benefit obligation (DBO) as of 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 of 31/12/2018		**1,037.7**	**4,947.8**	**232.8**	**6,218.4**
Current service cost		36.0	271.1	7.2	
Interest cost		29.9	73.3	1.0	
Actuarial gains (-) / losses (+) from DBO		142.5	418.7	0.2	
of which due to changes in demographic assumptions		*0.0*	*71.4*	*0.0*	
of which due to empirical changes		*-96.5*	*-153.2*	*-2.3*	
of which due to changes in financial assumptions		*239.0*	*500.5*	*2.5*	
Payments		-17.9	-592.2	-47.2	
Other changes		0.0	0.0	0.0	
Change in DBO 2019		**190.5**	**170.9**	**-38.8**	
Change in plan assets 2019		**-68.5**	**0.0**	**0.0**	
DBO as of 31/12/2019		1,682.8	5,118.7	194.1	6,995.6
– plan assets		-523.2	0.0	0.0	-523.2
Actuarial provisioning requirement as of 31/12/2019		**1,159.6**	**5,118.7**	**194.1**	**6,472.4**
Duration of defined benefit obligation in years		15.6	10.6		
Sensitivity of DBO to change in actuarial interest rate by	plus 0.5%	-7.4%	-5.1%		
	minus 0.5%	8.5%	5.5%		
Sensitivity of DBO to deviation of salary development by	plus 0.5%		5.3%		
	minus 0.5%		-4.9%		
Sensitivity of DBO to deviation of pension increase by	plus 0.5%	7.0%			
	minus 0.5%	-6.4%			

The comparative figures as of 31 December 2018 are as follows:

Provisions in EUR 1,000	**Changes**			
	Initial value 1/1/2018	**reported in income statement**	**reported in total comprehensive income/equity**	**End value 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	2,500.0
Provisions for expected losses on credit commitments[1]	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**

[1] First-time allocation performed in connection with the adoption of IFRS 9.

The actuarial provision requirement for personnel provisions changes in 2018 as follows:

Change in personnel provisions in EUR 1,000		Provision for: pension obligations	Provision for: severance pay	Provision for: jubilee bonuses	Total
as of 31/12/2017 Present value of defined benefit obligation DBO as of 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 of 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 of 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 of 31/12/2018		**1,037.7**	**4,947.8**	**232.8**	**6,218.4**
Duration of defined benefit obligation 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%			

Changes in the fair value of the plan assets are shown in the following table:

Development of the fair value of plan assets in EUR 1,000	2019	2018
as of 1/1	**454.7**	**502.6**
Interest income	9.2	10.1
Actuarial result due to empirical changes	59.3	-58.0
Changes in the business year	68.5	-47.9
as of 31/12	**523.2**	**454.7**

The following table shows plan assets broken down by asset classes:

Plan assets by asset class	31/12/2019	31/12/2018
Securities – euro	32.9%	12.8%
Securities – euro high yield	0.0%	1.3%
Securities – euro emerging markets	11.6%	5.1%
Securities – euro corporate	12.4%	21.1%
Term deposits	3.6%	0.0%
Equity instruments – euro	11.8%	5.9%
Equity instruments – non-euro	9.4%	5.7%
Equity instruments – emerging markets	3.5%	4.8%
Alternative investments	5.1%	3.1%
Real estate	4.2%	5.3%
Cash and cash equivalents	5.6%	34.9%
Total	**100.0%**	**100.0%**

As of 31 December 2019, 17.6% (31/12/2018: 57.3%) of the plan assets had a market price listed on an active market. For 2020, if calculation parameters remain constant, the following changes are expected for defined benefit plans:

Expected development of DBO in EUR 1,000	
Defined benefit obligation (DBO) as of 1/1/2020	**1,682.8**
Expected current service cost	25.2
Expected interest cost	17.2
Expected payments	-46.4
Expected actuarial result	-23.9
DBO as of 31/12/2020	**1,654.9**

Expected development of plan assets in EUR 1,000	
Plan assets as of 1/1/2020	**523.2**
Expected interest income	5,4
Expected actuarial result	0.6
Expected plan assets as of 31/12/2020	**529.1**

44. Current tax liabilities

Current tax liabilities as of 31 December 2019 came to TEUR 1,107.1 (31/12/2018: TEUR 1,135.8). Of this, TEUR 123.5 (31/12/2018: TEUR 22.9) was attributable to current corporate income tax and TEUR 983.6 (31/12/2018: EUR 1,112.9) was attributable to the offsetting of VAT and other taxes and are therefore current in nature.

45. Other liabilities

Other liabilities in EUR 1,000	31/12/2019	31/12/2018
Deferred income	3,412.3	807.7
Lease liabilities	1,726.1	0.0
Other liabilities	24,552.3	17,991.1
as of 31/12	**29,690.7**	**18,798.9**

Deferred income mostly contains fee and guarantee commission income on an accrual basis.

Other liabilities mainly include accruals for personnel expenses and accruals for audit, legal and consulting expenses.

46. Equity

A. Development and composition

The share capital of Kommunalkredit as of 31/12/2019 amounted to EUR 172,659,452.81 (31/12/2018: EUR 159,491,290.16). With the resolution passed by the Executive Board on 27 May 2019 and with the approval of the Supervisory Board, the appropriation of the capital approved in the Annual General Meeting of 10 March 2017 was adopted. The share capital was increased by EUR 13,168,162.65 to EUR 172,659,452.81 with the issue of 2,560,052 no-par-value registered shares. The premium of EUR 6,831,840.55 was added to the fixed capital reserves. Gesona Beteiligungsverwaltung GmbH (Gesona) now holds 33,498,895 no-par-value shares (31/12/2018: 30,938,843 no-par-value shares), accounting for 99.80% (31/12/2018: 99.78%) of the shares. The Association of Austrian Municipalities holds an unchanged 68,216 no-par-value shares or 0.20% (31/12/2018: 0.22%). Each no-par-value share represents a share of EUR 5.14 in the share capital. There are no shares that have been issued but not fully paid in.

By way of a resolution passed by the Annual General Meeting held on 27 June 2019, the Executive Board was authorised to increase the share capital of the company through the issue of up to 16,783,555 new no-par-value registered shares by a maximum amount of EUR 86,329,723.84 (authorised capital), subject to approval by the Supervisory Board, within a period of five years following registration of the amendment to the Articles of Association.

The development and composition of equity as reportable according to IFRS is declared under Item IV.

B. Servicing of equity/proposal for appropriation of profit

The profit for the year 2019 of Kommunalkredit Austria AG according to Austrian GAAP is TEUR 30,303.1. Taking into account the appropriation to reserves in the amount of TEUR 19,920.4 and the profit carried forward from the previous year of TEUR 205.0, the net profit comes to TEUR 10,587.7. In light of the COVID-19 pandemic and the recommendation of the ECB and FMA from 27 March 2020 regarding dividend payouts during the COVID-19 pandemic, the proposal for the distribution of profit is currently under review and not available at the time of the preparation of the statement of financial position.

C. Equity management and regulatory capital indicators

Just as in the previous year, we adhered to the statutory equity requirements at all times throughout the reporting year. These included a capital conservation buffer, countercyclical capital buffer and premium from the supervisory review and evaluation process (SREP).

Operational monitoring and management takes the form of not only ongoing monitoring activities but also monthly reports to the Executive Board. Equity management is also elucidated under Note 69.

C.1. Regulatory group of credit institutions

Kommunalkredit is part of a group of credit institutions whose ultimate parent is Satere Beteiligungsverwaltungs GmbH (Satere), which holds 100% of Gesona. Gesona owns 99.80% of Kommunalkredit's equity. Given that both Satere and Gesona are classified as financial holding companies as defined by CRR, Kommunalkredit – as per article 11 (2) and (3) CRR – is the only credit institution obliged to fulfil the requirements of consolidated position specified in Parts 2 to 4 (Own funds, Capital Requirements, Large Exposures), Part 6 (Liquidity), Part 7 (Debt) and Part 8 (Disclosure) of CRR. 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.

In addition to Satere, Gesona and Kommunalkredit, the regulatory group of credit institutions also includes Kommunalkredit KBI Immobilien GmbH, Kommunalkredit KBI Immobilien GmbH & Co KG and Kommunalkredit TLI Immobilien GmbH & Co KG as providers of additional services.

The own funds and own funds requirements of the group of credit institutions pursuant to Austrian GAAP, calculated according to the CRR, show the following structure and development:

Basis for calculation in EUR 1,000	pursuant to Art. 92 CRR 31/12/2019	pursuant to Art. 92 CRR 31/12/2018
Total risk exposure amount pursuant to Art. 92 CRR	**1,671,045.2**	**1,331,612.9**
of which credit risk	*1,539,779.1*	*1,206,002.2*
of which operational risk	*116,693.8*	*107,711.1*
of which CVA charge	*14,445.6*	*17,779.0*
of which default fund of a qualifying counterparty	*126.7*	*120.5*

Own funds – Actual in EUR 1,000 or %	31/12/2019	31/12/2018
Common equity tier 1 after deductible items (CET 1)	297,999.3	259,263.9
Tier 2 capital after deductible items	52.889,9	58,287.2
Eligible own funds (tier 1 and tier 2)	**350,889.2**	**317.551,09**
Total capital ratio	21.0%	23.8%
CET 1 ratio	17.8%	19.5%

The own funds disclosed reflect the annual net income values of the consolidated group companies in accordance with Austrian GAAP amounting to TEUR 29,282.9 (2018: TEUR 31,316.7) less the planned dividend of TEUR 10,000.0 (retained in its entirety in 2018 to effect a capital increase).

C.2. Regulatory own funds of Kommunalkredit Austria AG

Own funds and own funds requirements calculated in accordance with CRR as reported in the individual financial statements of Kommunalkredit pursuant to Austrian GAAP have the following composition and development:

Basis for calculation in EUR 1,000	pursuant to Art. 92 CRR 31/12/2019	pursuant to Art. 92 CRR 31/12/2018
Total risk exposure amount pursuant to Art. 92 CRR	**1,675,668.2**	**1,334,717.6**
of which credit risk	*1,545,515.6*	*1,210,502.1*
of which operational risk	*115,580.3*	*106,315.9*
of which CVA charge	*14,445.6*	*17,779.0*
of which default fund of a qualifying counterparty	*126.7*	*120.5*

Own funds – Actual **in EUR 1,000 or %**	**31/12/2019**	**31/12/2018**
Common equity tier 1 after deductible items (CET 1)	303,620.9	265,454.1
Tier 2 capital after deductible items	52,889.9	58,287.2
Own funds (tier 1 and tier 2)	**356,510.8**	**323,741.3**
Total capital ratio	21.3%	24.3%
CET 1 ratio	18.1%	19.9%

The own funds disclosed reflect the net income for the 2019 financial year of Kommunalkredit in accordance with Austrian GAAP amounting to TEUR 30,303.1 (2018: TEUR 30,409.3) less the planned dividend of TEUR 10,000.0 (retained in its entirety in 2018 to effect a capital increase).

NOTES ON THE INCOME STATEMENT OF THE KOMMUNALKREDIT GROUP

47. Net interest income

Net interest income in EUR 1,000	1/1–31/12/2019	1/1–31/12/2018
Interest income and income similar to interest income	**166,800.8**	**169,887.8**
Interest income from loans and advances to banks[1]	3,590.1	1,137.0
Interest income from loans and advances to customers[1]	54,839.0	60,594.3
Interest income from assets at fair value through other comprehensive income[1]	39,895.9	31,408.7
Interest income from derivatives	56,091.4	66,497.5
Interest income from maturing derivatives in the portfolio hedge	9,258.7	9,542.3
Interest income from other assets and changes in estimates[1]	80.1	707.9
Income similar to interest income	3,045.6	0.0
Interest expenses and expenses similar to interest expenses	**-108,207.8**	**-120,664.9**
Interest expenses for amounts owed to banks[1]	-3,006.0	-1,903.2
Interest expenses for amounts owed to customers[1]	-13,154.5	-17,948.7
Interest expenses for derivatives	-48,988.6	-52,972.4
Interest expenses for securitised liabilities[1]	-37,433.5	-41,204.3
Interest expenses for subordinated capital[1]	-2,672.7	-2,674.8
Interest expenses for other liabilities and changes in estimates	-3.8	-1,023.2
Expenses similar to interest expenses	-2,948.6	-2,938.1
Net interest income	**58.593,0**	**49,222.9**

[1] Net interest income calculated using the effective interest method.

Net interest income rose year on year by 19.0% to TEUR 58,593.0 (1/1-31/12/2018: TEUR 49,222.9). This increase is due to the strong growth in new business; the contribution of the infrastructure and energy financing business therefore amounted to TEUR 33,180.6 (1/1-31/12/2018: TEUR 19,076.6).

Due to the negative interest rates applied to credit with Oesterreichische Nationalbank (OeNB) and to other loans with banks, the net interest income was reduced by TEUR 1,537.1 (1/1-31/12/2018: TEUR 1,867.1) in 2019. The corresponding interest expense is reported under interest expense for amounts owed to banks in the table above.

Interest income and interest expenses are recognised according to the accruals concept. Derivatives are mainly concluded at Kommunalkredit to hedge interest rate and/or currency risks. Interest income and expense are reported as gross values, separated into receipts and payments.

48. Net fee and commission income

Net fee and commission income in EUR 1,000	1/1–31/12/2019	1/1–31/12/2018
Fee and commission income	**26,718.2**	**19,857.3**
Management of support programmes and consultancy business	15,400.5	15,226.3
Lending business	10,090.2	3,058.9
Other service business	1,227.6	1,572.1
Fee and commission expenses	**-1,818.4**	**-1,390.3**
Lending business	-843.6	-451.3
Securities business	-555.4	-541.4
Money and FX trading	-263.5	-199.6
Other service business	-155.9	-198.0
Net fee and commission income	**24,899.8**	**18,467.1**

The net fee and commission income of TEUR 24,899.8 (1/1-31/12/2018: TEUR 18,467.1) was largely shaped by the revenue from Kommunalkredit Public Consulting GmbH (KPC) in relation to the management of support programmes and consultancy business amounting to TEUR 15,400.5 (1/1-31/12/2018: TEUR 15,226.3). Fee and commission income from the lending business rose by 229.9% in 2019 to TEUR 10,090.2 (1/1-31/12/2018: TEUR 3,058.9) and mostly includes fees related to the new lending business. These primarily include commission and transaction-related fees concerning financial instruments measured at fair value through profit or loss.

Fee and commission expenses were largely generated from guarantees in relation to the lending business amounting to TEUR -843.6 (1/1-31/12/2018: TEUR -451.3), from the securities business to the amount of TEUR -555.4 (1/1-31/12/2018: TEUR -541.4) as well as money and FX trading to the amount of TEUR -263.5 (1/1-31/12/2018: TEUR -199.6). All fee and commission income and expenses are recognised according to the accruals concept.

49. Result from the derecognition of assets at fair value through other comprehensive income

Where financial assets that only serve to generate SPPI-compliant cash flows and are allocated to the “hold and sell” business model are sold, the amount recorded at that time in the reserve for assets measured at fair value and reported directly in other comprehensive income is carried over to the income statement. The result from the disposal of these assets was TEUR 4,300.4 (1/1-31/12/2018: TEUR 3,493.2) in the reporting year.

50. Net provisioning for impairment losses

Net provisioning for impairment losses in EUR 1,000	1/1–31/12/2019	1/1–31/12/2018
Change in expected losses for level 1	-2,216.0	-724.9
Change in expected losses for level 2	-253.2	25.6
Change in expected losses for level 3	0.0	0.0
Total	**-2,469.2**	**-699.3**

Net provisioning for impairment losses came to TEUR -2,469.2 in the 2019 reporting period (1/1-31/12/2018: TEUR -699.3) and only includes changes in expected credit losses in accordance with IFRS 9. In the 2019 reporting period, as in the year before that, there was no need to impair individual assets and there were no credit losses. The non-performing loan ratio remains at 0.0%. Please refer to Notes 8 and 28 for details on the development of the risk provisions.

51. General administrative expenses

General administrative expenses in EUR 1,000	1/1–31/12/2019	1/1–31/12/2018
Personnel expenses	**-35,128.1**	**-34,989.7**
Salaries	-27,748.4	-27,525.1
Statutory social security contributions	-5,615.4	-5,671.3
Voluntary social security contributions	-683.1	-849.1
Expenses for pensions and employee benefits	-1,081.3	-944.2
Other administrative expenses	**-18,023.7**	**-17,553.4**
Depreciation, amortisation and impairment	**-1,486.7**	**-1,580.9**
on intangible assets	-101.6	-141.0
on property, plant and equipment	-1,385.0	-1,440.0
Total	**-54,638.5**	**-54,124.0**

General administrative expenses increased slightly in the reporting period by 1.0% or TEUR 514.5 to TEUR 54,638.5 (1/1-31/12/2018: TEUR 54,124.0). The increase was attributable to the growth in new business and was almost entirely offset by efficient cost management.

Personnel expenses in 2019 came to TEUR 35,128.1 (1/1-31/12/2018: TEUR 34,989.7). Expenses for pensions and employee benefits include TEUR 419.1 (1/1-31/12/2018: TEUR 715.2) for defined contribution plans (pension fund contributions under collective bargaining agreements) and TEUR 289.6 (2018: TEUR 293.8) for contributions to company pension plans.

Other administrative expenses include the following items:

Other administrative expenses in EUR 1,000	1/1–31/12/2019	1/1–31/12/2018
Third-party services	-6,511.1	-6,836.3
Data processing	-2,741.1	-2,284.9
Consulting and auditing fees	-2,239.9	-2,517.8
Public relations and advertising	-1,809.0	-1,882.8
External news services	-962.0	-1,009.0
Headhunting and personnel development	-934.7	-545.5
Rating	-350.7	-283.1
Other non-personnel administrative expenses	-2,475.3	-2,193.9
Total of other administrative expenses	**-18,023.7**	**-17,553.3**

Expenses for auditing services by the financial auditor allocable to the reporting period came to TEUR 365.7 (1/1-31/12/2018: TEUR 283.4). TEUR 169.2 of this (1/1-31/12/2018: TEUR 99.6) was attributable to the audit of the separate financial statements, TEUR 56.7 (1/1-31/12/2018: TEUR 40.4) was attributable to the audit of the consolidated financial statements, and TEUR 139.9 (1/1-31/12/2018: TEUR 143.4) was attributable to other auditing services. Other advisory services provided by the auditor came to TEUR 102.8 (1/1-31/12/2018: TEUR 113.9).

52. Bank Resolution Fund

The expense for the contribution to the European Bank Resolution Fund came to TEUR 1,614.8 (1/1-31/12/2018: TEUR 1,571.0) in 2019.

53. Other operating result

Other operating result in EUR 1,000	1/1–31/12/2019	1/1–31/12/2018
Other operating income	**2,695.9**	**9,289.8**
Income from services provided to KA Finanz AG	1,684.5	8,601.5
Other operating income	1,011.5	688.3
Other operating expenses	**-1,272.1**	**-1,026.7**
Bank stability tax	-606.7	-575.6
Other	-665.4	-451.0
Total	**1,423.8**	**8,263.1**

Kommunalkredit served as a service provider for the performance of operating banking transactions of KA Finanz AG until March 2019. The services to be provided were governed by a Service Agreement and a Service Level Agreement. In 2019, services amounting to TEUR 1,684.5 (1/1-31/12/2018: TEUR 8,601.5) were billed to KA Finanz AG on the basis of these agreements.

Other operating expenses mostly encompass the stability tax for Austrian banks amounting to TEUR -606.7 (1/1-31/12/2018: TEUR -575.6).

54. Net result of asset valuation and realised gains and losses

The net result of asset valuation and realised gains and losses for 2019 came to TEUR -3,388.8 (1/1-31/12/2018: TEUR 11,863.2) with a detailed breakdown as follows:

Net result of asset valuation and realised gains and losses in EUR 1,000	1/1–31/12/2019	1/1–31/12/2018
a) Result from financial instruments measured at fair value through P&L	**-7,716.4**	**662.1**
a1) of which loans	*-2,634.5*	*0.0*
a2) of which interest and currency hedging derivatives	*-5,081.9*	*662.1*
b) Result from early redemption of own issues and from the placement of assets	**4,052.6**	**11,837.3**
c) Remeasurement result from fair value hedge	**1,136.5**	**-270.4**
c1) of which interest rate derivatives	*-40,992.5*	*-19,111.6*
c2) of which underlying instruments	*42,129.0*	*18,841.2*
d) Remeasurement result from portfolio hedge	**-712.5**	**129.8**
d1) of which interest rate derivatives	*-5,565.6*	*-2,744.1*
d2) of which underlying instruments (layer)	*4,853.2*	*2,873.8*
e) Result from modifications	**-155.4**	**-506.7**
e1) of which income from modifications	*81.0*	*147.4*
e2) of which expenses from modifications	*-236.4*	*-654.1*
f) Foreign currency valuation	**6.4**	**11.0**
Total	**-3,388.8**	**11,863.2**

54.1. Result from financial instruments measured at fair value through profit or loss

The result from financial instruments measured at fair value through profit or loss includes loans whose contractual cash flows are not SPPI-compliant as well as loans allocated to the “sell” business model. This item also includes the measurement of interest rate and currency hedging derivatives that are not part of hedge accounting.

54.2. Realised results from redemptions/repurchases of own issues and the sale of financial instruments recognised at fair value through profit or loss

A positive result of TEUR 4,368.2 (1/1-31/12/2019: TEUR 11,331.8) was generated in 2019 from the repurchase/early redemption of own issues (securitised liabilities) and the closure of associated hedging derivatives. This item also includes the results from the sale of financial instruments recognised at fair value in the amount of TEUR -315.7 (1/1-31/12/2018: TEUR 505.5).

54.3. Remeasurement result from fair value hedge

The remeasurement result from the fair value hedge indicates the ineffectivities of the hedging relationships reported in the statement of financial position by Kommunalkredit. Details on how fair value hedges are reported in the statement of financial position and how effectiveness is measured are provided under Note 12.

54.4. Remeasurement result from portfolio hedge

The remeasurement result from the portfolio hedge indicates the ineffectivities of the hedges reported in the statement of financial position. Details on how portfolio hedges are reported in the statement of financial position and how effectiveness is measured are provided under Note 12.

54.5. Result from modifications

The result from modifications shows income and expenses arising from contractual changes to cash flows. In 2019 and in the previous year, these were solely market-induced, non-substantial modifications that resulted in an effect of TEUR -155.4 (1/1-31/12/2018: TEUR -506.7).

54.6. Result from assets held for trading according to IFRS (interest rate derivatives; foreign currency valuation)

In line with its business strategy, Kommunalkredit does not engage in activities involving an intent to trade. According to IFRS, the result from the remeasurement of derivatives is by definition allocable to assets held for trading. However, at Kommunalkredit these are not trading positions, but economic hedges.

The result of assets held for trading according to the IFRS definitions came to TEUR -5,075.5 (1/1-31/12/2018: TEUR 673.4) and includes the following components:
- a2) Interest rate derivatives of TEUR -5,081.9 (1/1-31/12/2018: TEUR 662.1)
- F) Foreign currency valuation of TEUR 6.4 (1/1-31/12/2018: TEUR 11.0)

55. Income taxes

Income taxes in EUR 1,000	1/1–31/12/2019	1/1–31/12/2018
Current tax expense	-298,9	-156.2
Deferred tax income/expense	2,582.3	-18,107.1
Total	**2,283.5**	**-18,263.3**

Current tax expense is calculated on the basis of the tax results from the financial year at the local tax rate applicable for the group company in question (all group companies are subject to the Austrian corporate income tax rate of 25%).

Deferred tax income came to TEUR 2,582.3 in 2019 (1/1-31/12/2018: Deferred tax expense TEUR -18,107.1). The income is the result of the change in temporary differences in tax-related carrying amounts and IFRS carrying amounts and the change in capitalised tax loss carryforwards. As of 31 December 2019, capitalised tax loss carryforwards came to TEUR 15,277.1 (31/12/2018: TEUR 14,276.1). The year-on-year increase of TEUR 1,001.0 is the result of capitalised tax loss carryforwards amounting to TEUR 8,362.6 (1/1-31/12/2018: TEUR 7,610.0) and of the capitalisation of tax loss carryforwards of TEUR 9,363.6 (1/1-31/12/2018: amortisation of TEUR 9,507.8) based on current tax planning. Due to the formation of a tax group in accordance with § 9 of the Austrian Corporate Income Tax Act with Satere Beteiligungsverwaltungs GmbH as the group parent (see Note 19 for details) in 2016, any tax loss carryforwards applicable to Kommunalkredit from periods prior to the time at which the group of companies became effective (pre-group losses) are offsettable without limitations up to a maximum of the company's own profit.

Deferred tax income does not include amounts due to changes in tax rates or to new taxes. The following reconciliation table shows the relationship between the expected and reported income taxes:

Tax reconciliation table in EUR 1,000	1/1–31/12/2019	1/1–31/12/2018
Profit for the year before tax	**27,321.8**	**32,585.7**
Expected tax expense in the financial year at the Austrian income tax rate (25%)	-6,830.4	-8,146.4
Decrease of tax expense due to tax-exempt income from associates	54.0	48.0
Increase of tax expense due to non-deductible items	-1,045.5	-604.9
Deferred tax on tax loss carryforwards	9,363.6	0.0
Impairment of deferred tax on tax loss carryforwards	0.0	-9,507.8
Other	741.8	-52.2
Income taxes	**2,283.5**	**-18,263.3**

OTHER DISCLOSURES

56. Significant events after the balance sheet date

Following the outbreak of the coronavirus at the end of 2019/beginning of 2020 in China and its ensuing spread into a global pandemic, all forecasts regarding economic developments and trends must be revised. As the situation is developing so quickly and the ultimate impact cannot yet be predicted, no quantitative estimate can be made on how Kommunalkredit will be affected. Should the measures in place to prevent the further spread of the virus become even stricter or stay in place for longer, this will especially affect new business volume and risk provisions for Kommunalkredit.

57. Presentation of revenues by region

The business activities of Kommunalkredit are conducted primarily in the areas of municipal and infrastructure-related project financing. 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 in the form of the consolidated financial statements prepared according to IFRS. The disclosures relating to the business segment are presented in the statement of financial position and the income statement of the Group. Reconciliation is therefore not required.

Information about geographical distribution for the reporting year, broken down into net interest income and net fee and commission income, is provided in the list below (additional information on the geographical distribution of the credit volume is provided in Note 65.5.4.):

Presentation of revenues by region (registered office of counterparty) 2019 in EUR 1,000	Austria	Europe	Rest of world	Total
Interest and similar income	101,768.7	59,573.4	5,458.8	166,800.8
Interest and similar expenses	-74,617.2	-30,914.5	-2,676.1	-108,207.8
Net interest income	**27,151.5**	**28,658.9**	**2,782.7**	**58,593.0**
Fee and commission income	11,931.0	13,634.8	1,152.5	26,718.2
Fee and commission expenses	-185.7	-1,516.8	-116.0	-1,818.4
Net fee and commission income	**11,745.3**	**12,118.1**	**1,036.5**	**24,899.8**

The comparison values from 1 January 2018 to 31 December 2018 are as follows:

Presentation of revenues by region (registered office of counterparty) 2018 in EUR 1,000	Austria	Europe	Rest of world	Total
Interest and similar income	112,840.8	54,596.7	2,450.3	169,887.8
Interest and similar expenses	-88,852.7	-30,604.3	-1,207.8	-120,664.9
Net interest income	**23,988.1**	**23,992.4**	**1,242.5**	**49,222.9**
Fee and commission income	11,376.4	8,480.9	0.0	19,857.3
Fee and commission expenses	-410.4	-910.0	-69.9	-1,390.3
Net fee and commission income	**10,966.1**	**7,570.9**	**-69.9**	**18,467.1**

58. Structure of 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. Interest accruals are assigned to the residual maturity "up to 3 months".

Cash collateral is reported as "repayable on demand".

Refer to Note 69.6. for further details on liquidity risk management.

A break-down of the carrying amounts of key asset and liability items by residual maturity as of 31 December 2019 is provided below:

Assets by residual maturity as of 31/12/2019 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	462,613.8	0.0	0.0	0.0	0.0	**462,613.8**
Loans and advances to banks	105,588.3	710.2	0.0	47,747.8	128,092.6	**282,138.9**
Loans and advances to customers	106,003.5	42,609.6	115,723.0	776,399.1	749,414.5	**1,790,149.7**
Assets recognised at fair value through other comprehensive income	0.0	116,136.6	61,789.6	492,098.2	610,550.7	**1,280,575.1**
Assets at fair value through profit or loss	0.0	1,191.8	2,302.1	90,847.9	160,315.4	**254,657.3**
Other assets	6,959.1	0.0	0.0	20.0	484.5	**7,463.6**
Total[1]	**681,164.8**	**160,648.2**	**179,814.7**	**1,407,113.1**	**1,648,857.8**	**4,077,598.5**

Liabilities by residual maturity as of 31/12/2019 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	79,883.3	22,042.9	315,916.2	65,889.8	3,478.3	**487,210.5**
Amounts owed to customers	174,186.1	243,125.0	538,662.8	457,816.9	462,463.6	**1,876,254.5**
Securitised liabilities	0.0	57,318.4	129,620.9	581,727.4	504,160.5	**1,272,827.2**
Subordinated liabilities	0.0	2,882.8	415.3	26,166.7	39,071.5	**68,536.4**
Other liabilities	9,597.8	166.4	8,045.0	8,253.6	3,627.9	**29,690.7**
Total[1]	**236,667.2**	**325,535.6**	**992,660.2**	**1,139,854.3**	**1,012,801.8**	**3,734,519.2**

[1] The table shows the main asset and liability items; accordingly, this total is not equal to the total assets.

The residual maturity break-down as of 31 December 2018 was as follows:

Assets by residual maturity as of 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 balances with central banks	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 recognised at fair value through other comprehensive income	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 of 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 shows the main asset and liability items; accordingly, this total is not equal to the total assets.

59. Categories of financial instruments

Refer to Note 13 for a definition of the categories of financial instruments.

The following table shows the carrying amounts and fair values of the categories of financial instruments and financial liabilities defined by Kommunalkredit with a reconciliation table for the individual items in the statement of financial position:

Categories: 31/12/2019 in EUR 1,000	Cash and balances with central banks	Amortised cost	Reported at fair value through equity	Fair value through profit or loss	Fair value through profit or loss required	Derivatives designated as hedging instruments	Carrying amount	Fair value
Assets								
Cash and balances with central banks	462,613.8	0.0	0.0	0.0	0.0	0.0	462,613.8	462,613.8
Loans and advances to banks	0.0	282,138.9	0.0	0.0	0.0	0.0	282,138.9	282,085.0
Loans and advances to customers	0.0	1,790,149.7	0.0	0.0	0.0	0.0	1,790,149.7	1,872,697.8
Assets recognised at fair value through other comprehensive income	0.0	0.0	1,280,575.1	0.0	0.0	0.0	1,280,575.1	1,280,575.1
Assets at fair value through profit or loss	0.0	0.0	0.0	215,874.2	38,783.1	0.0	254,657.3	254,657.3
Derivatives	0.0	0.0	0.0	12,941.4	0.0	172,013.2	184,954.6	184,954.6
Liabilities								
Amounts owed to banks	0.0	487,210.5	0.0	0.0	0.0	0.0	487,210.5	487,259.2
Amounts owed to customers	0.0	1,876,254.5	0.0	0.0	0.0	0.0	1,876,254.5	1,852,840.6
Derivatives	0.0	0.0	0.0	47,896.8	0.0	171,640.5	219,537.3	219,537.3
Securitised liabilities	0.0	1,272,827.2	0.0	0.0	0.0	0.0	1,272,827.2	1,259,477.3
Subordinated liabilities	0.0	68,536.4	0.0	0.0	0.0	0.0	68,536.4	62,731.1

The values for the previous year are as follows:

Categories: 31/12/2018 in EUR 1,000	Cash and balances with central banks	Amortised cost	Reported at fair value through equity	Fair value through profit or loss	Fair value through profit or loss required	Derivatives designated as hedging instruments	Carrying amount	Fair value
Assets								
Cash and balances with central banks	314,408.9	0.0	0.0	0.0	0.0	0.0	314,408.9	314,408.9
Loans and advances to banks	0.0	218,561.5	0.0	0.0	0.0	0.0	218,561.5	214,079.5
Loans and advances to customers	0.0	1,969,637.9	0.0	0.0	0.0	0.0	1,969,637.9	2,043,437.4
Assets recognised at fair value through other comprehensive income	0.0	0.0	1,178,939.7	0.0	0.0	0.0	1,178,939.7	1,178,939.7
Assets at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Derivatives	0.0	0.0	0.0	22,650.8	0.0	198,235.1	220,886.0	220,886.0
Liabilities								
Amounts owed to banks	0.0	495,569.2	0.0	0.0	0.0	0.0	495,569.2	495,439.4
Amounts owed to customers	0.0	1,456,472.9	0.0	0.0	0.0	0.0	1,456,472.9	1,419,876.0
Derivatives	0.0	0.0	0.0	39,071.4	0.0	161,905.0	200,976.4	200,976.4
Securitised liabilities	0.0	1,396,053.7	0.0	0.0	0.0	0.0	1,396,053.7	1,369,228.0
Subordinated liabilities	0.0	69,074.4	0.0	0	0.0	0.0	69,074.4	59,511.3

The fair values of securities and loans are determined in accordance with the methodology and hierarchy described in Note 11 in conjunction with Note 68. To determine the fair values of other financial instruments not measured at fair value, term-related, creditworthiness-related and instrument-specific measurement parameters are applied in conjunction with market-standard measurement methods.

The maximum credit risk for each category of financial instruments matches the carrying amounts shown in the table. The maximum credit risk for financial guarantees and irrevocable credit commitment corresponds to the nominal values of TEUR 2,456.5 (31/12/2018: TEUR 5,129.5) and TEUR 406,469.9 (31/12/2018: TEUR 215,407.4) respectively.

60. Carrying amounts by measurement category

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

in EUR 1,000	31/12/2019
Assets	
Amortised cost	2.534.902,5
At fair value through other comprehensive income	1.280.575,1
Fair value through profit or loss	400.828,8
At fair value through profit or loss: mandatory	38,783.1
Liabilities	
Amortised cost	3.704.828,5
Fair value through profit or loss	219.537,3

According to IFRS 9 measurement categories, the carrying amounts of Kommunalkredit's financial assets and liabilities from the previous year are as follows:

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

61. Subordinated Assets

As of 31 December 2019, Kommunalkredit held subordinated assets of TEUR 82,648.3 (31/12/2018: TEUR 10,646.8), TEUR 50,024.8 of which (31/12/2018: TEUR 10,646.8) is reported under "Assets recognised at fair value through other comprehensive income" and TEUR 32,623.5 (31/12/2018: TEUR 0.0) of which is recognised in "Assets recognised at fair value through other comprehensive income".

62. Assets assigned as collateral

62.1. Collateralised derivatives

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

Pursuant to EU Regulation 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 of 31 December 2019. The positive and negative present values, calculated by counterparty, are offset against one another and the resulting aggregate net present value of the portfolio is put up or called by the respective counterparty taking collateral parameters into account (threshold, minimum transfer amount).

Kommunalkredit uses the services of LCH (London Clearing House) and Eurex as the central counterparties via 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.

62.2. Collateralised funding

- Kommunalkredit has assigned securities 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 of 31 December 2019 which the collateral taker has the right to realise only in the event of the debtor's default.

62.3. Collateral for KA Finanz AG's liability 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 in the statement of financial position.

The following table shows the carrying amounts 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, they are shown in gross amounts in the statement of financial position.

Carrying amounts 31/12/2019 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	**-32,267.4**		**50,507.9**	**18,240.5**
Derivatives (positive current value)	179,286.2			
Derivatives (negative current value)	-211,553.6			
Loans and advances to banks			83,240.0	
Loans and advances to customers			106,003.5	
Amounts owed to banks			-79,882.9	
Amounts owed to customers			-58,852.8	
European Investment Bank		**-57,299.3**	**72,037.4**	**14,738.1**
Amounts owed to banks		-57,299.3		
Loans and advances to banks			32,536.6	
Loans and advances to customers			39,500.9	
Covered bond issues		**-1.134.462,2**	**1,241,314.6**	**106,852.3**
Securitised liabilities		-1.027.392,4		
Collateral for KA Finanz AG's liability arising from the demerger*		-107,069.9		
Loans and advances to customers			707,340.8	
Assets recognised at fair value through other comprehensive income			473,601.2	
Derivatives (positive current value)			62,299.0	
Derivatives (negative current value)			-1,926.5	
ECB tender		**-309,889.0**	**362,552.6**	**52,663.6**
Amounts owed to banks		-309,889.0		
Loans and advances to banks			6,607.2	
Loans and advances to customers			350,907.4	
Assets recognised at fair value through other comprehensive income			5,037.9	
Other		**-15,176.0**	**15,696.4**	**520.4**
Amounts owed to banks		-15,176.0		
Securitised liabilities		0.0		
Loans and advances to customers			15,014.0	
Assets recognised at fair value through other comprehensive income			682.4	
Total	**-32,267.4**	**-1.516.826,5**	**1,742,108.8**	**193,014.9**

* Not recognised in the statement of financial position.

The comparative figures as of 31 December 2018 are as follows:

Carrying amounts 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 current value)	206,047.1			
Derivatives (negative current 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 recognised at fair value through other comprehensive income			442,579.3	
Derivatives (positive current value)			75,250.9	
Derivatives (negative current 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 recognised at fair value through other comprehensive income			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 recognised at fair value through other comprehensive income			773.7	
Total	**20,114.1**	**-1.530.007,5**	**1,725,850.4**	**215,956.9**

* Not recognised in the statement of financial position.

63. Contingent liabilities

Contingent liabilities comprise sureties and guarantees from the lending business in a nominal amount of TEUR 3,806.5 (31/12/2018: TEUR 5,129.5). The residual maturities are as follows:

Residual maturity in EUR 1,000	31/12/2019	31/12/2018
Up to 1 year	0.0	0.0
1 to 5 years	2,046.0	3,369.0
More than 5 years	1,760.4	1,760.4
Total	**3,806.5**	**5,129.5**

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

64. Other off-balance-sheet liabilities

As of 31 December 2019, there were promissory commitments and unused lines of TEUR 407,737.1 (31/12/2018: TEUR 215,407.4). The residual maturities are as follows:

Residual maturity in EUR 1,000	31/12/2019	31/12/2018
Up to 1 year	208,653.4	68,243.3
1 to 5 years	180,204.1	130,566.3
More than 5 years	18,879.5	16,597.7
Total	**407,737.1**	**215,407.4**

Moreover, Kommunalkredit holds in trust and manages in its own name financial instruments with a value of TEUR 314,066.4 (31/12/2018: TEUR 432,671.2) at third parties' risk and cost.

65. 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:

31/12/2019 in EUR 1,000	Nominal amount as of 31/12/2019			Total nominal amount 2019	Positive fair value	Negative fair value
	Residual maturity					
	up to 1 year	1–5 years	more than 5 years			
Interest-related transactions	**173,294.4**	**928,354.6**	**1,722,453.3**	**2,824,102.4**	**173,701.5**	**-209,994.7**
OTC products						
Interest rate swaps – trading*	0.0	0.0	128,612.4	128,612.4	1,688.3	-38,354.2
Interest rate swaps – fair value hedge	148,294.4	848,354.6	1,224,308.9	2,220,958.0	172,013.2	-93,943.3
Interest rate swaps – portfolio hedge	25,000.0	80,000.0	369,532.0	474,532.0	0.0	-77,697.3
Currency-related transactions	**803,932.3**	**0.0**	**0.0**	**803,932.3**	**11,253.1**	**-9,542.6**
OTC products						
FX forward transactions	803,932.3	0.0	0.0	803,932.3	11,253.1	-9,542.6
Cross-currency swaps – trading*	0.0	0.0	0.0	0.0	0.0	0.0
Cross-currency swaps – fair value hedge	0.0	0.0	0.0	0.0	0.0	0.0
Total	**977,226.8**	**928,354.6**	**1,722,453.3**	**3,628,034.7**	**184,954.6**	**-219,537.3**

* This refers to interest rate and/or currency swaps concluded to hedge interest rate and foreign currency risks not accounted for as hedges under IFRS 9. The bank does not have a proprietary trading portfolio.

31/12/2018 in EUR 1,000	Nominal amount as of 31/12/2018			Total nominal amount 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 forward transactions	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 under IFRS 9. The bank does not have a proprietary trading portfolio.

Taking all positions into account, the negative fair value amounts to TEUR 34,582.7 (31/12/2018: positive fair value of TEUR 19,909.6), 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 offsetting 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 current values of these options embedded in loans and own issues amount to TEUR 27,316.7 (31/12/2018: TEUR 32,746.1).

Derivatives with positive fair values of TEUR 33,360.8 (31/12/2018: TEUR 47,511.3) will fall due within one year, TEUR 20,559.6 (31/12/2018: TEUR 31,496.4) in one to five years, and TEUR 131,034.2 (31/12/2018: TEUR 141,878.2) in more than five years. Derivatives with negative fair values of TEUR 28,788.8 (31/12/2018: TEUR 27,056.6) will fall due within one year, TEUR 27,430.6 (31/12/2018: TEUR 36,559.4) in one to five years, and TEUR 163,317.9 (31/12/2018: TEUR 137,360.4) in more than five years.

66. 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 carrying amounts of these underlying transactions are as follows:

Carrying amounts in EUR 1,000	31/12/2019	31/12/2018
Assets		
Loans and advances to banks – fair value hedges	174,043.6	134,784.4
Loans and advances to customers – fair value hedges	696,831.1	688,531.2
Loans and advances to customers – portfolio hedge	196,430.5	215,270.3
Assets at fair value through OCI – fair value hedges	66,487.1	98,273.4
Assets at fair value through OCI – portfolio hedge	535,663.5	570,137.8
Liabilities		
Amounts owed to customers – fair value hedges	259,564.8	248,431.6
Securitised liabilities – fair value hedges	1,194,180.1	1,292,180.9
Subordinated liabilities – fair value hedges	46,558.5	46,547.3

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

Hedge-related adjustments in EUR 1,000	31/12/2019	31/12/2018
Assets		
Loans and advances to banks – fair value hedges	6.921,6	1,739.9
Loans and advances to customers – fair value hedges	61.933,7	48,907.1
Loans and advances to customers – portfolio hedge	3.372,4	808.0
Assets at fair value through OCI – fair value hedges	1.670,5	-747.7
Assets at fair value through OCI – portfolio hedge	13,613.3	2,065.8
Liabilities		
Amounts owed to customers – fair value hedges	9.863,5	-2,727.3
Securitised liabilities – fair value hedges	135.507,7	158,514.6
Subordinated liabilities – fair value hedges	1,011.2	1,547.1

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

Hedging instruments 31/12/2019 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	*129,422.8*	*577,367.1*	*647,546.6*
Payer nominal	*18,871.6*	*270,987.5*	*576,762.3*
Interest rate swaps – portfolio hedge			
Receiver nominal	*0.0*	*0.0*	*0.0*
Payer nominal	*25,000.0*	*80,000.0*	*369,532.0*

Hedging instruments 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*

The following table shows the ineffectiveness of the hedging relationships recognised through profit or loss in the 2019 financial year and in the previous year for the designated fair value hedges:

in EUR 1,000	Ineffectiveness recognised in profit or loss in 2019	Ineffectiveness recognised in profit or loss in 2018	Recognition of ineffectiveness in P&L
Micro fair value hedge	1,136.5	-270.4	Net result of asset valuation and realised gains and losses
Portfolio fair value hedge	-712.5	129.8	Net result of asset valuation and realised gains and losses

The change in fair value to measure ineffectiveness in the reporting period is as follows:

Change in fair value in EUR 1,000	1/1-31/12/2019
Underlying transactions – fair value hedge	32.402,90
Underlying transactions – portfolio hedge	3.978,70
Interest rate swaps – fair value hedge	-31.266,40
Interest rate swaps – portfolio hedge	-4.691,20

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

In line with its business strategy, Kommunalkredit does not engage in trading activities. Therefore, as in the previous year, Kommunalkredit had no trading portfolio as of 31 December 2019. Assets denominated in foreign currencies in the amount of TEUR 241,258.0 (31/12/2018: TEUR 257,998.6) were shown in the statement of financial position. As of 31 December 2019, liabilities denominated in foreign currencies amounted to TEUR 649,847.7 (31/12/2018: TEUR 684,419.9). 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.

The return on assets at Group level, calculated as the profit for the year after tax divided by total assets according to IFRS as of the balance sheet date, stands at 0.69% (2018: 0.36%).

68. Disclosures relating to fair value measurement (fair value hierarchy)

In general, the methods used to measure fair value can be classified in three categories:
Level 1: There are quoted prices in an active market for identical financial instruments. The bid quotes for assets in this hierarchy level are obtained from Bloomberg or Reuters.
Level 2: The input factors for the valuation can be observed in the market. This category includes the following price determination methods:

- Price determination based on comparable securities
- Price determination through spreads derived from market data (benchmark spreads)

Level 3: The input factors cannot be observed in the market. This includes, in particular, prices based mainly on the estimates of experts and/or that contain non-observable data. The Level 3 financial instruments recognised at fair value refer exclusively to infrastructure financing. For information on the definition of the parameters relevant for valuation purposes, in particular credit risk premiums, see Note 11.

68.1. Financial instruments recognised at fair value

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

Carrying amounts for financial instruments recognised at fair value in EUR 1,000	31/12/2019		
	Level 1	Level 2	Level 3
Assets			
At fair value through other comprehensive income	26,154.8	791,149.7	463,270.6
Fair value through profit or loss	50,024.0	12,941.4	165,850.2
At fair value through profit or loss: mandatory	0.0	0.0	38,783.1
Liabilities			
Fair value through profit or loss	0.0	47,896.8	0.0
Derivatives designated as hedging instruments			
Derivatives designated as hedging instruments (from asset-side positions)	0.0	172,013.2	0.0
Derivatives designated as hedging instruments (from liability-side positions)	0.0	-171,640.5	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.

As of 31 December 2019, Kommunalkredit had Level 3 financial assets measured at fair value in the amount of TEUR 667,903.9. The Level 3 classification concerns infrastructure and energy financing and is based on the non-observability of the credit spreads required for the discounted cash flow method. The procedure for calculating the credit risk premiums is set out in detail in Note 11.

A change in the credit risk premiums by one basis point produces a current value effect for the portfolio of Level 3 assets measured at fair value of TEUR 284.4 as of 31 December 2019. The effect based on a change of 20 basis points is TEUR 5,716.1 (positive if premiums fall and negative if they rise).

The values compared to the previous year are as follows:

Carrying amounts for financial instruments recognised at fair value in EUR 1,000	31/12/2018		
	Level 1	Level 2	Level 3
Assets			
At fair value through other comprehensive income	20,418.6	786,027.9	372,493.3
Fair value through profit or loss	0.0	22,650.8	0.0
Liabilities			
Fair value through profit or loss	0.0	39,071.4	0.0
Derivatives designated as hedging instruments			
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 following table shows a reconciliation table of financial instruments recognised at fair value included in Level 3 of the valuation hierarchy:

Reconciliation of financial instruments measured at fair value in EUR 1,000	1/1–31/12/2019
as of 1/1/2019	372,493.3
Additions/disbursements	446,085.3
Sold/redeemed	-171,710.0
Total gains and losses	
- recognised in other comprehensive income	*10,561.1*
- recognised in profit or loss (net interest income)	*12,141.1*
- recognised in profit or loss (net result of asset valuation and realised gains and losses)	*-1,666.8*
as of 31/12/2019	**667,903.9**

The values compared to the previous year are as follows:

Reconciliation of financial instruments measured at fair value in EUR 1,000	1/1–31/12/2018
as of 01/01/2018	266,610.4
Additions/disbursements	290,533.3
Sold/redeemed	-184,528.6
Total gains and losses	
- recognised in other comprehensive income	*-225.4*
- recognised in profit or loss (net interest income)	*103.6*
as of 31/12/2018	**372,493.3**

68.2. Financial instruments not recognised at fair value

The breakdown of categories of 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	31/12/2019		
	Level 1	Level 2	Level 3
Assets at amortised cost	398,947.8	1,359,280.7	396,554.2
Liabilities at amortised cost	0.0	3,662,308.3	0.0

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

The values compared to the previous year are 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
Assets at amortised cost	416,166.4	1,450,692.8	390,657.7
Liabilities at amortised cost	0.0	3,344,054.7	0.0

69. Risk management

69.1. 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. The risk assessment involves identifying the main types of risk for the bank 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 using 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 context 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 defined risk appetite in conjunction with the risk-bearing capacity (ICAAP – Internal Capital Adequacy Assessment Process and/or ILAAP – Internal Liquidity Adequacy Assessment Process) and the willingness to assume risk 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 foreign exchange 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 are exclusively risk-free through-trading activities in connection with 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.

69.2. Organisational structure of risk management and risk monitoring

The overall responsibility for ICAAP lies with the Executive Board in line with the schedule of responsibilities; it derives the risk policy principles and the risk strategy from Kommunalkredit's business policy strategy. The Executive Board also decides on the risk management procedures to be applied and regularly informs the Supervisory Board and/or its committees (in particular the Risk Committee, the Audit Committee and the Credit Committee) on Kommunalkredit's risk position.

Kommunalkredit has established an organisational structure for risk management which clearly defines and sets out the tasks, competences and responsibilities in the risk management process. Risk-taking organisational units (front office) are therefore clearly separated from organisational units in charge of monitoring and communicating risks (back office) at all levels up to the Executive Board. The Chief Risk Officer (CRO) is responsible for the risk management function, which is independent of the front office, as a member of the Executive Board. The CRO receives technical and operational support from a chief representative, the Risk Controlling and Credit Risk Management departments, and the Operational Risk Officer, in particular. The chief representative and the Operational Risk Officer have direct access to Kommunalkredit's Executive Board. This means that the organisational structure also meets the regulatory requirement of separation between front-office and back-office functions.

Pursuant to § 39d of the Austrian Banking Act, a Risk Committee has been set up within the Supervisory Board. The committee's mandate includes, in particular, advising the management on the current and future willingness to take risks 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 bank's risk position in the form of 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 bank's overall risk position 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 setting limits (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 Markets 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 to the ALCO, a detailed daily liquidity monitoring process is in place.

The weekly Credit Committee (CC) meeting is the central element of the credit approval process and the continuous portfolio and single-name review process. In organisational terms, Credit Risk Management is 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 the overall bank management process is to optimise the use of capital resources in terms of risk and return within the limits 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, the latest versions of which can be downloaded via the Intranet at any time by all staff members concerned.

The following types of risk were identified up to the balance sheet date and are monitored on an ongoing basis 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
  - Foreign currency risk
  - Commodity risk
  - Credit spread risk
  - Basis spread risk
  - Option 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
  - Information and communication technology (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.

69.3. 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 the deliberate management of risks in day-to-day business, observance of the agreed risk appetite at all times 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 assuming business activities in new fields of business or selling new products, the risks involved and the suitability of the existing methods, instruments and processes for the management of such risks are analysed. A product approval process has been implemented at Kommunalkredit for this purpose.
- 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's staff and the systems in place must correspond to the complexity of the business model and must 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, in particular. A capital buffer is kept available for risks that have been identified but are not (yet) sufficiently measurable.
- The risk measurement results have to be subjected to regular stress testing and taken into account when 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 Kommunalkredit's risk position being produced at least once a month and, if necessary, supplemented by ad-hoc risk reports.
- Core bank functions and important controlling functions are only outsourced under the condition that an adequate level of in-depth knowledge 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.

69.4. Securing minimum capital adequacy

ICAAP and ILAAP 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, capital and liquidity resources that are commensurate with the risk profile of the business model, and the use and continuous further development of suitable risk management systems.

The economic capital required for the main types of risk (in particular: liquidity risk, credit risk, market risk and syndication risk) is calculated using 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. The economic perspective serves to secure the adequate long-term capitalisation and economic substance of the bank.

Kommunalkredit uses the method of risk-bearing capacity analysis for the quantitative assessment of its capital adequacy; this involves comparing the economic risks 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 that the company is liquidated, all lenders can have their claims satisfied with a defined level of 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 of 31 December 2019, the economic risks correspond to 42.1% (31/12/2018: 34.1%) of the aggregate risk cover, the **risk buffer being 57.9%** (31/12/2018: 65.9%).
- **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.
  - All risks impacting on profit and loss must be covered by the budgeted profit for the year, realisable reserves and the "free tier 1" capital. Free tier 1 is the tier 1 portion that extends over and above the capital required. The aggregate risk cover is broken down into primary and secondary coverage potential, always considering the options for realisation and external effects; corresponding early warning levels have been introduced. A confidence level of 95% is used in determining the economic risk.
  - Risk status: As of 31 December 2019, the economic risks correspond to 59.0% (31/12/2018: 52.4%) of the aggregate risk cover, the **risk buffer being 41.0%** (31/12/2018: 47.6%).

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

Additionally, stress tests are performed on a regular basis to test the robustness of the business model and to ensure capital adequacy. This involves defining two different economic scenarios (general recession scenario and portfolio-specific stress) and quantifying their impact on the bank's risk-bearing capacity. 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 until regulatory or internal minimum requirements can no longer be met.

69.5. 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. This allows assets and off-balance sheet transactions to 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 effectiveness and discriminatory power of the rating procedures and their ability to forecast defaults are checked regularly and adjusted if necessary.

69.5.1. 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 as part 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 of 31 December 2019 amounted to 10.8% (31/12/2018: 7.6%) 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 of 31 December 2019 amounted to 23.8% (31/12/2018: 18.7%) 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 ad-hoc analyses and regular stress tests, and adequate risk buffers are maintained.

69.5.2. Breakdown by rating

The breakdown of credit exposure by rating shows that the exposure is concentrated in the top rating categories: as of 31 December 2019, 35.6% (31/12/2018: 41.0%) of the exposure was rated “AAA”/“AA”; 76.7% (31/12/2018: 81.8%) 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 credit exposure* by rating 31/12/2019 in EUR m	Exposure	Proportion	of which securities	of which guarantees	of which loans
AAA	69.6	1.9%	55.9	0.0	13.6
AA	1,228.5	33.7%	200.2	0.0	987.1
A	502.4	13.8%	104.8	0.0	360.6
BBB	992.6	27.2%	172.2	3.8	766.4
BB	711.7	19.5%	0.0	0.0	711.6
B	139.0	3.8%	0.0	0.0	139.0
CCC	0.0	0.0%	0.0	0.0	0.0
D	0.0	0.0%	0.0	0.0	0.0
not rated	0.0	0.0%	0.0	0.0	0.0
Total	**3,643.5**	**100.0%**	**533.2**	**3.8**	**2,978.3**

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

Breakdown of credit exposure* by rating 31/12/2018 in EUR m	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
not 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.

69.5.3. Concentration risk

Risk concentrations are taken into account in the process of loan origination, monitored in the course of the monthly credit risk reports submitted to the RMC, and shown in reports submitted 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 primarily facilitate 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 0.5bn (31/12/2018: EUR 0.6bn) to the Austrian provinces, accounting for 42.1% (31/12/2018: 42.2%) of the total exposure. It includes broadly diversified mortgage loans in a total amount of EUR 151.9m (31/12/2018: EUR 163.2m) that are guaranteed by the Austrian provinces concerned.

69.5.4. 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 RMC and at least once a year to the Credit Committee of the Supervisory Board. For each country, information on the country rating, limit utilisation and exposure by product type is monitored.

Geographically, most of the exposure is accounted for by EU Member States (EU, incl. Austria, 90.6%; 31/12/2018: 94.4%).

Breakdown of credit exposure by region 31/12/2019 in EUR m	Exposure	Proportion	of which securities	of which guarantees	of which loans
Austria	1,500.5	41.2%	150.9	1.3	1,338.6
EU-28 (European Union excl. Austria)	1,801.8	49.5%	291.2	2.5	1,391.7
of which EU-19 (euro area excl. Austria)	*1,334.7*	*36.6%*	*239.1*	*2.5*	*1,046.0*
Non-EU Europe	76.8	2.1%	9.0	0.0	65.7
Other	264.4	7.3%	82.0	0.0	182.2
Total	**3.643.5**	**100.0%**	**533.2**	**3.8**	**2,978.3**

Breakdown of credit exposure by region 31/12/2018 in EUR m	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**

Exposure to sovereign states and local authorities as of 31 December 2019

Direct exposures to sovereign states and local authorities as well as exposures guaranteed by sovereign states in the countries belonging to the euro area (EU-19) are broken down as follows:

Direct exposures 31/12/2019 in EUR m	Exposure	of which sovereign states	of which local authorities	of which government-guaranteed
Austria	1,073.8	0.0	1,052.1	21.7
Germany	18.5	0.0	4.9	13.6
Ireland	25.4	25.4	0.0	0.0
Slovakia	16.5	16.5	0.0	0.0
Slovenia	25.7	25.7	0.0	0.0
Italy	0.0	0.0	0.0	0.0
Lithuania	21.5	21.5	0.0	0.0
Spain	23.1	15.8	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 figures for 2018 are as follows:

Direct exposures 31/12/2018 in EUR m	Exposure	of which sovereign states	of which local 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

Exposure to Austrian provinces as of 31 December 2019

Of Kommunalkredit's total exposure to Austria in a volume of EUR 1,500.5m (31/12/2018: EUR 1,708.6m), the following exposures are to Austrian provinces and/or provincial entities guaranteed by provincial governments:

Total exposure Austria 31/12/2019 in EUR m	Direct exposure	Exposure guaranteed by provincial government	Total exposure
Province of Upper Austria	0.0	74.0	74.0
Province of Lower Austria	0.8	82.0	82.8
Province of Carinthia	11.4	74.6	86.0
Province of Styria	0.0	11.1	11.1
Province of Burgenland	0.0	95.5	95.5
Municipality of Vienna	9.9	0.0	9.9
Total	**22.1**	**337.2**	**359.3**

The comparative figures for 2018 are as follows:

Total exposure Austria 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
Municipality of Vienna	13.2	0.0	13.2
Total	**26.8**	**380.0**	**406.8**

In addition to the exposures listed in the table above, Kommunalkredit holds housing loans of Austrian provinces secured by mortgages in a total volume of EUR 151.9m (31/12/2018: EUR 163.2m) which are guaranteed by the provinces concerned (Upper Austria: EUR 68.4m [31/12/2018: EUR 72.4m]; Burgenland: EUR 83.5m [31/12/2018: EUR 90.8m]).

Portfolio quality
Given the good quality of 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 of 31 December 2019 (31/12/2018: 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.

69.5.5. 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 ad hoc basis. Impairments to be recognised for defaulting loans are determined by Risk Management, subject to approval by the Executive Board (see Note 8).

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 of the reporting date of 31 December 2019, the exposure in risk class 1 (intensive management/performing) amounted to EUR 6.1m (31/12/2018: EUR 6.0m). None of Kommunalkredit's exposures are classified as belonging to risk classes 2 or 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.

69.5.6. Investment risk

Given the nature of the participations held, the investment risk is of minor importance. As of 31 December 2019, the carrying amount of investments in associates (at equity) was EUR 0.0m (31/12/2018: EUR 0.0m). The carrying amount of investments in assets at fair value through other comprehensive income amounted to EUR 1.6m (31/12/2018: EUR 2.0m). Under IAS 39, these were recognised in the previous year under assets available for sale.

69.5.7. Counterparty default risk from derivatives, repurchase transactions and securities business

Legally binding netting arrangements for derivatives and repurchase 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 set out in 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 standard 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 current value), considering CSAs and netting arrangements, plus an "add-on" for potential current value changes during the "residual period of risk" between the default of the counterparty and the closing out/replacement of the derivative transaction.

Repurchase transactions are cleared in the form of genuine repurchases, mainly via platforms with daily margining. If a counterparty default risk arises in repurchase or securities lending transactions for Kommunalkredit from the difference between the liability/receivable and the current 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. Given the settlement and clearing principles described above, the counterparty default risk from derivatives, repurchase transactions and securities business 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.

69.6. Liquidity risk management

In addition to the statutory provisions under the Austrian Banking Act, liquidity risk management is based, in particular, on the recommendations/standards published by the Basel Committee on Banking Supervision (BCBS) and on the guidelines and standards published by the European Banking Authority (EBA). Based on the ILAAP 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) generally arises if follow-up financing for asset portfolios cannot be secured according to the maturity schedules. The funding risk is determined by how diversified the funding sources are 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.

As far as the aspect of time is concerned, 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 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 for the base, bad and stress cases in order to ensure the bank's survival 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 existing business, cash outflows from new transactions, cash inflows from syndication agreements, retail deposits repayable on demand, repurchase 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, followed by monthly management thereafter.

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:

31/12/2019 in EUR m	Expected liquidity gap	Available liquidity	Liquidity position
Up to one month	442.8	254.4	697.2
More than one month up to three months	63.4	4.8	68.2
More than three months up to one year	126.8	276.7	403.4
Total	**633.0**	**535.8**	**1,168.8**

The comparative figures for 2018 are as follows:

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 months up to one year	-132.1	10.4	-121.7
Total	**280.3**	**272.4**	**552.7**

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 at the monthly RMC meetings.

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, responsibility for liquidity management is assumed by the emergency unit which then decides on the specific measures to be taken.

ILAAP
Introduced alongside ICAAP as part 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 of 31 December 2019. The figures for interest swaps, cross-currency swaps and currency swaps are shown in gross terms, meaning that only the cash outflows for the derivative in question are shown:

Cash flows in EUR million as of 31/12/2019	Liabilities at amortised cost	Derivatives designated as hedging instruments	Trading*
Up to one month	329.5	4.0	44.2
More than one month up to three months	172.0	2.9	160.6
More than three months up to one year	1,048.8	16.5	189.4
More than one year up to five years	1,437.0	59.4	54.2
More than five years	1,237.2	90.2	48.2
Total	**4,224.5**	**173.1**	**496.7**

* 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 2019 came to EUR 2.9bn (31/12/2018: EUR 3.1bn).

The comparative figures for 2018 are as follows:

Cash flows in EUR million as of 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.

Besides principal repayments, 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. This means that demand deposits and cash collateral received from collateral margining for derivatives are shown as repayable on demand. If the date of repayment is at the lender's discretion, the amount is allocated to the maturity range with the earliest possible redemption.

If the date of repayment is at the discretion of Kommunalkredit Austria AG, a conservative view is applied. Payments that have been pledged but not yet called, as well as (any) guarantee lines granted, are also shown with the earliest possible call date.

69.7. Market risk management

69.7.1. Interest rate risk

When it comes to the measurement, management and limitation of interest rate risks from positions not held in the trading book, Kommunalkredit generally 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 enables 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, a statistical shift scenario based on absolute interest rate movements expressed in basis points is applied.

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 using 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 RMC 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 is 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 of 31 December 2019 in EUR million in the event of a parallel rise of short-term interest by +100bp:

EUR	USD	CHF	JPY	Other	Total
+1,8	0.0	-1.0	0.0	0.0	+0,8

- NPV risk of interest rate changes in Kommunalkredit's banking book as of 31 December 2019 in EUR million in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total	Total VAR
-0.2	0.0	-0.8	-0.1	-0.1	-1.2	-11.4

- NPV risk of interest rate changes of the IFRS interest rate risk position of Kommunalkredit impacting on P&L in EUR million as of 31 December 2019 in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total
+2,9	0.0	-0.7	-0.1	+0,1	+2,2

- NPV risk of interest rate changes of the IFRS interest rate risk position of Kommunalkredit impacting on OCI in EUR million as of 31 December 2019 in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total
-5.0	0.0	0.0	0.0	-0.1	-5.1

The comparative figures for 2018 are as follows:

- Annual net interest income effect from Kommunalkredit's repricing risk as of 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 of 31 December 2018 in EUR million in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total	Total VAR
+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 of Kommunalkredit impacting on P&L in EUR million as of 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 of Kommunalkredit impacting on OCI in EUR million as of 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

69.7.2. Currency exchange risk

The currency exchange 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 foreign currency derivatives, in a given currency.

To measure the risk, a VaR of the open foreign currency position according to the Austrian Commercial Code (UGB) 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 the Austrian Commercial Code (UGB) is closed daily. The FX VaR as of 31 December 2019 was TEUR 0.3m (as of 31/12/2018: EUR 2.8m).

69.7.3. 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 2.0m as of 31 December 2019.

The credit spread risk of the IFRS OCI position in the event of spreads widening by 20 basis points (CS20) is EUR 11.2m as of 31 December 2019.

The comparative figures for 2018 are as follows:

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 of 31 December 2018.

The credit spread risk of the IFRS OCI position in the event of spreads widening by 20 basis points (CS20) is EUR 11.8m as of 31 December 2018.

69.7.4. 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 of 31 December 2019, the basis spread risk in the event of basis spreads widening by 1 basis point was EUR +0.1m (as of 31/12/2018: EUR +0.1m).

69.7.5. 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 -1.7m as of 31 December 2019 (as of 31/12/2018: EUR -1.0m based on a -/+30bp 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 of 31 December 2019, there were no P&L-relevant option price risks.

69.8. 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 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 with the involvement of 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 made in the operational default database serve as input and provide feedback for the reassessment of risks. The Executive Board and the senior management are informed about operational risks at the monthly RMC meetings.

Kommunalkredit uses the standardised approach to quantify its own funds requirements. The own funds held on this basis significantly exceed the actual losses suffered in the past.

69.9. 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 recovery plans as well as the implementation of measures designed to minimise interruptions of critical business processes. This includes providing alternative workplaces in the event of Kommunalkredit's office premises not being available.

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 ICT 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 2019.70. Legal risks

70. Legal risks

Immediately prior to the spin-off of Kommunalkredit to form a new company on 26 September 2015 and the merger of the remaining part of the former Kommunalkredit Austria AG (former KA) with KA Finanz AG (as the absorbing company), compensation was paid to the holders of participation capital at Kommunalkredit which bore interest at a rate of 8% of the nominal value p.a. assuming sufficient coverage by distributable annual profit. A former holder of participation capital claims that this constitutes the unlawful termination of participation capital and is asserting a claim for damages of EUR 25,228,640.00 plus interest against Kommunalkredit and KA Finanz AG, as jointly and severally liable parties, in a legal dispute pending in the first instance or, in the alternative, the granting of commercially equivalent rights in Kommunalkredit since 26 September 2015 based on a nominal value of EUR 22,260,952.90, or a ruling establishing the continuation of the participation capital. The outcome of these proceedings is not expected to have any major negative impact on Kommunalkredit's financial position or income.

Furthermore, KA Finanz AG has entered into an irrevocable obligation to compensate for any entitlements and losses that could result from the assertion of claims by former holders of participation capital.

71. Other obligations

Liability arising from the demerger
Pursuant to § 15 (1) of the Austrian Demerger Act (SpaltG), Kommunalkredit is liable jointly and severally with KA Finanz AG, vis-à-vis successful claimants, for liabilities originated 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. 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. In order to assert claims against Kommunalkredit based on this liability, separate claims would have to be asserted against Kommunalkredit.

Other obligations
Pursuant to § 2 (3) of the Austrian Deposit Guarantee and Depositor Indemnification Act, Kommunalkredit is obliged to undertake proportional safeguarding of deposits within the framework of the deposit guarantee regime of AUSTRIA Ges.m.b.H., Vienna.

72. 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 30 March 2020. Both the Supervisory Board (31 March 2020) and the Annual Shareholders' Meeting (31 March 2020) can make amendments to the Separate Financial Statements, which in turn can have an impact on these Consolidated Financial Statements.

73. Employee disclosures

From 1 January to 31 December 2019, the Kommunalkredit Group had, on average, 251 employees (1/1-31/12/2018: 268 employees) including the Executive Board; 162 of them (1/1-31/12/2018: 181) were working in banking operations and 89 (1/1-31/12/2018: 87) were working for KPC. Part-time employees are weighted according to the extent of employment.

As of 31 December 2019, the Kommunalkredit Group had 251 employees (31/12/2018: 253 employees) including the Executive Board, 161 (31/12/2018: 165) of them working in banking operations and 90 (31/12/2018: 88) working for KPC.

74. Related party disclosures

Transactions with affiliated companies and people are generally executed under the same conditions as transactions with independent business partners.

Ownership structure/Transactions with owners

Name of the company	Relationship with Kommunalkredit	Registered office	Shares held
Gesona Beteiligungsverwaltung GmbH	Direct parent	Wien, Österreich FN 428969m	99.80% in Kommunalkredit
Satere Beteiligungsverwaltungs GmbH	Controlling parent	Vienna, Austria Comp.Reg.no 428981f	100% in Gesona

Satere Beteiligungsverwaltungs GmbH (Satere) is owned by Interritus Limited and Trinity Investments Designated Activity Company, which hold 55% and 45%, respectively; the two companies exercise joint control over Satere through contractual agreements. Satere thus qualifies as a joint venture according to IFRS 11 and is classified as the controlling parent company of Kommunalkredit.

Kommunalkredit assumes the fiduciary administration of loans for a related party of Trinity under a framework agreement. As of 31 December 2019, positions of TEUR 314,066.4 (31/12/2018: TEUR 432,671.2) are held in trust on the basis of a trust agreement; as Kommunalkredit has no rights or obligations 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 952.3 (1/1-31/12/2018: TEUR 1,171.9) was generated in 2019, with open balances in the amount of TEUR 924.6 (31/12/2018: TEUR 935.3) reported under “Other assets” as of 31 December 2019.

Tax group

Effective as of 2016, a tax group pursuant to § 9 of the Austrian Corporate Income Tax Act was formed, with Satere as the group parent and Gesona, Kommunalkredit, Kommunalkredit Public Consulting GmbH (KPC) and TrendMind IT Dienstleistung GmbH (TrendMind) as group members as of 31 December 2019.

Relationships with associates

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

- Loans receivable of TEUR 32,886.2 (31/12/2018: TEUR 34,855.2);
- Contingent liabilities in the form of guarantees in the unchanged amount of TEUR 1,350.0.

Transactions with key management personnel

Key management personnel are people with direct or indirect authority and responsibility for the planning, management and supervision of activities at Kommunalkredit. Kommunalkredit considers the members of the Executive Board and the Supervisory Boards to be 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	1/1–31/12/2019	1/1–31/12/2018
Active Executive Board members	1,434.2	1,961.6
Active Supervisory Board members	119.2	116.1
Total	**1,553.3**	**2,077.7**

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 1,575.0 (2018: TEUR 1,032.3) 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 2.6 (1/1-31/12/2018: TEUR 172.7).

As of 31 December 2019, just like in the previous year, there were no outstanding loans/advances to members of the Executive Board or to members of the Supervisory Board, and there were no liabilities with Kommunalkredit for them either.

There is a company that holds a capital interest of 15% in Fidelio KA Beteiligung GmbH; this company is within the range of influence of an Executive Board member of Kommunalkredit and a close relative. 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.

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 1,000	1/1–31/12/2019	1/1–31/12/2018
Executive Board members and senior employees	711.5	668.5
Other employees	1,318.7	693.7
Total	**2,030.2**	**1,362.2**
of which recognised in equity (change in provisions due to actuarial gains/losses)	*501.9*	*-790.7*
of which recognised in general administrative expenses	*1,528.3*	*2,152.9*

75. 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".

76. Disclosures relating to the Boards of the bank

Executive Board

Karl-Bernd Fislage
Chief Executive Officer

Jochen Lucht
Member of the Executive Board

Jörn Engelmann
Member of the Executive Board
Until 31 January 2019

Supervisory Board

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

Christopher Guth
Deputy Chairman; delegated by Attestor Capital

Friedrich Andreae
Delegated by Attestor Capital; Managing Director Gesona Beteiligungsverwaltung GmbH and Satere Beteiligungsverwaltungs GmbH

Jürgen Meisch
Managing Director of Achalm Capital GmbH

Martin Rey
Managing Director Maroban GmbH

Alois Steinbichler

Patrick Höller
Nominated by the Works Council

Renate Schneider
Nominated by the Works Council

Vienna, 30 March 2020

The Executive Board of
Kommunalkredit Austria AG

Bernd Fislage
Chief Executive Officer

Jochen Lucht
Member of the Executive Board

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, 2019, 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, 2019, 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 (Loans and advances to customers)

- 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, 2019, Kommunalkredit Group set up impairment allowances in the amount of EUR 4,4 million for a portfolio (loans and advances to customers accounted for at amortised cost as well as loans at fair value through other comprehensive income) accounted for at amortised cost of EUR 2.4 billion.

Kommunalkredit Group takes statistically determined empirical values and parameters into account when determining the fair value of the loans. Due to a lack of data histories, collected statistical parameters such as PDs and LGDs are used by an international rating agency:

- 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.

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 the rating process;
- reviewed the validation processes and the results of backtesting and model validations for credit risk models, which assesses the appropriateness of the purchased parameters, inter alia on the basis of detailed monitoring reports of the international rating agency
- 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;
- 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 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 28 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 loan portfolio (loans and advances to customers) presented in the consolidated financial statements as of December 31, 2019, EUR 1.4 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 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 11, 27 and 29 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.

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 6, 2018. We were engaged by the supervisory board on April 13, 2018. 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 30, 2020

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.

We draw attention to the fact that the English translation of this auditor's report according to Section 274 of the Austrian Commercial Code (UGB) is presented for the convenience of the reader only and that the German wording is the only legally binding version.

Statement by the Legal Representatives

KOMMUNALKREDIT GROUP

Consolidated Financial Statements 2019

We hereby **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 material risks and uncertainties to which the Group is exposed.

Vienna, 30 March 2020

The Executive Board of
Kommunalkredit Austria AG

Bernd Fislage
CEO

Jochen Lucht
CFO, CRO, COO

MANAGEMENT REPORT

KOMMUNALKREDIT AUSTRIA AG

Economic environment

UNCERTAIN GLOBAL OUTLOOK.

After the global economy reached its peak in 2018 with GDP growth of 3.5%, 2019 presented a mixed picture. As a result of the coronavirus pandemic, global and European economic output is expected to fall significantly in 2020.

Impact of the coronavirus pandemic on the economic environment

The outbreak of the novel coronavirus in late 2019/early 2020 in China and its subsequent spread throughout Europe and the rest of the world in March 2020 means that all of the most recent forecasts regarding economic developments and trends have been jettisoned. In order to slow the further spread of the virus, extensive border controls were imposed across the globe within the space of only a few days, resulting in unprecedented restrictions on citizens' freedom of movement, public life and, as a result, economic life as well.

In addition to these comprehensive measures, which are essential from a public health perspective, rapid and far-reaching monetary and fiscal policy measures have also been defined, particularly in Europe and the USA, to cushion the blow to the real economy. These include both rescue packages running into the billions that were put together at short notice to support the economy as well as various monetary policy and regulatory relief measures passed by central banks and supervisory authorities. Unlike the US central bank (Fed), which slashed its key rates drastically to within a range of 0.00% to 0.25% in mid-March 2020, the ECB opted not to cut rates any further for the time being. Additional asset purchases of EUR 120 billion in the period leading up to the end of 2020 were initially announced as part of a package of measures; a short time later, this amount was increased by a further EUR 750 billion. Measures were also taken to make the conditions for longer-term bank refinancing operations (TLTRO III) more attractive and to offer additional short-term refinancing operations (LTROs) for the transition period leading up until the next TLTRO III tender to ultimately ensure favourable refinancing and sufficient liquidity for banks. Banks were also granted relief regarding the utilisation of existing capital and liquidity buffers in order to maintain the credit supply to the real economy. This also involved temporarily loosening the regulatory requirements regarding the capital ratios defined by the Pillar 2 Guidance together with the capital conservation buffer and the countercyclical capital buffer, and allowing institutions to fall below the liquidity coverage ratio if need be. Further support and relief measures are likely to follow.

In general, global and European economic output is expected to fall considerably. Further downside risks are hanging over economic development and will depend on how the coronavirus pandemic unfolds, making them impossible to predict at present. A marked slump in global economic output, at least on a temporary basis, and the need for monetary and fiscal policy support will likely push government debt levels up in both Europe and the USA, meaning that interest rates will remain low. Inflation rates are also expected to fall, in particular after Saudi Arabia and Russia, the world's leading oil producers, failed to reach an agreement on production cuts in early March 2020, sending the oil price plummeting. Oil prices are now expected to remain under pressure for some time, also due to the lower demand resulting from the coronavirus pandemic.

The actual economic impact of the coronavirus pandemic will ultimately depend on how quickly and to what extent the measures taken to curb the spread of the virus will be successful, allowing real economic activity to bounce back.

Economic environment in 2019

The global economic outlook was already subdued in 2019. The risk of a downturn had been intensified by the continued uncertainty in terms of (trade) policy and as a result of the increasingly gloomy business climate. Global GDP growth fell to 2.9% (2018: 3.5%). Growth was more robust in the USA – thanks to high consumer spending – and in some Central European economies. In China, the slow decline continued with demand for the country's imports slowing at an even faster pace. At 2.0%, global inflation was below that of the previous year (2018: 2.3%). Dogged adherence to the fiscal policy left little scope to exploit low interest rates within the context of economic growth.[7]

The global economy has been put under massive strain by the ongoing trade disputes between the superpowers USA and China and the establishment of new trade restrictions (in particular additional tariffs).[8] Global trade grew by around just 1.2% in 2019; the forecast as of April 2019 was 2.6%, which itself was a significant decline compared to the previous year's value of 3.7%.[9] This is the lowest figure witnessed since the financial crisis.

[7] OECD: Economic Outlook, Volume 2019/2.

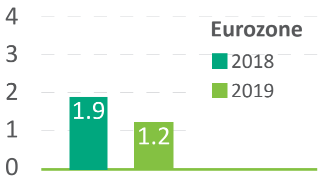
[8] OECD: Economic Outlook, Volume 2019/2.

[9] WTO: Press Release 840.

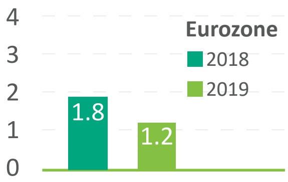
Confidence indices for OECD countries also went in all different directions, although with modest growth of just 1.7% these have fallen as a whole. In 2018 this value was still at 2.3%.[10]

Economic growth in the eurozone slowed further to 1.2% in 2019 (2018: 1.9%), with Germany and Italy most heavily affected. Inflation in 2019 was just 1.2% (2018: 1.8%).[11] Uncertainty regarding the current global trade disputes in particular, which resulted in a general decline in demand for European goods and services, contributed to a further slowdown in economic momentum. Brexit also had an adverse impact.[12]

Eurozone GDP growth in %



Inflation rate in %



The economic climate of the United Kingdom in 2019 was dominated by the political debate surrounding the solution of Brexit. Following new elections and with a new government, the British Parliament passed the Brexit Act at the end of 2019/start of 2020. Overall, this ongoing uncertainty throughout the year had a knock-on effect on economic growth and other economic indicators. Economic growth was 1.2% in 2019 as against 1.4% in the previous year. Inflation fell below the target value of 2.0% set by the Bank of England, but was still relatively high at 1.7% – in part due to the growing uncertainty regarding potential trade barriers following the departure of the United Kingdom from the European Union. Investments saw no growth in 2019.[13]

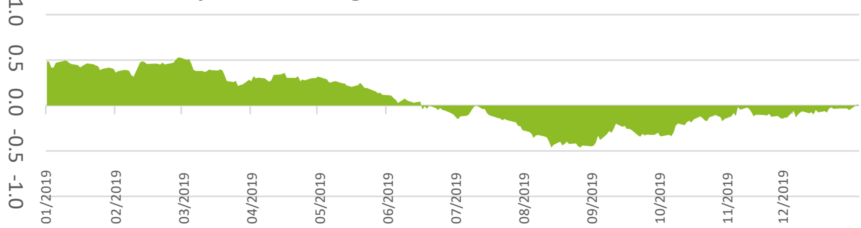
Austria saw economic growth and an inflation rate of 1.5% in 2019. Germany remained the stabilising factor of the eurozone economy in 2019, despite the automotive industry suffering painful losses. However, the weak global trade did contribute to a further decline in economic growth in Germany (from 1.5% to 0.6%), which in turn caused a deterioration in confidence indices and investment prospects. This was reflected in particular in reduced capital expenditure, which grew by 2.7% in 2019.

Inflation (harmonised consumer price index) remained at 1.3% in 2019, below the inflation target of 2.0% set by the European Central Bank (ECB).[14] As of 1 November 2019 the ECB has resumed its net purchases of securities under its Asset Purchase Programme (APP), buying up around EUR 20bn each month. It intends to maintain this reinvestment phase as long as is necessary to enhance the accommodation effect of the base interest rates. In mid-December, the European Council agreed to leave the interest rates for the main refinancing business, the marginal lending facility and the deposit facility of the ECB unchanged at 0.00%, 0.25% and -0.50% respectively.[15]

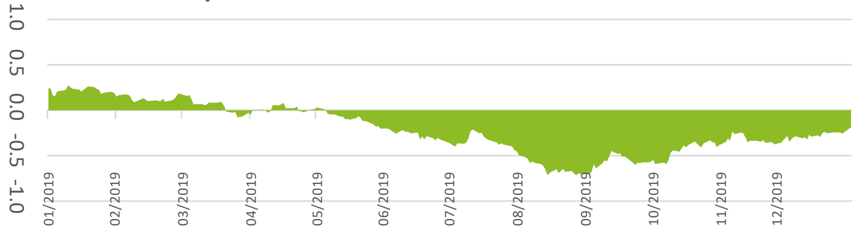
Expedited by supportive comments from the ECB and the gloomy corporate mood in the eurozone, returns on long-term government bonds as well as European bank and corporate bonds saw a downward trend throughout 2019. Returns on ten-year German and Austrian government bonds remained negative until the end of the year. There is still no normalisation in sight. Growth potential in most of the economies has diminished significantly, with expectations of base rate reductions depressing returns even further.

With the longest period of economic expansion it has ever seen, the USA was economically the most dynamic region in 2019 from a global perspective. However, a significant slow-down in economic growth was also apparent overseas due to higher import tariffs and the unchanged intensity of the trade disputes. Economic growth was 2.3% in 2019 as against 2.9% in 2018. The job market proved to be in its most resilient phase ever with an unemployment rate of 3.7%. The current expansion was being driven by private consumption and the significant growth in public deficits. Inflation in 2019 was 1.7% (2018: 2.0%). The Fed reduced the Federal funds rate three times in 2019 by 0.25 percentage points to a target corridor of 1.5% to 1.75%, most recently at the end of October.

Yields on 10-year Austrian government bonds



Yields on ten-year German bonds 2019



[10] OECD: Economic Outlook, Volume 2019/2.

[11] European Commission: International Monetary Fund, World Economic Outlook, 2019/11.

[12] OECD: Economic Outlook, Volume 2019/2.

[13] OECD: Economic Outlook, Volume 2019/2.

[14] OECD: Economic Outlook, Volume 2019/2.

[15] European Central Bank: Account of the monetary policy meeting of the Governing Council of the European Central Bank, 11–12 December 2019.

Economic growth in China slowed in 2019 to 6.2% (2018: 6.6%) due to the ongoing trade disputes with the USA and the realignment of the Chinese economy towards increased domestic demand and the development of the services sector. This trend will persist as long as the global trade conflicts continue, with GDP growth of 5.7% expected for 2020. An increase in the pace of new major projects in fields such as road transport, telecommunications and energy provided support in this transitional phase. Inflation also fell in this period from 2.5% to 2.2%.

The European infrastructure market in 2019

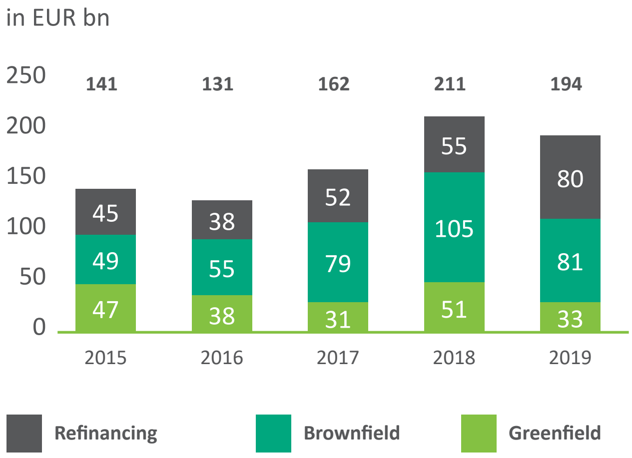
The European market for infrastructure financing proved to be robust with a total volume of EUR 194bn. When compared against the absolute boom year of 2018, however, it was somewhat weaker, falling by around 8%. That said, the absolute number of transactions concluded rose by 6% to a total of 921 projects.[16] The reduced average size of the transactions resulting from this is reflective in part of a higher share of mid-sized deals, which in turn entails greater compatibility with Kommunalkredit's strategic focus.

Major changes were observed in the geographical and sectoral distribution as well as the types of transaction (greenfield[17], brownfield[18]/M&A, refinancing), with some trends being further reinforced. Due to the likelihood of interest rates remaining low in the long term, refinancing grew substantially, reflected in a 35% rise to USD 88.6bn across all sectors.

The special European situation in an international context is illustrated by the growth in refinancing on a global basis of just 12%. The underlying factors, including the continued hesitancy in the economic growth of Europe's largest economies (Germany, France) as well as political uncertainty (elections in Spain and the United Kingdom, including the Brexit debate), have not changed substantially from 2018, but the market did react more substantially than in the previous year to the changes in the medium and long-term interest rates.

Many project sponsors therefore focused primarily on securing low interest rates on existing portfolio companies (pure refinancing) and – to a somewhat lesser degree – on acquisition financing for new projects or companies (Brownfield/M&A). Despite the beneficial interest rate conditions, there was a noticeable decline in Brownfield/M&A in 2019. However, the 2018 result had been substantially distorted by a number of mega-acquisitions (USD 19.0bn acquisition of the Spanish toll road operator Abertis by Atlantia, USD 8.8bn acquisition of Danish mobile communication company TDC Telecom by Macquarie). The largest deal in 2019 was the GBP 2.9bn takeover of a majority stake in Gatwick Airport (London) by the French company VINCI Airports. European public/private partnership (PPP) projects fell drastically by around half.

The European infrastructure market in 2019 – Transaction volumes broken down into greenfield, brownfield and refinancing



However, infrastructure equity investors benefited not only from favourable lending conditions, but also increased liquidity in the banking market as well as a much greater appetite among institutional investors (insurers, pension funds, asset managements) which encouraged increased allocations in the "infrastructure debt" sector to compensate for the partially negative returns in the traditional fixed income segment (government bonds, etc.), at least in part.

Taking a closer look at the European refinancing market in 2019, the transport sector, with a total share of one third and a 60% increase compared to 2018, is especially noteworthy. The main drivers in this area were major deals in the railway sector (e.g. the French high-speed Tours-Bordeaux line and the British Beacon Rail transaction) and in the toll road sector (e.g., the Brescia-Bergamo-Milan motorway section in Lombardy, one of the largest transactions in Italy that Kommunalkredit helped to achieve).

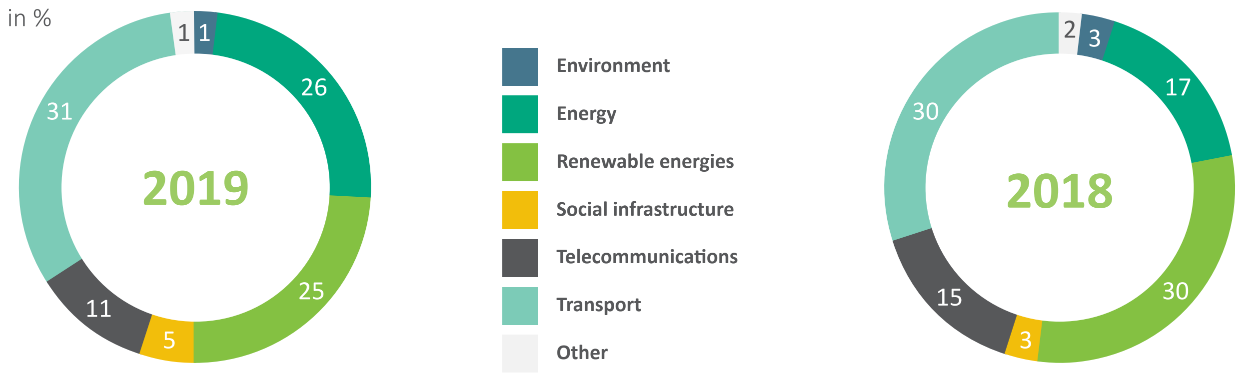
The energy sector accounted for a large part of the total transaction volume. Conventional energy segments such as gas networks (EUR 2.2bn refinancing of Gas Natural Fenosa, Spain) and natural gas and crude oil storage (acquisitions of HES International and VTTI in the Netherlands) played a dominant role. One of the largest deals in this sector (in Germany per se) was the EUR 3.5bn acquisition of Currenta (industrial estate) through Macquarie, in which Kommunalkredit participated to a significant degree. Major transactions were also executed in the Renewable Energies segment, such as the refinancing of the Portuguese onshore wind platform by First State Investments, in which Kommunalkredit participated as the mandated lead arranger. The renewable energy market also saw greater momentum in Central and Eastern Europe. Countries such as the Czech Republic, Slovakia, Poland, Romania, Bulgaria and Croatia have fallen behind substantially, and 2020 is expected to see some catching up. This encouraging

[16] All figures in this section provided by Inframation – An Acuris Company.

[17] Greenfield projects are new infrastructure assets built "on greenfield land". Depending on the sector/characteristics, they are characterised by clonstruction phases of varying length and by a variety of financing requirements up until the time of operation.

[18] Brownfield projects are pre-existing, often already-operational infrastructure assets whose financing is restructured mostly through M&A transactions (mergers & acquisitions).

Transaction volume by sector



development, however, does not even come close to compensating for the aforementioned drastic decline in the Western European Greenfield segment. The PPP sector in particular dropped to less than USD 10bn – the level of the early 2000s. A key determining factor in this connection was the complete loss of Turkey in Greenfield transactions (2018: USD 7.8bn). However, the two most important markets – Germany and France – also saw significant declines of -66% and -56%, respectively.

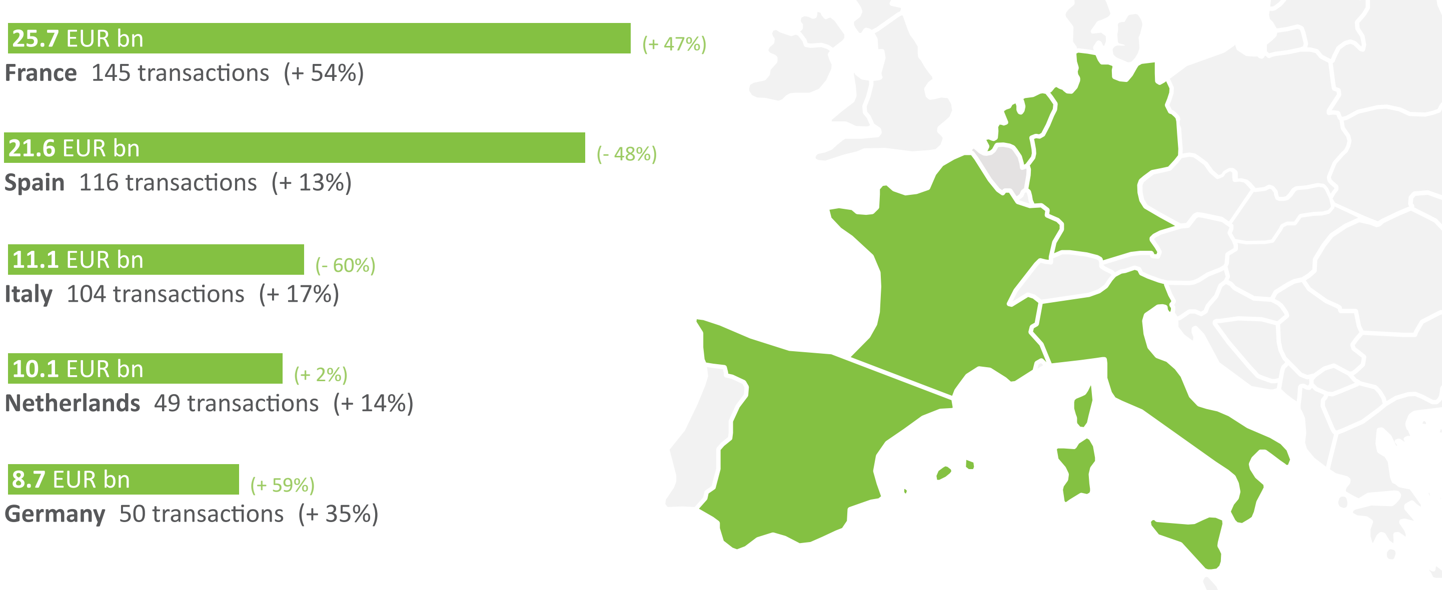
The telecoms sector also saw a noticeable reduction (-45%), although this sector has retained a high degree of momentum as shown by the outlook for 2020. The EUR 2.0bn acquisition of 8,000 telecom towers from Iliad in France and Italy by Spanish telecommunications service provider Cellnex illustrates the general strategic direction of this sector, with large telecoms companies increasingly selling parts of their infrastructure (towers, fibre networks) or bringing partners on board to help face the financial challenges of the progressive digitalisation. France has been especially active, with major transactions including the sale of mobile phone base stations by internet company Altice and the carve-out of its FTTH (fibre-to-the-home) network. Kommunalkredit was also able to successfully conclude a series of acquisitions in the digital infrastructure sector in 2019. For example, the investor DWS Infrastructure, a Deutsche Bank subsidiary, received support in acquiring two data centre portfolios in the Netherlands, while Macquarie was given assistance in the purchase of Másmóvil's fibre network in Spain.

In terms of geographical distribution, the United Kingdom had a good year despite the uncertainties resulting from Brexit. However, this development was carried by a small number of major transactions – both in the Greenfield sector (Silvertown Tunnel) and the Brownfield/M&A sector (Gatwick Airport).

For Italy and Spain, 2019 was a comparatively challenging year with falling deal volumes. With the National Energy & Climate Plan adopted by the new Spanish government, however, the path has been set for new investments in renewable energies over the coming decade. Portugal proved to be a dependable market in 2019 thanks to the country's generally encouraging economic performance. As of 1 January 2020, new rules are in effect governing own use, energy storage and energy groups in relation to renewable energy.

In 2019, the infrastructure market in France was driven by projects in the transport and digital infrastructure sectors. Germany was somewhat quieter, mostly due to the loss of transactions in the offshore wind segment. However, bells were ringing loudly at the end of the year in the digital infrastructure segment with the participation of the EQT investment group in the leading Saarland-based broadband company Inexio, while fibre-optic network developer Deutsche Glasfaser saw refinancing – with a substantial investment by Kommunalkredit – to enable them to expand broadband internet availability.

The five largest infrastructure markets in the eurozone by volume and number of transactions



Business review 2019

POSITIVE TREND CONTINUED.

Kommunalkredit's positive business performance and the achievement of the strategic objectives set in 2018 for the 2019 financial year are vindications of the path taken. The Bank combines the traits of a hidden champion in the European infrastructure market with many years of expertise in the public finance sector. The Bank's on course.

Stable earnings position | Efficient capital utilisation | Disciplined placement | Balanced portfolio

The implementation of the business strategy to sustainably position Kommunalkredit as a specialist bank for infrastructure and energy financing is showing results. The Bank consistently remained on its growth path in 2019. The contribution of the core business to gross revenues rose to 69.2% (31/12/2018: 53.5%). New business came to EUR 1,036.3m, once again breaking the billion barrier (2018: EUR 1,201.8m).

Kommunalkredit has a balance of diversity in its new business in terms of its investment classes, regions, product and customer segments. Business acquisitions focus on clearly-defined selection criteria and efficient use of capital. This involves not only preparing a risk-and-return profile for a transaction but also assessing its value for positioning among institutional investors.

New business in 2019 generated attractive risk-adjusted returns. The Bank had the opportunity to apply its considerable expertise, most notably in the field of renewable energy project financing, with 71% of the financing volume attributable to the Energy & Environment segment, 19% to Communication & Digitalisation and 10% to Transport. Regionally, business was consistently diverse across the European Union (EU) and the EU's associated countries. Kommunalkredit was especially active in Germany, Italy, the Netherlands, Portugal and Spain.

Public Finance remains a key part of the Bank's business, with new financing deals being concluded in 2019, among them nurseries, schools, residential properties, commercial properties, roads and sewer networks.

In Structured Finance, Kommunalkredit applied its in-depth industry expertise to engage in project financing as well as further develop its activities in the fields of acquisition finance, hybrid/corporate finance and financial advisory.

The Bank conducts business in a manner that is geared towards collaboration with established partners (originate and collaborate) and is therefore particularly focused on its ability to place its transactions on the international financing market. The volume placed with insurers, asset managers and banks reached EUR 462.4m in 2019 (2018: EUR 569.7m). Thanks to its fund (Fidelio KA Infrastructure Debt Fund Europe 1) established in 2018, Kommunalkredit is also capable of offering its business partners access to infrastructure and energy financing through an asset management solution. The second close came in the third quarter of 2019, and the final close in February 2020.

In 2019, Kommunalkredit participated in the execution of a number of noteworthy transactions. These included the financing for the development and establishment of a 146 MWp solar project; for Clean Sustainable Energy (CSE), a leading operator of biomass installations; for fibre optic network development in rural areas by telecommunications company Adamo – all of these are projects in Spain. In Portugal, Kommunalkredit refinanced a 908 MW wind farm for green energy provider Finerge. In Hansea we had a partner that is one of Belgium's leading local public transportation companies. In Italy, the Bank was involved in the creation of the Brescia-Bergamo-Milan toll road. As part of a debt financing, Kommunalkredit played a leading role in the development of charging stations for electric vehicles provided by Dutch company Allego. This investment related not only to the actual technical implementation of the charging stations, but also more widely to a European mobility network service model. In the latter case, the Bank acted not only as Mandated Lead Arranger, but also as Global Bookrunner, Structuring Coordinator and Underwriter.

Reference projects

Electric vehicle charging stations (Allego/Netherlands)

Kommunalkredit played a leading role as the Mandated Lead Arranger, Global Bookrunner, Structuring Coordinator and Underwriter in the EUR 120m financing for the development of electric vehicle charging stations in Europe by Dutch power grid company Allego. Allego currently operates over 10,000 charging stations in Germany, Belgium, the Netherlands, Luxembourg, France and the UK. These charging stations are used primarily by municipal authorities, private companies and transport companies. Allego is planning to develop several thousand new charging stations for the expansion and conversion of its service model over the coming years.

Local public transport (Hansea/Belgium)

Kommunalkredit acted in a a key role as Arranger for a EUR 110m financing arrangement for Hansea. Hansea is one of Belgium's leading public transport companies. It provides urban and regional public transportation services and offers school bus and passenger transport services, as well as charter services. Hansea has shown steady growth in recent years and boasts a strong market position in both Flanders and Wallonia.

The total values stated here represent the total volume of the transaction in question.

Broadband internet (Deutsche Glasfaser/Germany)

For the refinancing of and borrowing for the ongoing development of the broadband in Germany's rural regions for Deutsche Glasfaser, Kommunalkredit assumed a pioneering role as the Mandated Lead Arranger. To date, around 540,000 homes and businesses have been provided with access, with another 650,000 connections planned for the coming years.

Data centres (Ark/United Kingdom)

EUR 450m were committed to the refinancing, expansion and development of several data centres in the United Kingdom. Ark Data Centres has a broad customer base of government agencies, cloud service providers, financial institutes and other renowned customers, and is the UK's leading data centre operator. Kommunalkredit took part in the transaction as the Lead Arranger.

Solar projects (Bonete/Spain)

Kommunalkredit served as the Mandated Lead Arranger in the EUR 81.5m financing for the development of a cluster of three greenfield solar projects in Albacete, Spain. The solar installations have a combined capacity of 146.4 MWp. This transaction is also consistent with the Green Loan Principles.

Industry accolades

The Bank's success has not gone unnoticed by the market. In 2017, Kommunalkredit received its first industry accolades. Two transactions from 2018 in which the Bank was involved as the Mandated Lead Arranger were recognised in the second quarter of 2019 as "Deal of the Year" by renowned international journal IJ Global: the EUR 1bn financing of the acquisition of French water company SAUR by EQT Infrastructure in the category "European Waters" and the EUR 420m financing of the acquisition of the Belgrade Nikola Tesla Airport operating concession by VINCI Airports in the category "European Airports".

At the end of 2019, two projects that Kommunalkredit was a part of during the course of the financial year received awards from the renowned magazine PFI – Project Finance International from Thomson Reuters.

PFI Awards 2019

Europe Bond Deal of the Year: BreBeMi – toll road in Italy

Kommunalkredit played a major role in the refinancing of the A35 toll road as the Co-Lead Bookrunner, Initial Purchaser and Underwriter. The Brescia-Bergamo-Milan road (BreBeMi) is a key element of the region's infrastructure and is a safe alternative to the existing congestion and accident-plagued A4 motorway.

Europe Power Deal of the Year: Finerge – wind farm in Portugal

In the EUR 706m refinancing of the green energy provider Finerge S.A. with a wind capacity of 908 MW, Kommunalkredit served as the Mandated Lead Arranger. This was the largest loan taken out for renewable energy in Portugal. The revenue will be used to refinance the second-largest wind portfolio in Portugal.

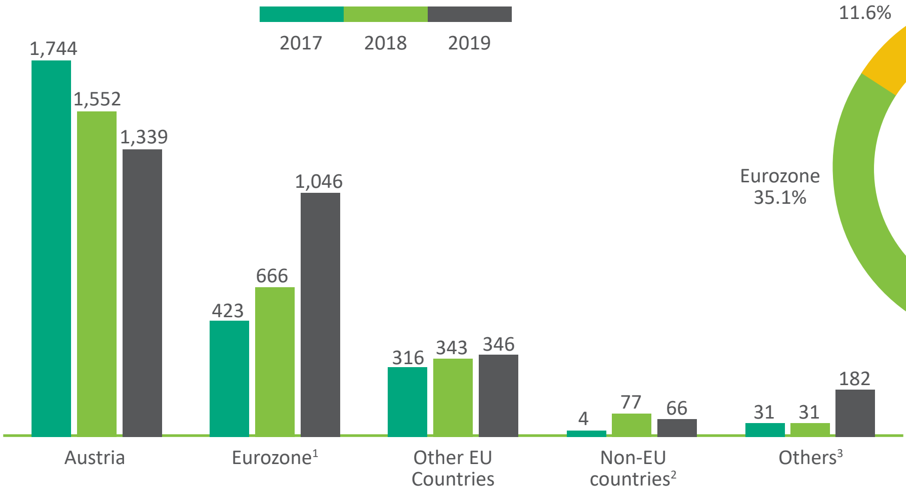
Total portfolio with high asset quality

Kommunalkredit's strategic sectors are distinguished by their low default rates and high recovery rates. The bank holds a total portfolio of high asset quality without a single loan loss in the 2019 reporting year. As of 31 December 2019, it had an average rating of "A-" with 76.7% of the exposure rated as investment grade.

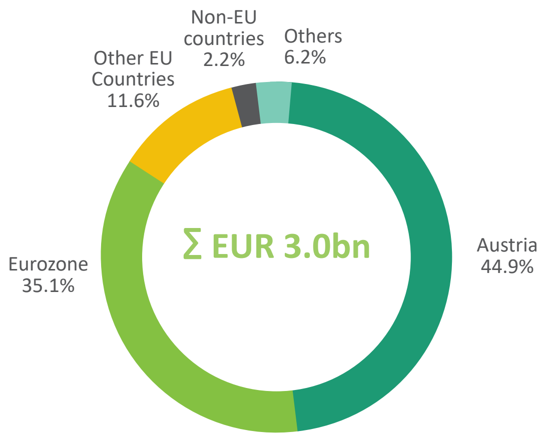
The loan portfolio is well balanced, comprising an increasing proportion of infrastructure and energy financing transactions and a significant volume of public sector loans. As of the end of the year, loans to municipalities accounted for 35% of the portfolio (almost exclusively Austrian municipalities), infrastructure and energy financings accounted for 34%, while loans to public sector enterprises had a share of 9%. Since the privatisation in 2015, the non-performing loan ratio (NPL) has been kept at 0.0%.

Geographically, 45% was attributable to Austria (2018: 58%), followed by the rest of the eurozone (35%) and other EU countries (12%) (2018: 25% and 13% respectively).

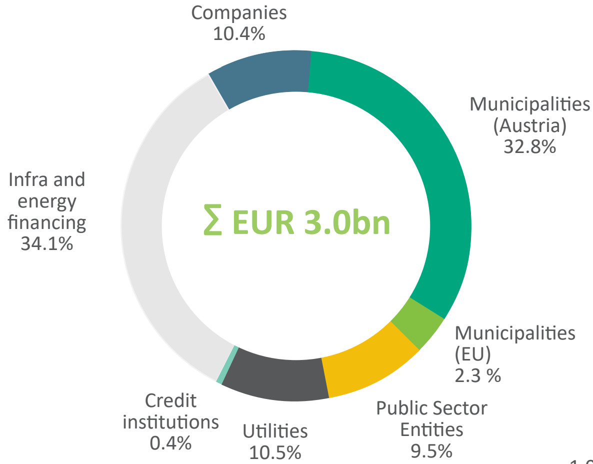
Loan portfolio by regions
in EUR m, as of 31/12/2019

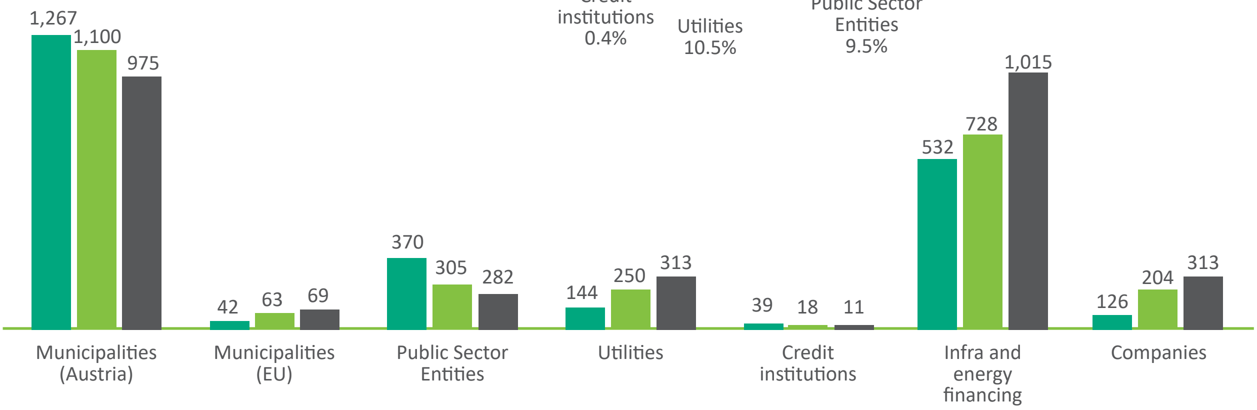


[1] Eurozone without Austria
[2] Switzerland
[3] Turkey



Loan portfolio by borrowers
in EUR m as of 31/12/2019





Diversified refinancing structure further developed

As of 31 December 2019, Kommunalkredit reported a strong liquidity position with a free liquidity reserve of EUR 308.5m (31/12/2018: EUR 278.9m). This included high-quality liquid securities (HQLA) amounting to EUR 303.8m (31/12/2018: EUR 249.0m). The Bank also held liquid securities of EUR 59.0m (nominal value) (31/12/2018: EUR 4.0m) and cash, cash equivalents and bank balances with central banks of EUR 462.6m (31/12/2018: EUR 314.4m).

Since its privatisation in September 2015 and based on historical experience, Kommunalkredit has placed great value in ensuring great diversity in its funding profile. Gradually, existing funding sources have been expanded and new ones established over recent years. In order to adequately manage liquidity risks, it is important to not be dependent on any single refinancing source. As a European bank, it focuses on infrastructure and energy financing – many of which are beneficial for society in terms of their social and/or environmental impact. This is precisely why its products appeal to investors, as they enable sustainable investments.

The liquidity reserve contributed to a liquidity coverage ratio (LCR) of 765.5% as of 31 December 2019. The net stable funding ratio (NSFR) was at 111.9%.

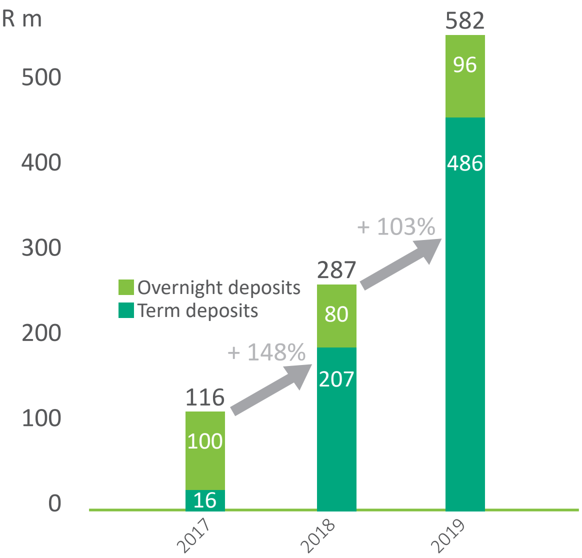
The bank succeeded in further diversifying its funding structure and broadening its investor base in 2019. Currently, refinancing is carried out via retail deposits (KOMMUNALKREDIT INVEST), wholesale deposits (KOMMUNALKREDIT DIREKT and direct business with corporate/institutional customers) as well as capital market funding via senior secured and covered bonds.

Amounts owed to customers increased to a total of EUR 1,732.3m (31/12/2018: EUR 1,348.3m). This positive development was in part driven by the increase in customer deposits by 38.7% to EUR 1,398.2m (31/12/2018: EUR 1,008.1m). Amounts owed to customers also include long-term private placements of EUR 275.3m (31/12/2018: EUR 280.2m) and liabilities from collateral received in connection with derivatives of EUR 58.9m (31/12/2018: EUR 60.0m).

Term deposits increased to 83.5%

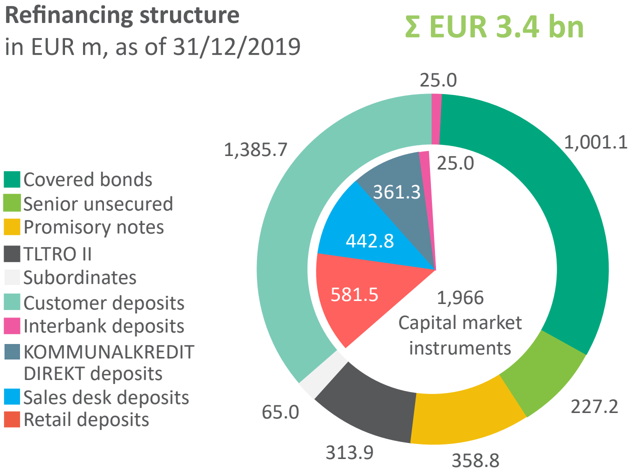
Retail deposits (KOMMUNALKREDIT INVEST): The bank conducts its retail business in Austria and Germany via its online retail platform KOMMUNALKREDIT INVEST. KOMMUNALKREDIT INVEST offers overnight and term deposits for terms of up to ten years. As of 31 December 2019, the bank had 9,790 retail customers (31/12/2018: 5,063).

Retail deposits (KOMMUNALKREDIT INVEST)
in EUR m

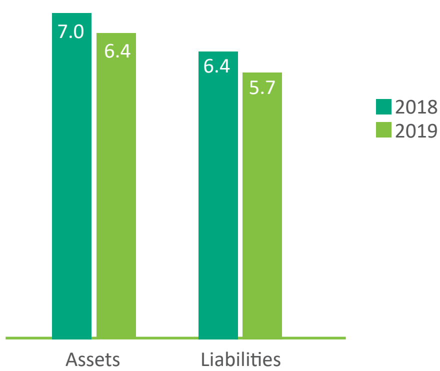


The average deposit volume per customer of EUR 59,401 represented a further increase from the already high level as of the end of 2018 (31/12/2018: EUR 56,629). The share of term deposits was increased to 83.5% (31/12/2018: 72.1%). The average term length of term deposits was 22.9 months as of 31 December 2019 (31/12/2018: 19.7 months). The deposit volume as of year-end was EUR 581.5m (31/12/2018: EUR 286.7m).

Refinancing structure
in EUR m, as of 31/12/2019

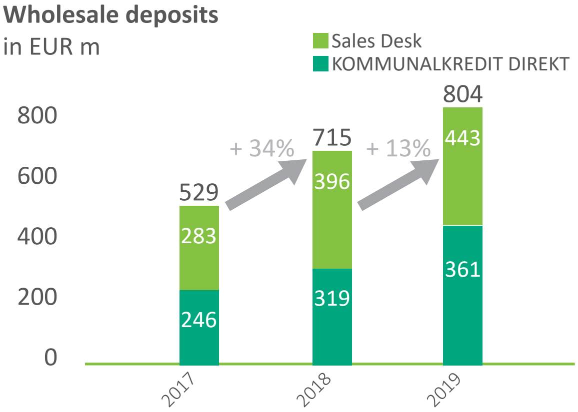


Weighted average term in years



Wholesale deposits (KOMMUNALKREDIT DIREKT and direct business with corporate/institutional customers): With its online platform KOMMUNALKREDIT DIREKT, the Bank offers an efficient investment and cash management tool for municipalities and corporates with close ties to municipal authorities. 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 fact that around a third of KOMMUNALKREDIT DIREKT depositors are also borrowers. Taking deposits by corporate and institutional customers into account, wholesale deposits increased by a total of 12.6% to EUR 804.1m in 2019 (31/12/2018: EUR 714.7m). This means that the trend towards longer maturities has continued in 2019. With an average volume of about EUR 2.3m, wholesale deposits were highly granular.

Wholesale deposits
in EUR m



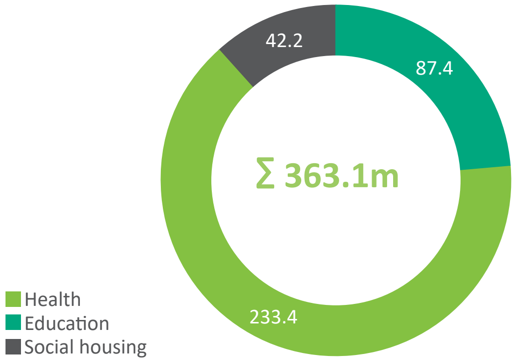
A significant increase in demand for sustainable investment products was noted both in the private customer segment and among institutional and corporate customers in 2019. Among institutional and corporate customers, this demand has been driven by their Investment Guidelines and environmental-social governance (ESG). Among private investors, the rising number of customer enquiries regarding KOMMUNALKREDIT INVEST has exhibited a noticeable trend towards ensuring that funds are used by the chosen bank in a monitored and sustainable fashion. Small-scale investors are increasingly interested in supporting sustainable business and clean infrastructure with their savings deposits. Customer interest in this field is expected to continue to rise.

Social covered bond – social asset reporting as of 31 December 2019

As of 31 December 2019, Kommunalkredit's social asset portfolio encompassed 71 loans in the fields of education, healthcare and social housing with a total volume of EUR 363.1m. In 2019, Kommunalkredit financed new social infrastructure projects – attributed to the social asset portfolio – to the value of EUR 22.5m, which compensated for some of the repayments and disposals from the portfolio.

Kommunalkredit annually reports the use of proceeds from the issuance of its social covered bond (as of 30 June).

Social asset portfolio
in EUR m



Strong liquidity ratios

The liquidity coverage ratio (LCR) measures the short-term resilience of a bank's liquidity risk profile over a 30-day scenario and is closely monitored as part of the Bank's early warning system. With a ratio of 765.5% as of 31 December 2019 (31/12/2018: 453.7%), Kommunalkredit significantly exceeded the regulatory minimum ratio of 100%. The average LCR in 2019 came to 649%.

The structural liquidity ratio (net stable funding ratio, NSFR) was also increased in 2019. According to the CRR (Capital Requirements Regulation), this requires banks to maintain a stable refinancing fund in terms of their assets and off-balance-sheet activities. As of 31 December 2019, the NSFR was 111.9% (31/12/2018: 104.7%).

Rating

Kommunalkredit's unsecured debt issues have a long-term rating of "BBB (low)" and a short-term rating of "R-2 (mid)" from rating agency DBRS Morningstar. The ratings were confirmed on 3 October 2019 with the outlook being lifted to positive. This was Kommunalkredit's second year in a row with an improved rating. In its explanation, DBRS Morningstar listed the Bank's ongoing progress in developing its infrastructure finance segment, the maintenance of a high level of capital and the solid core profitability. The agency also highlighted the well-balanced refinancing basis of deposits business and capital market sources as well as the robust liquidity profile. In addition, on 24 January 2020 Standard & Poor's confirmed its "A" rating of Kommunalkredit's covered bonds, which reflects the high quality of the underlying cover pool.

Assets, financial position and income

FINANCIAL PERFORMANCE INDICATORS FOR KOMMUNALKREDIT AUSTRIA AG ACCORDING TO AUSTRIAN GAAP.

Selected performance figures in EUR m	2019	2018
Total assets (31/12)	3,802.8	3,478.8
Net interest income	45.6	37.7
Net fee and commission income	15.5	14.1
General administrative expenses	-44.8	-45.4
of which restructuring expense	*0.0*	*-2.5*
Other operating performance	4.8	11.1
of which income from services provided for KA Finanz AG & Kommunalkredit Public Consulting GmbH	*3.7*	*10.5*
Other operating expenses	-1.0	-0.8
of which stability tax	*-0.6*	*-0.6*
Operating result	21.8	16.8
Operating result from sale of infrastructure/energy financing[19]	4.8	1.6
Net allocation to provision (§ 57 (1) Austrian Banking Act)	0.4	0.9
EBIT (excluding restructuring expense)	27.0	21.8
Other loan impairment, valuation and sales result	1.8	10.4
Profit on ordinary activities	28.7	29.7
Taxes on income	1.6	0.7
Profit for the year after tax	30.3	30.4

Company performance indicators in EUR m or %	2019	2018
Total risk exposure amount pursuant to Art. 92 CRR (risk-weighted assets)	1,675.7	1,334.7
Total capital[20]	356.5	323.7
Total capital ratio	21.3%	24.3%
CET 1 ratio	18.1%	19.9%
Number of shares	33,567,111	31,007,059
Cost-income ratio (based on EBIT)	63.2%	67.0%
Return on equity before tax	10.8%	12.8%
Return on equity after tax	11.4%	13.1%

[19] Included in items 11 & 12 of the income statement.

[20] Total capital after inclusion of Kommunalkredit's annual profit of EUR 30.3m as reported in accordance with Austrian GAAP and the originally intended dividend of EUR 10.0m.

Balance sheet structure

The total assets of Kommunalkredit Austria AG in accordance with Austrian GAAP came to EUR 3.8bn as of 31 December 2019 (31/12/2018: EUR 3.5bn). The main balance sheet items were loans and advances to customers amounting to EUR 2.6bn (31/12/2018: EUR 2.5bn) as well as bonds and debt securities amounting to EUR 0.5bn (31/12/2018: EUR 0.4bn).

Income

Kommunalkredit Austria AG has reported an operating result of EUR 21.8m for 2019 in accordance with Austrian GAAP (2018: EUR 16.8m). The Bank was able to boost its operating earnings power significantly in 2019. This is illustrated by the EBIT, which is calculated as follows: operating performance plus the operating result from the sale of infrastructure/energy financing and the change in the provision pursuant to § 57 (1) BWG (Austrian Banking Act), adjusted for restructuring expense in 2018. EBIT rose by 23.8% to EUR 27.0m (2018: EUR 21.8m). A total of 69.2% of the gross income from banking business came from infrastructure & energy financing (2018: 53.5%).

The other loan impairment, valuation and sales result came to EUR 1.8m (2018: EUR 10.4m), the main components of which were EUR 4.7m from the repurchase of own issues (2018: EUR 12.2m) and the change in statistically calculated provisions for expected credit losses of EUR -3.5m (2018: EUR -1.5m).

The profit on ordinary activities came to EUR 28.7m (2018: EUR 29.7m). The profit for the year after tax was effectively unchanged from the previous year at EUR 30.3m (2018: EUR 30.4m).

The main income and expense items were as follows:

Net interest income
Net interest income increased by 21.1% to EUR 45.6m (2018: EUR 37.7m). The significant increase in the share of infrastructure & energy financing business of EUR 31.0m was the main contributor to this (2018: EUR 15.7m).

Net fee and commission income
The continued expansion of consulting and structuring activities enabled Kommunalkredit to increase its risk-free net fee and commission income by 9.4% to EUR 15.5m (2018: EUR 14.1m), marking an improvement in its income quality. Fee and commission income from the Bank's credit and services business came to EUR 17.2m (2018: EUR 15.3m), while fee and commission expenses came to EUR 1.7m (2018: EUR 1.2m).

General administrative expenses
General administrative expenses fell 1.2% to EUR 44.8m (2018: EUR 45.4m). EUR 26.9m (2018: EUR 28.8m) of this was attributable to personnel expenses, EUR 16.3m (2018: EUR 15.0m) to other administrative expenses and EUR 1.6m (2018: EUR 1.6m) to the Bank Resolution Fund contribution.

Other operating income
Other operating income came to EUR 4.8m (2018: EUR 11.1m). It mainly comprises income from the provision of operating services for the operation of KA Finanz AG and Kommunalkredit Public Consulting GmbH amounting to EUR 3.7m (2018: EUR 10.5m). The decline of EUR -6.8m is the result of the termination of the Service Agreement with KA Finanz AG with effect from 31 March 2019.

Other operating expenses
Other operating expenses of EUR 1.0m (2018: EUR 0.8m) were mainly the stability tax paid by Austrian banks.

Operating result from sale of infrastructure/energy financing
This result of EUR 4.8m (2018: EUR 1.6m) reflects income from the placement of infrastructure/energy financing, which is a core element of Kommunalkredit's business model.

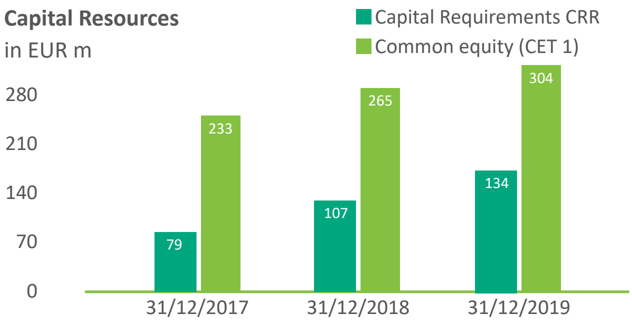
Other loan impairment, valuation and sales result
The other loan impairment, valuation and sales result came to EUR 1.8m (2018: EUR 10.4m) and includes positive one-off effects from the repurchase of own issues amounting to EUR 4.7m (2018: EUR 12.2m). The allocation of the risk provision for loans in the amount of EUR -3.5m (2018: EUR -1.5m) also included in this item reflects the change in the statistically calculated risk provision for expected credit risks. As in the previous year, no credit defaults were recorded. The non-performing loan ratio (NPL) of Kommunalkredit remained at 0.0%.

Risk-weighted assets and total capital
As of 31 December 2019, Kommunalkredit reported total capital of EUR 356.5m (31/12/2018: EUR 323.7m) and common equity tier 1 capital (CET 1) of EUR 303.6m (31/12/2018: EUR 265.5m). Risk-weighted assets increased in 2019 by 25.5% to EUR 1,675.7m (31/12/2018: EUR 1,334.7m) due to the higher weighting of new business in the field of infrastructure & energy financing compared to the amortising portfolio of predominantly Austrian municipalities.

As of 31 December 2019, Kommunalkredit reported a total capital ratio of 21.3% (31/12/2018: 24.3%) and a CET 1 ratio of 18.1% (31/12/2018: 19.9%). The drop in the capital ratios is due to the higher employment of capital as part of the expansion of new business, which has a positive impact on the bank's results. The leverage ratio came to 7.9% as of 31 December 2019 (31/12/2018: 7.7%).

Kommunalkredit is part of a group of credit institutions whose ultimate parent is Satere Beteiligungsverwaltungs GmbH (Satere). As of 31 December 2019, the consolidated total capital ratio came to 21.0% (31/12/2018: 23.7%) and the consolidated CET 1 ratio to 17.8% (31/12/2018: 19.4%).

Risk-weighted assets and total capital



Branch office and subsidiaries

FINE STRUCTURE. CLEAR DIRECTION.

Alongside its headquarters in Vienna, Kommunalkredit also has a branch office in Frankfurt am Main, Germany. Together with Vienna, the banking centre at the heart of Europe forms the centre point from which Kommunalkredit focuses on its role as a specialist in infrastructure and energy financing.

Focus on core business

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

Kommunalkredit Public Consulting GmbH (KPC)

Kommunalkredit Public Consulting GmbH (KPC) is a specialist provider for the management of public support programmes and consulting services for national and international organisations. It is 90% owned by Kommunalkredit.

Subsidy management

In 2019, KPC awarded subsidies of EUR 444.1m, in particular on behalf of the Federal Ministry for Sustainability and Tourism (Bundesministerium für Nachhaltigkeit und Tourismus, BMNT) and the Climate and Energy Fund. These public subsidies resulted in an investment volume of EUR 2,394.0m. KPC subsidises a broad variety of support initiatives in the energy supply, energy efficiency,

KPC in 2019

37,982 project assessments	**EUR 2,394m** investment volume	**EUR 444m** subsidy volume

Effects of Environmental Support 2019

Over **2,000,000 m²** of contaminated land recovered

Over **400 km** of water pipes laid

Over **300 km** of canals created

Almost **400,000 t** CO2 saved per year

Over **900,000 MWh** of energy generated from renewable energy sources each year

Just under **30,000** residents protected from flooding

Over **500,000 MWh** in energy savings per year

Three questions to Alexandra Amerstorfer & Christopher Giay, KPC Management Board

How is Austria managing to set out its path towards a more environmentally compatible society?

A coordinated and finely-tuned climate and energy policy is needed. The Federal Government has already laid the foundations for this in the form of #mission2030, the national climate and energy strategy, and the national climate and energy plan that goes with this. Now the aim is to boldly implement the action plan defined therein. This requires a defined political framework, but also an awareness that the path towards a more environmentally compatible society is more than just a matter of technology. It involves social change at many levels that will be carried by everyone.

How can the environmental support programme help to achieve this?

Taking stock of the changes and development of environmental support schemes over time, the environmental policy challenges of the era were always apparent. Climate protection has always been a top focus ever since the Kyoto Climate Change Conference in 1997. The use of renewable energy sources for the generation of heat and electricity as well as projects related to energy and resource efficiency have become increasingly important. This is where the support instruments have been especially useful.

What will 2020 and 2021 be remembered for?

We expect demand for support in environmental project to remain high, especially in relation to the main subsidised fields of energy efficiency and renewable heat generation. The topic of resource efficiency in the context of the bio-economy is becoming more and more important. In the long-term, the performance of the Austrian economy should be disassociated from resource consumption and the environmental damage that such consumption entails. A focus of the bio-economy strategy is the future reduction of fossil-based material usage in as many products as possible and the use of regenerative raw materials. We are confident that more public funds will be provided to support this change given the clear objectives of the new government. That said, it is clear that subsidies only provide incentives and the objective in the medium term is to make doing business in an environmentally friendly way more appealing by establishing the necessary legal and economic framework.

water, land reclamation, transport and e-mobility sectors. Across all of these segments, a total of 37,982 projects were approved and 29,656 projects were billed in 2019.

KPC acts as the point of contact between the subsidisers who provide the financial resources and the applicants. They oversee the entire process of a project. Their duties also include the development and implementation of support programmes. A particular success story from 2019 regarding the development of new support models was the first Europe-wide pilot project for an "output-based" support approach for the European Regional Development Fund (ERDF).

Consultancy services

As a consultancy, KPC provides services for national and international organisations and financial institutions. The range of services includes technical and economic consulting, the preparation of studies and advice on capacity development and policy, in particular in Central Europe, Southeast Europe and Eastern Europe. A new addition to the portfolio in 2019 was the Sustainable Finance segment. Clients include the World Bank, the European Commission, the European Bank for Reconstruction and Development (EBRD), the Organisation for Economic Cooperation and Development (OECD), the German Kreditanstalt für Wiederaufbau (KfW), the German Ministry of the Environment and the Austrian Development Agency (ADA).

On behalf of the Federal Ministry for Sustainability and Tourism, KPC once again served as a member of the Austrian negotiation team at the World Climate Conferences in 2019. KPC also appoints an advisor for the Austrian representative in the Green Climate Fund (GCF). This climate fund provides funding for projects designed to help reduce greenhouse gas emissions and to allow developing countries to make the adjustments they need to make in response to climate change. KPC has also offered a platform in the form of "Climate Austria" since 2008, for the voluntary offsetting of CO2 emissions, for example in travel, in partnership with numerous businesses. The ISO certification for KPC's consulting segment was recently renewed in 2019.

In 2019, KPC received new attractive commissions as well as extensions for existing appointments to support Green Financing Facilities in the energy efficiency segment. Of particular note among the new commissions is the appointment by Finance in Motion, one of the largest asset managers in the development finance sector.

Here, KPC is providing support to a major Georgian bank for the development and implementation of green finance products and for internal processes and policies. The commission to "analyse the potential and feasibility of green finance instruments in Austria" is also part of the Sustainable Finance segment.

Fidelio KA Debt Fund platform

Kommunalkredit created a debt fund platform in 2018 with the establishment of the companies Fidelio KA Beteiligung GmbH, Fidelio KA Investment Advisory GmbH and Fidelio KA Infrastructure Opportunities Fund GP S. à r. l. The Bank expanded its range of products to include the Asset Management segment with the launch of the first debt fund and was able to successfully grow this segment in 2019 with additional commitments. It makes use of its core expertise in infrastructure financing for this purpose and has deepened its strategic partnerships with regard to placements.

Following the operational launch of the first sub-fund "Fidelio KA Infrastructure Debt Fund Europe 1", the first close took place in the third quarter of 2018, and the second close followed in July 2019. The fund volume increased by 39% in 2019 alone, meaning that the target volume of EUR 225m has been well exceeded. The final close took place in February 2020.

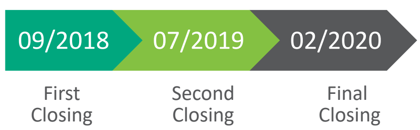
This initial fund allows Kommunalkredit to offer interested investors an attractive investment opportunity. Funds are directed towards sustainable infrastructure projects that benefit the public. The value of the fund development ensures a healthy return, which enables investors to enjoy benefits compared to traditional asset managers.

Kommunalnet E-Government Solutions GmbH (Kommunalnet)

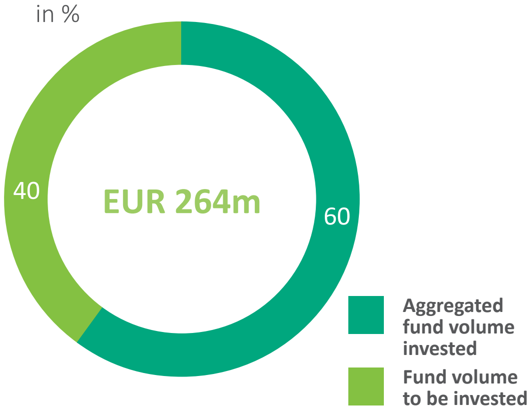
Kommunalkredit holds a 45% equity share in Kommunalnet E-Government Solutions GmbH (Kommunalnet). Another 45% is held by the Austrian Association of Municipalities, while the other 10% is held by three state associations of the Austrian Association of Municipalities. Kommunalnet is the digital work and information portal for Austrian municipalities, mayors and municipal civil servants. It offers the latest news and access to important databases for municipal authorities, and serves as an information and communication hub for the federal, state and

Facts about KA Infrastructure Debt Fund Europe 1.

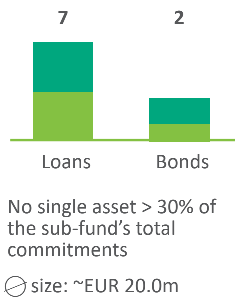
Closing Process



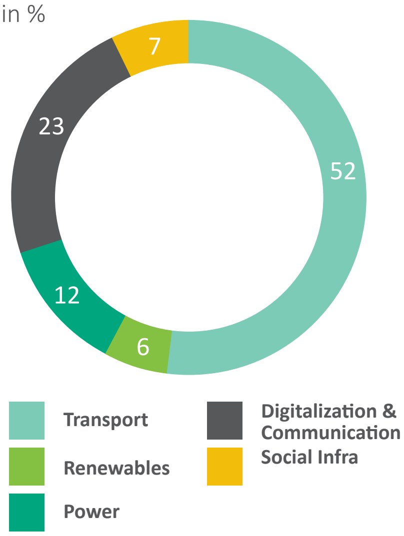
Portfolio Status 12/2019
in %



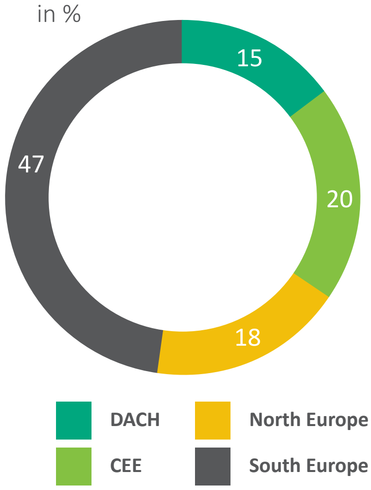
Strong quality asset pool



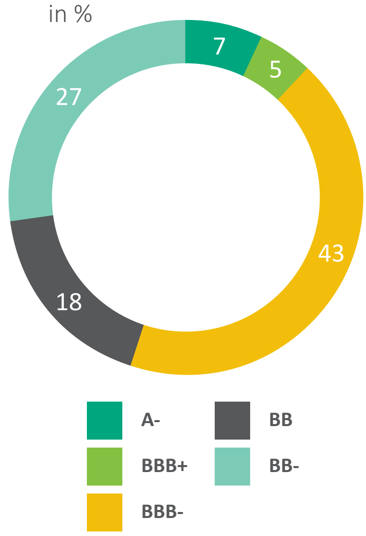
Sector Diversification
in %



Geographic Allocation
in %



Synthetic Credit Profile*
in %



* No external rating; internal rating methodology in accordance with S&P.

municipal authorities. Kommunalnet is an official component of the Austrian e-Government Roadmap.

Numerous projects were completed in 2019 to provide municipal authorities with even better assistance in their day-to-day tasks, to further expand the business segment and to leverage growth potential. The cornerstones of this were the roll-out of the new version of the master portal and the relaunch of the Kommunalnet website, which will be completed in the first quarter of 2020.

With 15,875 registered users from 2,061 Austrian municipalities and municipality associations, Kommunalnet has an exceptionally large market share in the municipal sector (96%) and thus enjoys a unique position in the Austrian market.

Since mid-2018, Kommunalnet has been cooperating with loanboox, a fintech company that operates an online platform for municipal loans. Since it went live, 70 municipalities and banks are already represented on the platform. A total of 360 municipalities have been contacted, over 60 financing requests have been published to date via the portal.

TrendMind IT Dienstleistung GmbH

TrendMind IT Dienstleistung GmbH (TrendMind) is an IT specialist for financial products, SAP and subsidy processing software. Its service portfolio includes not only conventional software development but also consulting services and technical project management. In these fields TrendMind primarily served customers from Austria and Germany for operation and maintenance.

Kommunalkredit TLI Immobilien GmbH & Co KG

Kommunalkredit TLI Immobilien GmbH & Co KG holds and maintains the properties at Türkenstrasse 9 und Liechtensteinstrasse 13. The office premises of the properties are mainly leased to Group companies.

Kommunalleasing GmbH

Kommunalleasing GmbH is a joint venture with BAWAG P.S.K. (50:50). The company finances a portfolio of EUR 65.6m in the municipal leasing sector. The company has not engaged in any new business since August 2008 due to changes in municipal tax law.

Three questions to Lucas Sobotka, Kommunalnet Managing Director

Have the municipal authorities reached the digital age?

They did a long time ago. Municipal civil servants – from the mayor's office down – use digitalisation in their day-to-day duties. Otherwise it wouldn't be possible to offer citizens such an extensive range of services. Communication is increasingly digital. But face-to-face communication will always play a key role, because it lets me look a person in the eyes.

Could it be said that Kommunalnet has networked Austria?

That's certainly true. Kommunalnet is represented from Lake Neusiedl to Lake Constance. Over 2,000 of the 2,096 Austrian municipalities use our network for efficient information exchange. This makes collaboration easier and supports the daily activities of municipal authorities. We are creating a network for Austria's municipalities.

What will 2020 and 2021 be remembered for?

Austria's largest municipal platform will grow in a way that is fit for the future. We will continue to occupy ourselves with improvements, additions and further developments so that our users can benefit from the latest technology at a low cost. We already satisfy all relevant e-Government standards – from the Citizen Card to the combined municipal platform "Portalverbund". And we will continue to do so.

Employees

WE ARE KOMMUNALKREDIT.

Kommunalkredit's great performance depends substantially on the commitment and performance of each individual employee. We all pull together to succeed. Individual knowledge and personal abilities are applied to the benefit of the company's overall performance. Together as a team we consistently pursue our goals.

Our Code of Conduct in practice

Responsible business management is the basis for our long-term success. Professional standards and basic ethics are the norm in our day-to-day business and codified in our Code of Conduct. Kommunalkredit is committed to complying with the highest compliance standards and is aware of its corporate social responsibility. Appreciation, problem-solving, performance and innovation – both internally and externally – are key pillars of how we engage with one another every single day. With respect, transparency and dependability, we also help to maintain a positive public image of the financial industry.

Having the trust of customers, partner banks, investors, owners, regulatory authorities and supervisory authorities as well as all of our colleagues is important to us. We see an open dialogue with our stakeholders as a chance to exchange knowledge and evolve, and as an opportunity to pass on our experience. The primary objective is to foster and strengthen the trust in our company.

Internal Governance encourages and ensures fair competition and protects our customers' interests. The principle of sustainability in our business strategy is also reflected in the Bank's internal organisation. The procurement and care of materials, the supply of working resources and proper disposal must satisfy the high standards of environmental protection and sustainability.

Training and education as factors for success

We have a top-class team with extensive international know-how and a broad range of experience in the infrastructure business. And we invest selectively and carefully to build on this competitive advantage.

Recruiting and retaining talented and motivated employees and ensuring their continued development is something that we therefore see as an essential aspect of our management duties. Training, education and personnel development are essential in ensuring that employees can identify with the company and are thus also essential to the success of Kommunalkredit itself. We support both professional and personal development.

Personnel development for us means helping employees in a targeted manner to do their jobs as best they can and to overcome the challenges that they encounter in their working environment. We also understand personnel development to be a link between the corporate strategy and the employees. Its purpose is to encourage commitment and drive development among employees and managers. And it plays an important role in ensuring that we remain true to our vision and mission together and achieve our goals. This is a path that we would like to follow together, which is why we have created a "developing pool" to provide young employees with support and encouragement in their ongoing development.

Employees should see themselves not only as employees, but more as contributors and shapers. Our common goal is to create an environment where people can exploit and apply their talents and gifts to the fullest. It should be demanding and performance-oriented, but also a positive, respectful and healthy working environment. This also includes acknowledgement of the need for a healthy work-life balance. Only this creates the space needed for an arm's length or top-down perspective to generate momentum, produce ideas and foster creativity.

Employee opinions as a yardstick

Continuous discussions with our colleagues are especially important as they are the ones "out there" in the market and are therefore key ambassadors of the company. You can only do your best if you feel your best. After 2018, we again performed an employee survey for evaluation purposes in 2019 to provide us with a sounding board and to provide managers with the opportunity to optimise their areas.

With a participation rate of 65%, a high value compared to others in the sector, we have achieved very positive results. A commitment level of +21% compared to the initial survey and an enablement level of over 72% (+14%) are evidence that our training and education measures and personnel development activities are bearing fruit.

Alongside regular face-to-face employee meetings and transparent communication, we also established a number of important additional precedents in 2019:

- Launch of talent management with focus on young performers and experienced experts
- Best practice meetings with various divisions to reinforce company-wide collaboration
- Expansion of training opportunities available to all employees to encourage further development of the business model
- Review of requirements of a modern remuneration system (performance-linked payment, performance evaluation, employee-focus, employee development, motivation, retention)

Employees as the engine of the company

The company's employees are the engine that drives it. As of 31 December 2019, the number of employees of the Kommunalkredit Group was 251 full-time equivalents (31/12/2018: 253). 161 of these worked for Kommunalkredit Austria AG (31 December 2018: 162; three other employees delegated to KA Finanz AG on a full-time basis), while 90 worked for Kommunalkredit Public Consulting GmbH (31/12/2018: 88). Of the 161 banking employees, ten work from the branch office in Frankfurt am Main.

The year 2019 was also defined by the expiry of the Service Level Agreement with KA Finanz AG that had been in effect since 2009. On 31 March 2019 services were discontinued as planned, and the contractually agreed one-year period of notice was used to put migration measures in place. In connection with this and to reinforce the Bank's core business, capacities were restructured and expanded in the market and back-office units.

The share of women in the Kommunalkredit Group was 45% (34% in management positions) as of 31 December 2019. The average age was 43. The share of academics remained stable at 66%. Nine women and three men were on parental leave as of 31 December 2019; during the year, nine employees took parental leave and four employees took a "dad month" – as established in the collective bargaining agreements for births from 1 July 2011 onwards – or took "family leave" – as established for births from 1 March 2017 onwards.

The diversity of our employees is a fundamental asset and indicative of a modern, dynamic business. We address each other as respectfully and appreciatively as we do our customers. Fairness and acknowledgement of each other's skills, privacy and individual needs are key to this. Discrimination due to gender, origin, nationality, skin colour, sexual identity, age, disability, religion or worldview has no place at Kommunalkredit. Managers are expected to set a special example in this regard. As of 31 December 2019, 20 nationalities contributed to a strong corporate culture.

251 employees

66% share of academics

45% share of women

43 years average age

20 nationalities

2 locations

1 mission

Communication

CAPABLE. ACTIVE. TRANSPARENT.

Kommunalkredit places great value in communicating openly with its stakeholders – the company, customers, business partners, investors, the media, regulatory authorities, shareholders, and of course, its employees.

Engagement

In the 2019 financial year, communication measures again focused on clearly positioning the Bank as a specialist for infrastructure and energy financing as well as public finance – whether as an in-demand advisor and financier for the public sector or as a point of contact for businesses and investors who are involved in the creation, acquisition and/or operation of infrastructure or energy projects.

To engage with our stakeholders, we use a broad spectrum of communication channels. These include personal communication methods as well as digital media, conventional PR efforts and direct marketing. External communications focused on intensifying exchanges with the media, both in the Austrian domestic market and in international specialist infrastructure-related media. Marketing activities were performed most notably for the two online investment platforms KOMMUNALKREDIT DIREKT (for municipal authorities and businesses) and KOMMUNALKREDIT INVEST (for private customers).

Kommunalkredit is traditionally rooted in Austrian town, city and municipal authorities – after supporting the public sector for consulting and financing in relation to infrastructure projects (public finance), we also continued our partnerships with the two most important municipal decision-makers in Austria in 2019. At the Congress of City & Town Authorities held by the Austrian Association of Cities & Towns, we were represented just as effectively as a cooperation partner as we were at the Congress of Municipalities held by the Austrian Association of Municipalities. For 15 years now, the KOMMUNALE SOMMERGESPRÄCHE (Municipal summer talks) held jointly with the Austrian Association of Municipalities – also a minority shareholder of our Bank – have provided us with a forum that unites national and international guests from political, business, academic and media circles to Bad Aussee for active discussions.

Our experts from the Bank and also from our subsidiary Kommunalkredit Public Consulting (KPC) are highly sought-after speakers at numerous specialist events within Austria and abroad. KPC is also well-positioned in the Austrian market in the field of subsidy processing and sponsors sustainable initiatives such as the Waste Award of the Austrian Water and Waste Management Association (ÖWAV, Österreichischer Wasser- und Abfallwirtschaftsverband) and the Neptune Water Award (from the Federal Ministry for Sustainability and Tourism). KPC participated as a member of Austria's official negotiating delegation in the 2019 UN Climate

KOMMUNALE SOMMERGESPRÄCHE

MUNICIPAL SUMMER TALKS 2019

"Infrastructure is the lifeblood, the nervous system. (...) We are talking about technical infrastructure – digitalisation, broadband – we are talking about social infrastructure – education, nursing."
Alfred Riedl, President of the Austrian Association of Municipalities, Mayor of Grafenwörth (Lower Austria)

"I believe that the social quality of life is wholly dependent on how a municipality's internal structure is in relation to civil society."
Matthias Horx, Futurologist

"(...) future mobility (...). It must be affordable, must effectively combine public transportation with private means, and in particular we are researching solutions involving autonomous systems."
Jost Bernasch, Managing Director of Virtual Vehicle

"The foundations for shaping the future (...), broadband is simply essential."
Johanna Mikl-Leitner, Governor of Lower Austria

"We can see in many European countries that the municipalities would like to make investments, and indeed need to, but are unable to."
Marcel Fratzscher, President of the German Institute for Economic Research

"The social infrastructure, the digital infrastructure, but also the ecological infrastructure ... there's potential."
Wilhelm Molterer, Managing Director of EFSI

"Infrastructure is the heart of any society. We need the courage to act and to invest in revolutionary technologies with promising futures."
Bernd Fislage, Chief Executive Officer of Kommunalkredit

Change Conference in Madrid. With regard to our investor relations activities, we engage closely with investors, analysts and business partners.

We are aware of our responsibility as an employer. In internal communications, we place great value in ongoing transparency and respectful conduct within the company. To this end, we employed formats in 2019 such as town hall meetings, employee lunches, mentoring programmes, internal roadshows, newsletters and our intranet. The activities of the sustainability team and the employee committee provided support with the active exchange of information.

Research & development

PRODUCT DEVELOPMENT AND DIGITALISATION.

At Kommunalkredit, no research activities are conducted as defined by § 243 (3) Z 3 of the Austrian Commercial Code (UGB). However, its activities as a specialist bank for infrastructure and energy financing involve a clear strategic focus in a broad spectrum of different segments and a high level of diversification in products and customers. The development of made-to-order products and the expansion of the digital customer portals are therefore key to the intensification of our customer relationships.

Product development

In the high-growth infrastructure finance market, Kommunalkredit acts as a bridge between project sponsors on the one hand (infrastructure constructors and operators) and institutional investors such as insurers or pension funds on the other. We link industry expertise with structuring know-how and the financing opportunities of a bank. Kommunalkredit caters to the entire infrastructure financing value chain – from consulting to structuring and from financing to risk hedging, we develop a broad range of tailored, individual solutions for our customers and partners. This also encompasses investment opportunities for municipalities, businesses and private customers as well as recognition of support instruments. Our strategic innovations were recently awarded third place in the ranking of specialist banks by Austrian journal "Der Börsianer" in 2019.

Digitalisation

Kommunalkredit is very active in the ongoing progress of digitalisation. The two application procedures in our online investment platforms KOMMUNALKREDIT DIREKT (for Austrian municipal authorities and businesses) and KOMMUNALKREDIT INVEST (for private customers in Austria and Germany) offer user-friendly access to the portals. Developed jointly with Fintech Group AG – a provider of digital financial technologies with its registered office in Frankfurt am Main – financial services comparison site capitalo.at awarded KOMMUNALKREDIT INVEST's term deposits with an excellent 4.8 out of 5 stars in 2019. The reason stated for this was that it was a savings product enriching the Austrian investment market.

Other material disclosures

GOVERNING BODIES. CAPITAL. SERVICE AGREEMENT.

In the 2019 financial year, the structure of Kommunalkredit's governing bodies changed. And while the Service Agreement with KA Finanz AG expired in the first quarter, the owners provided a capital increase at the turn of the half-year.

Change on the Executive Board | Broadening of the Management Board

On 31 January 2019 Jörn Engelmann left the Kommunalkredit Executive Board upon expiry of his contract. Since 1 February 2019, the Executive Board has consisted of Bernd Fislage (Chief Executive Officer) and Jochen Lucht (Chief Financial Officer, Chief Risk Officer, Chief Operating Officer). In the Supervisory Board meeting of 28 November 2019, Bernd Fislage was reappointed as CEO for a term of office of five further years.

In order to deepen the expertise in the back-office divisions and broaden the management structure, two executive vice presidents (Generalbevollmächtigte) were appointed as of 1 September and 1 December respectively. Kors Korsmeier and Harald Brunner serve as intermediaries between the Executive Board member responsible for the Back Office and the Division Heads. Jointly with the Executive Committee – comprising the management personnel from Market, Back Office and Strategy – they support the Executive Board in day-to-day business.

Capital increase for further growth

In the second quarter of 2019, a capital increase of EUR 20m was executed as planned. Shareholder Gesona Beteiligungsverwaltung GmbH (Gesona) subscribed to the entirety of the newly issued shares. In combination with the retention of the 2018 annual profit to the amount of EUR 30.4m, this results in a total capital increase of EUR 50.4m as against the previous year.

Furthermore, we plan to retain EUR 20.4m of the EUR 30.4m profit from the 2019 financial year for a capital increase.

The capital increase is a clear sign by Gesona of its support for Kommunalkredit's consistent implementation of its growth plans; its underwriting capacity is increasing and the bank can benefit from economies of scale. As of 31 December 2019, Kommunalkredit reported total capital of EUR 356.5m (31/12/2018: EUR 323.7m) and Common Equity Tier 1 of EUR 303.6m (31/12/2018: EUR 265.5m).

Expiry of the Service Agreement with KA Finanz AG

From 2009 onwards, a Service Agreement governed operating services provided by Kommunalkredit for the banking operations of KA Finanz AG; the expense was billed to KA Finanz AG. A small number of employees were also delegated to KA Finanz AG on a full-time basis under a staff services agreement (as of 31/03/2019, 3 employees).

These services were discontinued with effect from 31 March 2019. Kommunalkredit terminated the service agreement with KA Finanz AG in the first quarter of 2018 and used the contractually agreed notice period of one year to put migration measures in place and to prepare for corresponding capacity adjustments, which were implemented in the first half of 2019. The termination of the KA Finanz AG services allows Kommunalkredit to focus more closely on its core business.

Significant events after the reporting date

Following the outbreak of the coronavirus at the end of 2019/ beginning of 2020 in China and its ensuing spread into a global pandemic, all forecasts regarding economic developments and trends must be revised. Interruptions in economic production and the service sector as well as rising unemployment figures are factors of which the impact cannot be calculated at this time. Rising inflation rates are also a possibility in spite of the fact that Saudi Arabia and Russia, the world's leading oil producers, have failed to reach an agreement on production cuts since early March 2020, causing a drastic drop in oil prices. Oil prices are now expected to remain under pressure for some time, also due to the lower demand resulting from the coronavirus pandemic.

In addition to comprehensive public health measures, monetary and fiscal policy measures have been defined, particularly in Europe and the USA, to cushion the blow to the real economy. These include both rescue packages running into the billions that were adopted at short notice to support the economy as well as diverse regulatory relief measures passed by central banks and supervisory authorities. The medium- and long-term effects of these aid programmes can still not be estimated from our current standpoint. The longer the state of emergency lasts, the more severe the impact on the global economy will be. European and global economic performance is expected to fall considerably. Depending on the development of the coronavirus pandemic, further risks could materialise which could have a more severe impact. These cannot be quantified at present.

Should this special economic situation remain in place for longer, the resulting challenges will have a considerable negative impact on the liquidity position of companies. Negative effects on demand and a shrinking working population will severely impact finance markets. Liquidity bottlenecks affecting customers or projects could also lead to precautions at Kommunalkredit.

The demand for sustainability and intact infrastructure in Europe will nevertheless remain high in the future and will become more relevant as a result of the coronavirus pandemic. Public-sector and private-sector decision makers will become increasingly aware of the need to maintain, modernise and expand state-of-the-art infrastructure assets in the areas of supply, digitalisation, communication, transport and social infrastructure. Therefore, the focus will increasingly move towards infrastructure projects and public finance. Even – or especially – in this environment, Kommunalkredit will do its part to overcome the effects of the crisis.

Internal Control System

REPORT ABOUT KEY FEATURES OF THE INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM IN RELATION TO THE ACCOUNTING PROCESS.

The Executive Board of Kommunalkredit is responsible for establishing and structuring an Internal Control System (ICS) and Risk Management System that meets the needs of the company regarding the accounting process. The Audit Committee monitors the effectiveness of the ICS and the accounting process as a whole.

Definition of purpose

The ICS encompasses all processes designed by the Executive Board and executed within the company that are used to monitor and control

- the effectiveness and efficiency of the operating activities for the purpose of protecting assets against loss as a result of damage and misappropriation,
- the reliability of financial reporting and
- compliance with the statutory regulations of relevance for the company.

The objective is to assist the management in such a way that enables it to ensure the performance of effective and continuously improving internal controls regarding accounting processes. The ICS is designed to ensure compliance with policies, guidelines and regulations and to create favourable conditions for specific control measures in key accounting and financial reporting processes. Within the accounting process, the ICS is procedurally organised on the basis of an intended standardisation of processes in the Finance division and in the Accounting, Financial Reporting & Taxation teams and in Reporting & Managerial Accounting. Visual procedural descriptions, policies, guidelines and work instructions are in place for processes. The two-person-review principle defined therein for major operations is mandatory. Data and IT systems are protected from unauthorised access. Relevant information is only provided to those employees who actually require the information for their work. Results are coordinated between divisions where necessary.

The Kommunalkredit ICS comprises the five components of the COSO[21] framework: control environment, risk assessment, control measures, information and communication as well as monitoring activities.

Control environment

The control environment is based on communication and the corporate culture in which management and employees work. Kommunalkredit always works to ensure effective communication and to convey the company's own guiding principles as laid out in the "Code of Conduct". Key organisational principles include the avoidance of conflicts of interest by strictly separating market and back-office units, transparently documenting core processes and control steps in risk and control matrices, and the consistent application of the two-person-review principle. With their diverse functions and rules of business, the committees of the Supervisory Board lay out the responsibilities of the Executive Board and limit the scope of possible action at the highest level of the company.

The implementation of the ICS regarding the accounting process is also defined in the internal policies and regulations. These ensure that transactions and the sale of company assets are disclosed correctly, compliantly and in sufficient detail. Functions that play a key role in the accounting process – Finance and Risk Accounting – are clearly separated and are organised into separate divisions. Other committees (Risk Management, Fixed Valuation committee) and divisional meetings serve as interdivisional forums for various specialist divisions. Executive, transactional or administrative activities such as payments and payment booking are clearly isolated from one another or are subject to the two-person-review principle.

Within the procedural organisation in Finance as well as in the Accounting, Financial Reporting & Taxation teams and in Reporting & Managerial Accounting, standard software is used for booking, cross-checking, controls and reporting as far as possible to avoid errors based on the particular system.

Internal Audit independently and regularly reviews compliance with internal regulations relating to the accounting process. The Internal Audit management reports on a monthly basis directly to the Executive Board and on a quarterly basis to the Supervisory Board.

[21] COSO: Committee of Sponsoring Organisations of the Treadway Commission

Risk assessment

The main risk in the accounting process is that circumstances may not be accurately represented in keeping with the company's assets, financial position or income due to errors or wilful misconduct. At Kommunalkredit, risks are identified in relation to the accounting process by the process managers; these are then described and monitored in risk & control matrices in accordance with the specified methods. All identified risks must be evaluated and measures must be taken in line with the nature of the risk to protect against and mitigate these by means of optimised processes. The focus is on those risks deemed to be material. Internal control measures implemented by the specialist divisions undergo regular evaluation.

Existing control activities

All control measures are applied to current business processes to ensure that potential errors or deviations in financial reporting are prevented or are identified and eliminated.

Control activities relating to accounting are described in policies, guidelines and work directives for recording, booking and accounting for transactions and in processes and risk and control matrices. Based on risk assessments, control steps and key controls are defined for the processes. Compliance with the key controls defined in the risk and control matrices is reviewed in its entirety by the division management, with spot checks performed by the ICS Officer and Internal Audit.

The software used for accounting and reporting is market-standard software (SAP). Automated controls (validations) are performed in SAP and manual controls are performed by employees in the Accounting & Taxation team as well as the Accounting team in SAP and SAP BW. These perform extensive plausibility and data quality checks in several stages.

Control activities relating to accounting and IT security are a cornerstone of the ICS. Separation of sensitive activities by restrictively assigning IT rights and strict observance of the two-person-review principle are closely monitored. To increase the quality of controls, various divisions are involved in certain processes and agreement is required. For example, the inter-divisional new product launch process serves to ensure that the products are represented in a standardised and systematic way for accounting purposes. The processes and results of the market valuations performed by the Risk Controlling, Team Valuation & Modelling division for the given fixed valuation day are also discussed and agreed. Another example of inter-divisional agreement is the process for creating annual reports and interim reports. All divisions involved must confirm the content of these reports before they are accepted by the Executive Board. All materially affected divisions agree on the content of the annual and interim reports beforehand in editorial meetings.

Information and communication

Kommunalkredit's divisions – in particular Finance and Risk Controlling – regularly report to the Executive Board (in particular in the form of monthly and quarterly results). The Executive Board in turn regularly reports to the Supervisory Board. The Head of Internal Audit, the Risk Manager and the Compliance Officer also report directly to the Supervisory Board.

The flow of information includes the calculated data for the company (balance sheet, income statement, budget and capital planning statements, target/actual comparisons, including comments on major developments), a quarterly risk report, reports and analyses on liquidity risk for the Markets division, and reports and analyses on the Banking division's operating activities. The owners, investors and market partners as well as the public are comprehensively informed via a half-year report and the annual financial report. The requirements laid out by statutory provisions regarding ad hoc disclosures are also satisfied.

Monitoring

Financial statements to be published are subject to a final review and expressed approval by senior employees, employees of the Financial division and the Executive Board before being forwarded to the Audit Committee of the Supervisory Board.

The active monitoring of compliance with all rules aims to ensure that all operating processes are as reliable as possible and to ensure consistency with Group-wide internal and statutory regulations. If risks and flaws in control processes are discovered, remedial and preventative measures are developed promptly by those responsible and the implementation of the follow-up measures is monitored.

To ensure compliance with regulations and banking requirements, compliance with the requirements is also reviewed based on the annual audit plan laid out by Internal Audit.

In the year under review, the existing processes and control activities related to the ICT (information & communication technology) risk management in particular were expanded and documented in working directives and risk and control matrices.

Risk management

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. The risk assessment involves identifying the main types of risk for the bank 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 using 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 context 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 defined risk appetite in conjunction with the risk-bearing capacity (ICAAP – Internal Capital Adequacy Assessment Process and/or ILAAP – Internal Liquidity Adequacy Assessment Process) and the willingness to assume risk 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 foreign exchange 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 are exclusively risk-free through-trading activities in connection with 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.

2. Organisational structure of risk management and risk monitoring

The overall responsibility for ICAAP lies with the Executive Board in line with the schedule of responsibilities; it derives the risk policy principles and the risk strategy from Kommunalkredit's business policy strategy. The Executive Board also decides on the risk management procedures to be applied and regularly informs the Supervisory Board and/or its committees (in particular the Risk Committee, the Audit Committee and the Credit Committee) on Kommunalkredit's risk position.

Kommunalkredit has established an organisational structure for risk management which clearly defines and sets out the tasks, competences and responsibilities in the risk management process. Risk-taking organisational units (front office) are therefore clearly separated from organisational units in charge of monitoring and communicating risks (back office) at all levels up to the Executive Board. The Chief Risk Officer (CRO) is responsible for the risk management function, which is independent of the front office, as a member of the Executive Board. The CRO receives technical and operational support from a chief representative, the Risk Controlling and Credit Risk Management departments, and the Operational Risk Officer, in particular. The chief representative and the Operational Risk Officer have direct access to Kommunalkredit's Executive Board. This means that the organisational structure also meets the regulatory requirement of separation between front-office and back-office functions.

Pursuant to § 39d of the Austrian Banking Act, a Risk Committee has been set up within the Supervisory Board. The committee's mandate includes, in particular, advising the management on the current and future willingness to take risks 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 bank's risk position in the form of 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 bank's overall risk position 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 setting limits (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 Markets 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 to the ALCO, a detailed daily liquidity monitoring process is in place

The weekly Credit Committee (CC) meeting is the central element of the credit approval process and the continuous portfolio and single-name review process. In organisational terms, Credit Risk Management is 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 the overall bank management process is to optimise the use of capital resources in terms of risk and return within the limits 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, the latest versions of which can be downloaded via the Intranet at any time by all staff members concerned.

The following types of risk were identified up to the balance sheet date and are monitored on an ongoing basis 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
  - Foreign currency risk
  - Commodity risk
  - Credit spread risk
  - Basis spread risk
  - Option 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
  - Information and communication technology (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.

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 the deliberate management of risks in day-to-day business, observance of the agreed risk appetite at all times 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 assuming business activities in new fields of business or selling new products, the risks involved and the suitability of the existing methods, instruments and processes for the management of such risks are analysed. A product approval process has been implemented at Kommunalkredit for this purpose.
- 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's staff and the systems in place must correspond to the complexity of the business model and must 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, in particular. A capital buffer is kept available for risks that have been identified but are not (yet) sufficiently measurable.
- The risk measurement results have to be subjected to regular stress testing and taken into account when 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 Kommunalkredit's risk position being produced at least once a month and, if necessary, supplemented by ad-hoc risk reports.
- Core bank functions and important controlling functions are only outsourced under the condition that an adequate level of in-depth knowledge 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.

4. Securing minimum capital adequacy

ICAAP and ILAAP 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, capital and liquidity resources that are commensurate with the risk profile of the business model, and the use and continuous further development of suitable risk management systems.

The economic capital required for the main types of risk (in particular: liquidity risk, credit risk, market risk and syndication risk) is calculated using 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. The economic perspective serves to secure the adequate long-term capitalisation and economic substance of the bank.

Kommunalkredit uses the method of risk-bearing capacity analysis for the quantitative assessment of its capital adequacy; this involves comparing the economic risks 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 that the company is liquidated, all lenders can have their claims satisfied with a defined level of 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 of 31 December 2019, the economic risks correspond to 42.1% (31/12/2018: 34.1%) of the aggregate risk cover, the risk buffer being 57.9% (31/12/2018: 65.9%).

- **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.
  - All risks impacting on profit and loss must be covered by the budgeted profit for the year, realisable reserves and the "free tier 1" capital. Free tier 1 is the tier 1 portion that extends 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 the options for realisation and external effects; corresponding early warning levels have been introduced. A confidence level of 95% is used in determining the economic risk.
  - Risk status: As of 31 December 2019, the economic risks correspond to 59.0% (31/12/2018: 52.4%) of the aggregate risk cover, the risk buffer being 41.0% (31/12/2018: 47.6%).

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

Additionally, stress tests are performed on a regular basis to test the robustness of the business model and to ensure capital adequacy. This involves defining two different economic scenarios (general recession scenario and portfolio-specific stress) and quantifying their impact on the bank's risk-bearing capacity. 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 until regulatory or internal minimum requirements can no longer be met.

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. This allows assets and off-balance sheet transactions to 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 effectiveness and discriminatory power of the rating procedures and their ability to forecast defaults are checked regularly and adjusted if necessary.

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 as part 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 of 31 December 2019 amounted to 10.8% (31/12/2018: 7.6%) 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 of 31 December 2019 amounted to 23.8% (31/12/2018: 18.7%) 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 ad-hoc analyses and regular stress tests, and adequate risk buffers are maintained.

5.2. Breakdown by rating

The breakdown of credit exposure by rating shows that the exposure is concentrated in the top rating categories: as of 31 December 2019, 35.6% (31/12/2018: 41.0%) of the exposure was rated "AAA"/"AA"; 76.7% (31/12/2018: 81.8%) 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 credit exposure* by rating 31/12/2019 in EUR m	Exposure	Proportion	of which securities	of which guarantees	of which loans
AAA	69.6	1.9%	55.9	0.0	13.6
AA	1,228.5	33.7%	200.2	0.0	987.1
A	502.4	13.8%	104.8	0.0	360.6
BBB	992.6	27.2%	172.2	3.8	766.4
BB	711.7	19.5%	0.0	0.0	711.6
B	139.0	3.8%	0.0	0.0	139.0
CCC	0.0	0.0%	0.0	0.0	0.0
D	0.0	0.0%	0.0	0.0	0.0
not rated	0.0	0.0%	0.0	0.0	0.0
Total	**3,643.5**	**100.0%**	**533.2**	**3.8**	**2,978.3**

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

Breakdown of credit exposure* by rating 31/12/2018 in EUR m	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
not 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.

5.3. Concentration risk

Risk concentrations are taken into account in the process of loan origination, monitored in the course of the monthly credit risk reports submitted to the RMC, and shown in reports submitted 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 primarily facilitate 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 0.5bn (31/12/2018: EUR 0.6bn) to the Austrian provinces, accounting for 42.1% (31/12/2018: 42.2%) of the total exposure. It includes broadly diversified mortgage loans in a total amount of EUR 151.9m (31/12/2018: EUR 163.2m) that are guaranteed by the Austrian provinces concerned.

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 RMC and at least once a year to the Credit Committee of the Supervisory Board. For each country, information on the country rating, limit utilisation and exposure by product type is monitored.

Geographically, most of the exposure is accounted for by EU Member States (EU, incl. Austria, 90.6%; 31/12/2018: 94.4%).

Breakdown of credit exposure by region 31/12/2019 in EUR m	Exposure	Proportion	of which securities	of which guarantees	of which loans
Austria	1,500.5	41.2%	150.9	1.3	1,338.6
EU-28 (European Union excl. Austria)	1,801.8	49.5%	291.2	2.5	1,391.7
of which EU-19 (euro area excl. Austria)	*1,334.7*	*36.6%*	*239.1*	*2.5*	*1,046.0*
Non-EU Europe	76.8	2.1%	9.0	0.0	65.7
Other	264.4	7.3%	82.0	0.0	182.2
Total	**3.643.5**	**100.0%**	**533.2**	**3.8**	**2,978.3**

Breakdown of credit exposure by region 31/12/2018 in EUR m	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**

Exposure to sovereign states and local authorities as of 31 December 2019

Direct exposures to sovereign states and local authorities as well as exposures guaranteed by sovereign states in the countries belonging to the euro area (EU-19) are broken down as follows:

Direct exposures 31/12/2019 in EUR m	Exposure	of which sovereign states	of which local authorities	of which govern-ment-guaranteed
Austria	1,073.8	0.0	1,052.1	21.7
Germany	18.5	0.0	4.9	13.6
Ireland	25.4	25.4	0.0	0.0
Slovakia	16.5	16.5	0.0	0.0
Slovenia	25.7	25.7	0.0	0.0
Italy	0.0	0.0	0.0	0.0
Lithuania	21.5	21.5	0.0	0.0
Spain	23.1	15.8	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 figures for 2018 are as follows:

Direct exposures 31/12/2018 in EUR m	Exposure	of which sovereign states	of which local authorities	of which govern-ment-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

Exposure to Austrian provinces as of 31 December 2019

Of Kommunalkredit’s total exposure to Austria in a volume of EUR 1,500.5m (31/12/2018: EUR 1,708.6m), the following exposures are to Austrian provinces and/or provincial entities guaranteed by provincial governments:

Total exposure Austria 31/12/2019 in EUR m	Direct exposure	Exposure guaranteed by provincial government	Total exposure
Province of Upper Austria	0.0	74.0	74.0
Province of Lower Austria	0.8	82.0	82.8
Province of Carinthia	11.4	74.6	86.0
Province of Styria	0.0	11.1	11.1
Province of Burgenland	0.0	95.5	95.5
Municipality of Vienna	9.9	0.0	9.9
Total	**22.1**	**337.2**	**359.3**

The comparative figures for 2018 are as follows:

Total exposure Austria 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
Municipality of Vienna	13.2	0.0	13.2
Total	**26.8**	**380.0**	**406.8**

In addition to the exposures listed in the table above, Kommunalkredit holds housing loans of Austrian provinces secured by mortgages in a total volume of EUR 151.9m (31/12/2018: EUR 163.2m) which are guaranteed by the provinces concerned (Upper Austria: EUR 68.4m [31/12/2018: EUR 72.4m]; Burgenland: EUR 83.5m [31/12/2018: EUR 90.8m]).

Portfolio quality

Given the good quality of 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 of 31 December 2019 (31/12/2018: 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.

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 ad hoc basis. Impairments to be recognised for defaulting loans are determined by Risk Management, subject to approval by the Executive Board (see Note 8).

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 of the reporting date of 31 December 2019, the exposure in risk class 1 (intensive management/performing) amounted to EUR 6.1m (31/12/2018: EUR 6.0m). None of Kommunalkredit's exposures are classified as belonging to risk classes 2 or 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.

5.6. Investment risk

Given the nature of the participations held, the investment risk is of minor importance.

5.7. Counterparty default risk from derivatives, repurchase transactions and securities business

Legally binding netting arrangements for derivatives and repurchase 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 set out in 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 standard 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 current value), considering CSAs and netting arrangements, plus an "add-on" for potential current value changes during the "residual period of risk" between the default of the counterparty and the closing out/replacement of the derivative transaction.

Repurchase transactions are cleared in the form of genuine repurchases, mainly via platforms with daily margining. If a counterparty default risk arises in repurchase or securities lending transactions for Kommunalkredit from the difference between the liability/receivable and the current 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. Given the settlement and clearing principles described above, the counterparty default risk from derivatives, repurchase transactions and securities business 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.

6. Liquidity risk management

In addition to the statutory provisions under the Austrian Banking Act, liquidity risk management is based, in particular, on the recommendations/standards published by the Basel Committee on Banking Supervision (BCBS) and on the guidelines and standards published by the European Banking Authority (EBA). Based on the ILAAP 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) generally arises if follow-up financing for asset portfolios cannot be secured according to the maturity schedules. The funding risk is determined by how diversified the funding sources are 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.

As far as the aspect of time is concerned, 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 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 for the base, bad and stress cases in order to ensure the bank's survival 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 existing business, cash outflows from new transactions, cash inflows from syndication agreements, retail deposits repayable on demand, repurchase 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, followed by monthly management thereafter.

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:

31/12/2019 in EUR m	Expected liquidity gap	Available liquidity	Liquidity position
Up to one month	442.8	254.4	697.2
More than one month up to three months	63.4	4.8	68.2
More than three months up to one year	126.8	276.7	403.4
Total	**633.0**	**535.8**	**1,168.8**

Die Vergleichszahlen 2018 stellen sich wie folgt dar:

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 months up to one year	-132.1	10.4	-121.7
Total	**280.3**	**272.4**	**552.7**

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 at the monthly RMC meetings.

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, responsibility for liquidity management is assumed by the emergency unit which then decides on the specific measures to be taken.

ILAAP

Introduced alongside ICAAP as part 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 of 31 December 2019. The figures for interest swaps, cross-currency swaps and currency swaps are shown in gross terms, meaning that only the cash outflows for the derivative in question are shown:

Cash flows in EUR million as of 31/12/2019	Liabilities at amortised cost	Derivatives designated as hedging instruments	Trading*
Up to one month	329.5	4.0	44.2
More than one month up to three months	172.0	2.9	160.6
More than three months up to one year	1,048.8	16.5	189.4
More than one year up to five years	1,437.0	59.4	54.2
More than five years	1,237.2	90.2	48.2
Total	**4,224.5**	**173.1**	**496.7**

* 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 2019 came to EUR 2.9bn (31/12/2018: EUR 3.1bn).

The comparative figures for 2018 are as follows:

Cash flows in EUR million as of 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.

Besides principal repayments, 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. This means that demand deposits and cash collateral received from collateral margining for derivatives are shown as repayable on demand. If the date of repayment is at the lender's discretion, the amount is allocated to the maturity range with the earliest possible redemption. If the date of repayment is at the discretion of Kommunalkredit Austria AG, a conservative view is applied. Payments that have been pledged but not yet called, as well as (any) guarantee lines granted, are also shown with the earliest possible call date.

7. Market risk management

7.1. Interest rate risk

When it comes to the measurement, management and limitation of interest rate risks from positions not held in the trading book, Kommunalkredit generally 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 enables 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, a statistical shift scenario based on absolute interest rate movements expressed in basis points is applied.

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 using 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 RMC 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 is 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 of 31 December 2019 in EUR million in the event of a parallel rise of short-term interest by +100bp:

EUR	USD	CHF	JPY	Other	Total
+1,8	0.0	-1.0	0.0	0.0	+0,8

- NPV risk of interest rate changes in Kommunalkredit's banking book as of 31 December 2019 in EUR million in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total	Total VAR
-0.2	0.0	-0.8	-0.1	-0.1	-1.2	-11.4

- NPV risk of interest rate changes of the IFRS interest rate risk position of Kommunalkredit impacting on P&L in EUR million as of 31 December 2019 in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total
+2,9	0.0	-0.7	-0.1	+0,1	+2,2

- NPV risk of interest rate changes of the IFRS interest rate risk position of Kommunalkredit impacting on OCI in EUR million as of 31 December 2019 in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total
-5.0	0.0	0.0	0.0	-0.1	-5.1

The comparative figures for 2018 are as follows:

- Annual net interest income effect from Kommunalkredit's repricing risk as of 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 of 31 December 2018 in EUR million in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total	Total VAR
+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 of Kommunalkredit impacting on P&L in EUR million as of 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 of Kommunalkredit impacting on OCI in EUR million as of 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

7.2. Currency exchange risk

The currency exchange 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 foreign currency derivatives, in a given currency.

To measure the risk, a VaR of the open foreign currency position according to the Austrian Commercial Code (UGB) 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 the Austrian Commercial Code (UGB) is closed daily. The FX VaR as of 31 December 2019 was TEUR 0.3m (as of 31/12/2018: EUR 2.8m).

7.3. Spread widening risk

The spread widening risk is the risk of losses in value due to market-related changes in credit spreads. Securities classified as current assets are relevant in the Austrian Commercial Code (UGB) P&L, as are all those assets that have a fixed syndication specification within the coming twelve months.

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.

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 -1.7m as of 31 December 2019 (as of 31/12/2018: EUR -1.0m based on a -/+30bp 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 of 31 December 2019, there were no P&L-relevant option price risks.

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 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 with the involvement of 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 made in the operational default database serve as input and provide feedback for the reassessment of risks. The Executive Board and the senior management are informed about operational risks at the monthly RMC meetings.

Kommunalkredit uses the standardised approach to quantify its own funds requirements. The own funds held on this basis significantly exceed the actual losses suffered in the past.

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 recovery plans as well as the implementation of measures designed to minimise interruptions of critical business processes. This includes providing alternative workplaces in the event of Kommunalkredit's office premises not being available.

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 ICT 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 2019.

Outlook

CHALLENGES. OPPORTUNITIES.

2020 will be challenging, and will require courage: Courage from politicians to make clear decisions that will cushion the economic impacts of the coronavirus pandemic on both the corporate sector and private individuals, and courage to lay the foundations for the rapid recovery of the global economy. It will also require courage on the part of the economy to stimulate investments. The path for structural reform and public investment to revive long-term growth is an opportunity to take a positive approach to overcoming these challenges.

Development of the economy

2020 is expected to bring a considerable slump in global economic output. The main risk factor lies in the consequences of the outbreak of the coronavirus pandemic – which are currently impossible to estimate realistically – and the drastic restrictions it has imposed on public and economic life. The economy was already at risk from the establishment of further trade barriers, persistent uncertainty regarding the consequences of Brexit, and the actual effect of the political measures planned to prevent an intensification of the economic slowdown in China. The global economy was heading towards a phase of de-globalisation. These risks have now been overshadowed by the current uncertainty surrounding the duration of the coronavirus pandemic and the actual impact it will have on the real economy in the short and medium term. Countless measures have already been taken to stop the public health crisis from evolving into a global economic and financial crisis.

In addition to the comprehensive measures taken to slow the further spread of the coronavirus, which are essential from a public health perspective, far-reaching monetary and fiscal policy measures have been defined, particularly in Europe and the USA, to cushion the blow to the real economy. These have included rescue packages running into the billions to support the economy as well as monetary policy and regulatory relief measures passed by central banks and supervisory authorities. The US central bank (Fed) slashed its key rates to within a range of 0.00% to 0.25% in mid-March 2020. The ECB, on the other hand, opted not to cut its rates any further, at least for the time being, but announced additional asset purchases of EUR 120bn in the period leading up to the end of 2020, which were increased a short time later by a further EUR 750bn. The ECB also reduced the conditions for longer-term bank refinancing operations (TLTRO III) and offered additional short-term refinancing operations (LTROs) for the transition period leading up until the next TLTRO III tender. The measures are aimed at ensuring favourable refinancing and sufficient liquidity for banks. Further relief regarding the utilisation of existing capital and liquidity buffers in order to maintain the credit supply will accompany these instruments. As things stand at the moment, further support measures are likely to follow.

In this dynamic environment, and once the health crisis and its consequences have been overcome, Europe has an opportunity to leverage its geopolitical advantages. The European Union (EU) is currently planning to invest an additional EUR 1,000bn by 2030 (EUR 100bn each year) to make Europe the first carbon-neutral continent by 2050. Infrastructure investments will be made in the fields of clean energy, sustainable transport and a transition to a circular economy. As an experienced and established specialist bank for infrastructure and energy financing, Kommunalkredit is ready and willing to serve as a partner in light of the EU's new strategic and political direction.

Regarding Brexit: The EU and the United Kingdom agreed on a transition phase to last until 31 December 2020 in their withdrawal agreement. During this time, the United Kingdom will continue to be treated as an EU member state. The British Financial Conduct Authority and the Bank of England have assured through their "Temporary Permissions Regime" that there will be no changes for EU banks during the transition phase (even in the event of a "no-deal" Brexit). In the event of a no-deal Brexit, Kommunalkredit has, as a precaution, received temporary approval from the Bank of England to continue its business activities temporarily for up to three years after 29 March 2019. It does not expect any significant impact on its business.

To mitigate potential effects of reduced economic output as a result of Brexit, the British government planned a substantial increase in spending, accompanied by tax relief, to boost private consumption for 2020 and 2021. The outbreak of the coronavirus pandemic and the resulting conditions are expected to have an impact on the schedule planned by both the EU and the United Kingdom regarding negotiations on a trade agreement.

At the start of 2020, the ECB had launched a "strategy review" in which the inflation target of 2%, and the achievement of it, were to be examined. The most probable scenario up to then was that the ECB would not make any changes to the base rate or the deposit rates before the conclusion of the review, which had originally been planned for the end of the year. Initial downside risks, for example from a failure of trade talks between the UK and the EU, or from US import tariffs on the European automotive sector, have been eclipsed by the outbreak of the coronavirus pandemic. The rescue packages now required to maintain the economic cycle will likely push government debt levels up further in both Europe and the USA. This means that interest rates will remain low in the longer term, even though the ECB has held back with further rate cuts so far, unlike the Fed. However, low interest rates are also likely to be supported by expectations of falling inflation rates resulting from the collapse in oil prices in March 2020. This is the result of a price war between the world's leading oil producers, Saudi Arabia and Russia, and the lower demand associated with the restrictions imposed on public and economic life across the globe.

Trends on the European infrastructure market

Although the refinancing sector is already stretched to capacity, equity investors still aim to reduce lending costs over the longest possible term. This is why a greater focus on longer-term tranches is expected for institutional investors in the fixed-interest segment.

Depending on the concrete effects of the coronavirus pandemic, we expect to see an increase in brownfield[22]/M&A activities in 2020. This is due not only to low borrowing costs but also to the high liquidity for infrastructure equity funds, which always establish larger funds and are accordingly sensitive to investment pressure. For example, the Infra Fund IV of the EQT investment group in Sweden collected a volume of EUR 9bn in 2019. Also, owners are increasingly attempting to siphon the corresponding cash flows from operating assets early by means of refinancing at a holding company level or relevering in order to increase their equity returns.

Digital infrastructure in particular will see growth in activity. Several telecoms companies are planning to monetise their tower assets; Vodafone, for example, will be opening its portfolio (around GBP 2bn) to the market, while in Spain, Telefónica has specific plans to spin off its infrastructure asset portfolio (towers, broadband network) and sell parts of it.

Activities in the greenfield segment[23] are unlikely to see a boom in 2020. However, there are some positive signals from digital infrastructure – in particular regarding the expansion of fibre-optic networks in rural areas – although the outlook for traditional greenfield PPP (public-private partnerships) remains subdued. With a range of greenfield projects, Greece (motorway, social infrastructure), Italy (hospitals) and France (digital and social infrastructure) offer a substantial pipeline of possible transactions. The mood for 2020 is also positive in Central and Eastern Europe, both in terms of brownfield/M&A activities (such as energy deals in Romania) as well as greenfield activities (e.g. road projects in the Czech Republic).

Bernd Fislage (CEO, on the right) and Jochen Lucht (CFO, CRO, COO) represent the Executive Board.

[22] Brownfield projects are pre-existing infrastructure assets that are mostly already operational, whose financing is restructured mostly through M&A transactions (mergers & acquisitions).

[23] Greenfield projects are new infrastructure assets built "on greenfield land". Depending on the sector/condition, they are characterised by construction phases of varying length and by a variety of financing requirements up until the time of operation.

Kommunalkredit in 2020

The demand for sustainability and intact infrastructure in Europe will remain high in the future and will become even more relevant as a result of the coronavirus pandemic. Public-sector and private-sector decision makers will become increasingly aware of the need to maintain and modernise supply, transport and social infrastructure. Kommunalkredit is perfectly positioned as a specialist for infrastructure and energy financing in this environment and is a reliable partner thanks to its solid liquidity and capital resources. The infrastructure and energy sectors have already proven to be largely crisis-resistant in the past and, unlike corporate financing, are associated with low default rates and stable recovery rates that are largely independent of economic cycles. Consequently, given our deep market expertise, high level of diversification and quick reaction capabilities, we will be successfully continuing along our established path even in this environment, which is challenging for all of us. We pay particular attention to our network of project sponsors and investors and continue to further develop our range of products. This will allow us to generate high and sustainable results for our stakeholders in the future.

Public sector financing will continue to be an integral part of our business. In 2020, we plan once again to hold the KOMMUNALE SOMMERGESPRÄCHE (Municipal Summer Talks) jointly with the Austrian Association of Municipalities. For 15 years, these talks have provided opportunities to intensively discuss what occupies municipal authorities when it comes to financing.

Following the operational launch of our first sub-fund “Fidelio KA Infrastructure Debt Fund Europe 1”, the final close is nearly upon us. With this fund, we have managed to generate interest among investors for sustainable infrastructure projects as ideal investment opportunities.

We don’t see Kommunalkredit as just a bank. We see ourselves as a think tank, as a sparring partner for the full range of topics related to infrastructure, and as a vehicle for investment in areas of our society whose immense importance in the current environment must once again be emphasised.

Vienna, March 2020

The Executive Board of
Kommunalkredit Austria AG

Bernd Fislage
Chief Executive Officer

Jochen Lucht
Member of the Executive Board

SEPARATE FINANCIAL STATEMENTS OF KOMMUNALKREDIT AUSTRIA AG, VIENNA, FOR THE 2019 FINANCIAL YEAR

I. STATEMENT OF FINANCIAL POSITION (UNDER THE AUSTRIAN BANKING ACT)

	Assets in EUR	Note	31/12/2019		31/12/2018
1.	**Cash on hand and balances with central banks**			**462,612,821.11**	**314,408,013.21**
2.	**Debt securities from public issuers that are eligible for refinancing at the central bank**	4.1.		**160,039,035.51**	**149,344,969.80**
	Debt securities from public issuers		160,039,035.51		149,344,969.80
3.	**Loans and advances to banks**	4.2.		**113,404,393.74**	**97,807,856.91**
	a) repayable on demand		102,961,930.53		80,150,186.77
	b) other loans and advances		10,446,521.04		17,657,670.14
4.	**Loans and advances to customers**	4.3.		**2,577,990,481.20**	**2,520,817,666.10**
5.	**Bonds and other fixed-income securities**	4.4.		**322,941,388.77**	**268,834,415.31**
	a) of public issuers		85,428,493.72		80,400,549.32
	b) of other issuers		237,512,895.05		188,433,865.99
	including own bonds		*0.00*		*0.00*
6.	**Shares and other non-fixed-income securities**	4.5.		**50,024,000.00**	**0.00**
7.	**Investments**	4.6.		**23,964,095.00**	**22,215,095.00**
	of which in banks		*0.00*		*0.00*
8.	**Investments in affiliated companies**	4.6.		**32,671,146.24**	**32,700,665.00**
	of which in banks		*0.00*		*0.00*
9.	**Intangible non-current assets**	4.7.		**246,594.96**	**203,876.92**
10.	**Property, plant and equipment**	4.7.		**2,590,209.74**	**2,809,101.27**
	of which land and buildings used by the credit institution within the framework of its own activities		*0.00*		*0.00*
11.	**Other assets**	4.8.		**40,614,680.17**	**52,096,853.82**
12.	**Prepaid expenses/deferred income**	4.9.		**5,885,450.31**	**9,355,423.17**
13.	**Deferred tax assets**	4.10.		**9,834,794.20**	**8,170,133.11**
	Total assets			**3,802,819,090.95**	**3,478,764,069.62**

	Off-balance sheet items				
1.	Foreign assets			1,790,988,339.45	1,518,028,649.30

Equity and liabilities in EUR		Note	31/12/2019		31/12/2018
1.	**Amounts owed to banks**	4.11.		**487,373,701.73**	**496,040,147.86**
	a) repayable on demand		80,043,621.00		105,070,993.92
	b) with fixed maturity or period of call		407,330,080.73		390,969,153.94
2.	**Amounts owed to customers**	4.12.		**1,732,320,547.53**	**1,348,284,448.92**
	a) other liabilities				
	aa) repayable on demand		180,790,768.03		161,649,972.38
	bb) with fixed maturity or period of call		1,551,529,779.50		1,186,634,476.54
3.	**Securitised liabilities**	4.13.		**1,137,195,519.59**	**1,237,950,116.26**
	a) bonds issued		860,813,702.84		912,699,365.93
	b) other securitised liabilities		276,381,816.75		325,250,750.33
4.	**Other liabilities**	4.14.		**30,338,104.34**	**26,402,160.98**
5.	**Prepaid expenses**	4.15.		**12,501,886.21**	**17,309,255.42**
6.	**Provisions**	4.16.		**21,696,599.57**	**21,686,142.06**
	a) provisions for severance pay		3,188,175.36		3,387,075.23
	b) provisions for pensions		1,042,608.26		951,583.11
	c) tax provisions		29,701.47		22,833.29
	d) other		17,436,114.48		17,324,650.43
6.A	**Fund for general banking risks (§ 57 (3) Austrian Banking Act)**	4.17.		**40,000,000.00**	**40,000,000.00**
7.	**Supplementary capital**	4.18.		**67,525,194.90**	**67,527,328.62**
8.	**Subscribed capital**	4.19.		**172,659,452.81**	**159,491,290.16**
9.	**Capital reserves**			**6,831,840.55**	**0.00**
	a) fixed	4.20.	6,831,840.55		0.00
	b) unappropriated	4.20.	0.00		0.00
10.	**Retained earnings**			**68,277,086.54**	**51,761,933.32**
	a) statutory reserve	4.21.	7,277,086.54		5,761,933.32
	b) other reserves (unappropriated reserves)	4.21.	61,000,000.00		46,000,000.00
11.	**Liability reserve pursuant to § 57 (5) Austrian Banking Act**	4.22.		**15,511,502.36**	**12,106,226.51**
12.	**Net profit**	4.23.		**10,587,654.82**	**205,019.51**
	Total equity and liabilities			**3,802,819,090.95**	**3,478,764,069.62**

	Off-balance-sheet items				
1.	Contingent liabilities	5.1.		3,806,470.70	5,129,487.24
	of which liabilities from sureties and guarantees from the assignment of collateral		*3,806,470.70*		*5,129,487.24*
2.	Credit risk	5.2.		397,737,060.62	216,907,352.40
	of which liabilities from repurchase transactions		*0.00*		*0.00*
3.	Liabilities from fiduciary transactions	5.3.		314,066,367.94	432,671,186.55
4.	Eligible own funds pursuant to Part 2 of Regulation (EU) No. 575/2013	6.1.		339,613,055.01	293,331,962.82
	of which tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013		*52,889,901.42*		*58,287,163.20*
5.	Own funds requirements pursuant to Art. 92 of Regulation (EU) No 575/2013	6.1.		1,675,668,201.46	1,334,717,606.25
	of which own funds requirements pursuant to Art. 92 para. 1 (a) of Regulation (EU) No 575/2013 CET 1 capital ratio	6.1.	*17.11%*		*17.61%*
	of which own funds requirements pursuant to Art. 92. para. 1 (b) of Regulation (EU) No 575/2013 Tier 1 capital ratio	6.1.	*17.11%*		*17.61%*
	of which own funds requirements pursuant to Art. 92 para. 1 (c) of Regulation (EU) No 575/2013 Total capital ratio	6.1.	*20.27%*		*21.98%*
6.	Foreign liabilities			1,744,703,276.58	1,755,673,898.26

II. INCOME STATEMENT (UNDER THE AUSTRIAN BANKING ACT)

in EUR	Note	1/1–31/12/2019			1/1–31/12/2018
1. Interest and similar income				149,422,541.69	151,046,916.77
of which from fixed-income securities			*6,271,489.24*		*7,677,596.60*
2. Interest and similar expenses				-103,811,619.34	-113,385,417.85
I. NET INTEREST INCOME	7.1.1.			**45,610,922.35**	**37,661,498.92**
3. Income from securities and investments	7.1.2.			2,255,443.57	747,466.12
a) income from investments			0.00		36,000.00
b) income from investments in affiliated companies			2,255,443.57		711,466.12
4. Fee and commission income	7.1.3.			17,161,654.48	15,326,025.64
5. Fee and commission expenses	7.1.3.			-1,678,386.90	-1,179,040.19
6. Income/expenses from financial transactions				-6,438.93	11,047.47
7. Other operating income	7.1.5.			4,819,219.61	11,137,148.54
II. OPERATING INCOME				**68,162,414.18**	**63,704,146.50**
8. General administrative expenses	7.1.4.			-44,826,236.82	-45,382,227.53
a) Personnel expenses	7.1.4.1.		-26,913,402.80		-28,843,222.19
aa) salaries		-21,260,872.13			-23,142,059.64
bb) expenses for statutory social charges, salary-dependent charges and compulsory contributions		-3,679,648.51			-3,816,801.62
cc) other social expenses		-574,727.25			-717,861.73
dd) expenses for pension costs		-277,530.86			-555,408.46
ee) allocations to/cancellation of pension provisions		-91,025.15			408,883.71
ff) expenses for severance pay and contributions to company pension plans		-1,029,598.90			-1,019,974.45
b) Other administrative expenses (other non-personnel administrative expenses)	7.1.4.2.		-17,912,834.02		-16,539,005.34
9. Valuation allowances to assets reported under asset items 9 and 10				-533,947.50	-714,229.90
10. Other operating expenses	7.1.6.			-1,013,210.58	-784,614.69
III. OPERATING EXPENSES				**-46,373,394.90**	**-46,881,072.12**
IV. OPERATING RESULT				**21,789,019.28**	**16,823,074.38**

in EUR		Anhang	1.1.-31.12.2019			1.1.-31.12.2018
11.	Income from the valuation allowance of receivables and allocations to provisions for contingent liabilities and credit risks	7.1.7.			1,433,086.95	592,708.89
12.	Income from the valuation allowance of securities measured as financial assets and of investments and shares in affiliated companies	7.1.7.			5,521,207.88	12,311,568.18
V.	**PROFIT ON ORDINARY ACTIVITIES**				**28,743,314.11**	**29,727,351.45**
13.	Extraordinary income/expenses				0.00	0.00
	of which appropriations to the fund for general banking risks				*0.00*	*0.00*
14.	**Extraordinary result**				**0.00**	**0.00**
15.	Taxes on income	7.1.8.			1,624,929.76	718,460.89
16.	Other taxes not reported under item 15	7.1.8.			-65,179.49	-36,523.01
VI.	**PROFIT FOR THE YEAR**	7.1.9.			**30,303,064.38**	**30,409,289.33**
17.	Appropriation to and release of reserves				-19,920,429.07	-49,626,690.98
			Appropr. (-)	Release (+)		
	a) liability reserve pursuant to § 57 (5) Austrian Banking Act		-3,405,275.85			-2,106,226.51
	b) statutory reserve		-1,515,153.22			-1,520,464.47
	c) unappropriated reserve		-15,000,000.00			-46,000,000.00
18.	Profit carried forward				205,019.51	19,422,421.16
VII.	**NET PROFIT**				**10,587,654.82**	**205,019.51**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF KOMMUNALKREDIT AUSTRIA AG FOR THE 2019 FINANCIAL YEAR

1. General Information

Kommunalkredit Austria AG (Kommunalkredit), which has its registered office in Vienna, Tuerkenstrasse 9, is a specialist bank for infrastructure and energy financing. It acts as a link between the developers of infrastructure facilities, 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. It is registered with the Commercial Court (Handelsgericht) of Vienna under Companies Register number 439528s.

Gesona Beteiligungsverwaltung GmbH (Gesona) owns 99.80% of Kommunalkredit, with a stake of 0.20% 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 a 100% stake in Gesona.

The consolidated financial statements of Kommunalkredit, based on the IFRS, are prepared pursuant to § 59a of the Austrian Banking Act (BWG) in conjunction with § 245a of the Austrian Commercial Code (UGB). As an issuer of exchange-listed securities, Kommunalkredit publishes a Group Management Report pursuant to § 82 (4) of the Austrian Stock Exchange Act (BörseG).

The consolidated financial statements of Kommunalkredit, 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, which has its registered office in Vienna and 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 Standards 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 Commercial Code (Unternehmensgesetzbuch – UGB) applicable to financial institutions.

3. Accounting and Measurement Rules

3.1. General Remarks

The annual 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 are recognised in the profit or loss for the period to which they are attributable in economic terms. 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 first booked when a corresponding 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 a specific service are booked as income at the time of completion of the service. 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 clients are recognised at their nominal value at the time of recognition and subsequently at fair value. For receivables with an intention of syndication, the nominal value is reduced by the expected syndication expenses.

Specific valuation allowances are set up for identifiable borrower risks.

In addition, expected credit losses are taken into account through portfolio valuation allowances. Through the first-time adoption of IFRS 9 for the consolidated financial 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 Austrian GAAP. The portfolio valuation allowance is calculated either as the expected 12-month credit loss or the expected credit loss over the residual maturity, depending on whether the risk of default has increased significantly since the initial 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;
- Changes of internal price indicators with terms and conditions remaining the same;
- Possible significant changes in contractual terms if the financial instrument were newly issued;
- Changes in external market indicators of a financial instrument with an equivalent structure;
- 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 associated with the banking business, Kommunalkredit has 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	31/12/2019	31/12/2018
Difference pursuant to § 56 (2) Austrian Banking Act (Difference between the higher acquisition cost and the amount repayable for the securities)	10,927,569.80	7,993,036.20
Difference pursuant to § 56 (3) Austrian Banking Act (Difference between the lower acquisition cost and the amount repayable for the securities)	1,090,462.51	951,972.50

Moreover, securities classified as non-current assets include the following hidden reserves and/or hidden liabilities (without taking the related interest rate swaps into account):

Calculation of hidden reserves in EUR	31/12/2019	31/12/2018
Carrying amount	654,609,700.73	589,457,734.66
Fair value	718,466,357.27	636,669,734.62
Hidden reserves	**63,856,656.54**	**47,211,999.96**

Calculation of hidden liabilities in EUR	31/12/2019	31/12/2018
Carrying amount	32,806,165.29	57,024,340.87
Fair value	32,203,261.38	56,595,468.04
Hidden liabilities	**-602,903.91**	**-428,872.83**

Hidden reserves mainly result from fixed-income securities, the high fair value being due to the low level of interest. Hidden reserves and hidden liabilities are booked against the fair values of interest rate derivatives concluded for hedging purposes. Securities with hidden liabilities are regularly analysed and measured with a view to credit risk. On the basis of these analyses, an extraordinary depreciation pursuant to § 204 para. 1 fig. 2 of the Austrian Commercial Code (UGB) was not required, as the impairment is assumed not to be 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	31/12/2019	31/12/2018
Carrying amount	17,109,088.29	10,000,000.00
Fair value	17,997,061.02	10,359,290.19
Hidden reserves	**887,972.73**	**359,290.19**

Fair value measurement

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

Level 1: There are quoted prices in an active market for identical financial instruments. Bid quotes for this category are obtained from Bloomberg or Reuters.

Level 2: The input factors for the valuation can be observed in the market. This category includes the following price determination methods:
- Price determination based on comparable securities
- Pricing on the basis of market-derived spreads (benchmark spreads)

Level 3: The input factors cannot be observed in the market. This category primarily includes prices based mainly on expert estimates.

Broken down by the above categories, the temporary differences between the fair values and the carrying amounts of securities are as follows:

31/12/2019 in EUR	Level 1	Level 2	Level 3
Fair value	422,810,151.50	321,222,273.77	34,003,246.91
Book value	404,154,996.55	276,544,158.40	33,194,791.87
Temporary difference	**18,655,154.95**	**44,678,115.37**	**808,455.04**

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**

In the reporting period, no securities were reclassified (31/12/2018: five securities with a nominal value of EUR 42,200,000.00 were reclassified from level 2 to level 1, as market data became available).

3.5. Investments and shares in affiliated companies

Investments and shares 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 cost following deductions for depreciation accrued in prior years and in the reporting year. The period of depreciation is three years for technical equipment and five and/or ten years for other movable assets. Investments in third-party buildings are depreciated over 15 or 20 years. Works of art are not subject to depreciation.

Low-value assets with single-item acquisition costs of up to EUR 400.00 are reported in the Schedule of Non-current Asset Transactions as additions and are depreciated in full in the year of acquisition. Their disposal occurs after three years.

3.8. Deferred tax assets

The 2014 Austrian Accounting Reform Act (Rechnungslegungsänderungsgesetz, RÄG 2014) abolished the right to elect for capitalisation of deferred tax assets from temporary differences between their carrying amount under commercial law and their tax base and introduced mandatory capitalisation. The difference resulting from this new provision 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 2019: EUR 61,108,578.98 [31/12/2018: EUR 96,908,067.43]).

Pursuant to § 235 (2) of the Austrian Commercial Code (UGB), 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 prepaid expenses/deferred income and are distributed on a linear basis as an interest component within net interest income over the term of the liability.

3.10. Securitised liabilities

Securitised liabilities are recognised at the amount repayable. Costs incurred through an issuance that are directly related to funding are recognised as fee and commission expenses. The remaining difference between the proceeds from the issuance and the amount repayable (premium/discount) is recognised as prepaid expenses/deferred income and is distributed as an interest component on a linear basis over the term of the liability within net interest income.

Own bonds which are not placed externally, but are 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 Commercial Code (UGB) 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 1.00% (2018: 2.00%) for pension obligations, of 0.50% (2018: 1.50%) for obligations from severance pay, and 0.25% (2018: 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 Austrian Budget Framework Act (Budgetbegleitgesetz) and the provisions on age limits for women of the Act on Occupational Old-Age Provision (BVG Altersgrenzen);
- 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 vis-à-vis 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, subsequent adjustments will only be required in the event of underperformance or “premature” payment of benefits. The full actuarial obligation for pensions amounts to EUR 1,509,911.50 (31/12/2018: EUR 1,358,068.02), of which entitlements in the amount of EUR 467,303.24 (31/12/2018: EUR 406,484.91) have been outsourced to the pension fund. The resulting provision requirement amounts to EUR 1,042,608.26 (31/12/2018: EUR 951,583.11). Provisions for entitlements to severance pay amount to EUR 3,188,175.35 (31/12/2018: EUR 3,387,075.22); provisions for jubilee bonuses amount to EUR 111,406.95 (31/12/2018: EUR 141,147.92).

All actuarial gains and losses are recognised immediately in profit or loss. The development in provisions for severance pay in 2019 includes actuarial losses of EUR 151,519.91 (2018: gains of EUR 158,112.52). The change in pension provisions includes actuarial losses of EUR 111,354.75 (2018: gains of EUR 540,377.92). Moreover, valuation-related gains on plan assets of EUR 52,688.63 (2018: valuation-related losses on plan assets of EUR 53,066.00) 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 that are not yet quantifiable. Provisions set up for periods of more than one year are discounted in accordance with the provisions set out in the 2014 Accounting Reform Act.

3.12. Fund for general banking risks pursuant to § 57 (3) of the Austrian Banking Act

As of 31 December 2019, the fund for general banking risks amounts to EUR 40,000,000.00. 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 in the banking book are executed 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). The principle of single measurement applies for derivatives that are neither micro hedges nor macro hedges, 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), AFRAC (Austrian Financial Reporting and Auditing Committee) Opinion 15 on "Derivatives and Hedging Instruments (Austrian Commercial Code) (version dated September 2017)" contains provisions aimed at avoiding economically unjustified effects on the income statement (P&L) 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 in order to apply these micro hedge 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 or reviewed in order to verify whether the hedged fair value of the structure (underlying and hedging transactions) is within a range of 80% to 125% at the most. 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 as to 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% at the most 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 dated December 2012). As an exception to the principle of individual measurement, compensatory interest-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-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 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 as a whole, 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 the bank as a whole 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 therefore 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 market 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. The BCVA is considered to be immaterial for collateralised derivatives with daily margin calls. 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. Collateral for market values from derivatives is 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 of 31 December 2019 amounted to EUR 160,039,035.51 (31/12/2018: EUR 149,344,969.80). 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 2020 (2019: EUR 0.00).

4.2. Loans and advances to banks

Loans and advances to banks include the following:

Loans and advances to banks in EUR	31/12/2019	31/12/2018
Collateral for negative market values from derivative transactions	83,240,000.00	56,490,000.00
Collateral for loan disbursement obligations	10,493,791.34	17,736,738.63
Credit balances with banks	12,677,118.36	9,614,717.95
Portfolio valuation allowance	-4,057.83	0.00
Other	6,997,541.87	13,966,400.33
Total	**113,404,393.74**	**97,807,856.91**

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	31/12/2019	31/12/2018
Loans and advances repayable on demand	102,961,930.53	80,150,186.77
Other loans and advances		
a) up to 3 months	0.00	0.00
b) more than 3 months up to 1 year	0.00	0.00
c) more than 1 year up to 5 years	10,446,521.04	17,657,670.14
d) more than 5 years	0.00	0.00
	10,446,521.04	17,657,670.14
	113,408,451.57	97,807,856.91
Portfolio valuation allowance	-4,057.83	0.00
Total	**113,404,393.74**	**97,807,856.91**

4.3. Loans and advances to customers

Loans and advances to customers include the following:

Loans and advances to customers in EUR	31/12/2019	31/12/2018
Loans	2,242,599,547.65	2,164,051,048.01
Non-listed securities	236,296,677.04	258,934,379.11
Collateral for negative market values from derivative transactions	106,003,537.69	102,520,163.60
Provision pursuant to § 57 (1) Austrian Banking Act	-2,460,000.00	-2,860,000.00
Portfolio valuation allowance	-4,449,281.18	-1,828,300.57
Other	0.00	375.95
Total	**2,577,990,481.20**	**2,520,817,666.10**
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	*30,269,050.25*	*34,869,575.26*

On the balance sheet date, securities with a nominal value of EUR 207,116,008.68 (31/12/2018: EUR 230,749,377.68) were classified as non-current assets and EUR 26,509,088.29 (31/12/2018: EUR 25,000,000.00) as current assets.

Details on the calculation of the portfolio valuation allowance are contained in Note 3.3.

Loans and advances to customers include subordinated claims with a carrying amount of EUR 82,994,374.48 (31/12/2018: EUR 10,262,152.78).

Broken down by maturity (residual maturity), loans and advances to customers are as follows:

Loans and advances to customers in EUR	31/12/2019	31/12/2018
Loans and advances repayable on demand	107,002,647.95	102,593,367.14
Other loans and advances		
a) up to 3 months	109,558,127.17	42,264,591.56
b) more than 3 months up to 1 year	195,864,350.92	150,077,248.83
c) more than 1 year up to 5 years	1,231,111,034.85	1,239,157,749.41
d) more than 5 years	941,363,601.49	991,413,009.73
	2,477,897,114.43	2,422,912,599.53
Provision pursuant to § 57 (1) Austrian Banking Act and portfolio valuation allowance	-6,909,281.18	-4,688,300.57
Total	**2,577,990,481.20**	**2,520,817,666.10**

4.4. Bonds and other fixed-income securities

Bonds and other fixed-income securities in EUR	31/12/2019	31/12/2018
Securities of public issuers	85,431,973.72	80,400,549.32
Portfolio valuation allowance	-3,480.00	0.00
Total public-sector	85,428,493.72	80,400,549.32
Securities of other issuers	237,616,845.44	188,433,865.99
of which own issues	*0.00*	*0.00*
Portfolio valuation allowance	-103,950.39	0.00
Total other	237,512,895.05	188,433,865.99
Total	**322,941,388.77**	**268,834,415.31**

All instruments reported under bonds and other fixed-income securities are exchange-listed; none of them will fall due in 2020 (2019: none).

Own bonds in the amount of EUR 107,000,000.00 (31/12/2018: EUR 107,000,000.00) which are not placed externally, but are 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).

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. Shares and other non-fixed-income securities

This item includes non-fixed income securities totalling EUR 50,024,000.00 (31/12/2018: EUR 0.00). Liquidity is invested in a fund that invests in short-term, securitised trade receivables. The securities are insured by loan protection insurance, whereby the insurance companies must hold at least an "A" rating.

4.6. Investments and shares in affiliated companies

As of 31 December 2019, the carrying amount of participations amounted to EUR 23,964,095.00 (31/12/2018: EUR 22,215,095.00). Shares in affiliated companies amounted to EUR 32,671,146.24 (31/12/2018: EUR 32,700,665.00).

The composition of investments and shares in affiliated companies (all of them non-listed), including their financial position, is shown in Annex 1. As in the previous year, there were no write-downs made in the 2019 financial year.

4.7. 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).

4.8. Other assets

Other assets in EUR	31/12/2019	31/12/2018
Interest accruals/deferrals from derivatives in the banking book	20,414,497.81	30,235,759.25
Foreign currency valuation of derivatives in the banking book	11,521,448.60	15,754,292.42
Receivables from deferred interest	1,785,410.75	2,009,348.99
Receivables from services invoiced to KA Finanz AG	0.00	1,222,672.53
Claims against the tax authorities	3,900,389.52	154,424.21
Other	2,992,933.49	2,720,356.42
Total	**40,614,680.17**	**52,096,853.82**
of which recognised as cash items after the closing date	*29,085,016.82*	*36,304,969.33*

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.

The "Other" item mainly includes receivables from group companies, receivables from services rendered and loans to staff.

4.9. Prepaid expenses

Prepaid expenses include the following:

Prepaid expenses in EUR	31/12/2019	31/12/2018
Deferred fees from derivative transactions	4,347,678.86	7,365,492.47
Capitalised offering discounts of bond issues	765,646.77	1,253,034.09
Other	772,124.68	736,896.61
Total	**5,885,450.31**	**9,355,423.17**

4.10. Deferred tax assets

The 2014 Accounting Reform Act (RÄG 2014) introduced the obligation to capitalise deferred tax assets resulting from temporary differences between the corporate value of an asset and its tax base. As of 31 December 2019, the asset item amounted to EUR 9,834,794.20 (31/12/2018: EUR 8,170,133.11). For Kommunalkredit, temporary differences between corporate law and Tax law primarily result from the fund for general banking risks pursuant to § 57 (3) of the Austrian Banking Act, the general risk provision pursuant to § 57 (1) of the 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 of 31 December 2019 amounts to EUR 885,993.60 (31/12/2018: EUR 1,771,987.20).

4.11. Amounts owed to banks

Amounts owed to banks include the following:

Amounts owed to banks in EUR	31/12/2019	31/12/2018
TLTRO II programme (Targeted Longer Term Refinancing Operation) of the ECB	309,888,970.56	311,162,131.11
Cash collateral received for positive market values of derivatives	79,880,000.00	104,584,912.81
Collateralised loans of the European Investment Bank	57,299,315.90	59,763,004.51
Other collateralised refinancing loans	15,176,008.57	17,052,952.57
Money market trade	24,965,785.70	3,006,152.94
Other	163,621.00	470,993.92
Total	**487,373,701.73**	**496,040,147.86**

Broken down by maturity (residual maturity), amounts owed to banks are as follows:

Amounts owed to banks in EUR	31/12/2019	31/12/2018
Liabilities repayable on demand	80,043,621.00	105,070,993.92
Other liabilities		
a) up to 3 months	26,590,294.00	1,481,684.00
b) more than 3 months up to 1 year	315,916,183.00	5,861,224.00
c) more than 1 year up to 5 years	61,345,344.83	379,713,204.43
d) more than 5 years	3,478,258.90	3,913,041.51
	407,330,080.73	390,969,153.94
Total	**487,373,701.73**	**496,040,147.86**

4.12. Amounts owed to customers

Amounts owed to customers include the following:

Amounts owed to customers in EUR	31/12/2019	31/12/2018
Deposits by corporates, municipalities and quasi-municipal enterprises	812,925,270.57	720,457,882.47
Deposits by retail customers – KOMMUNALKREDIT INVEST	585,276,011.77	287,681,459.50
Cash received as collateral for positive market values of derivatives	58,852,751.60	60,001,319.97
Other long-term liabilities to customers	275,266,513.59	280,143,786.98
Total	**1,732,320,547.53**	**1,348,284,448.92**

Broken down by maturity (residual maturity), amounts owed to customers are as follows:

Amounts owed to customers in EUR	31/12/2019	31/12/2018
Liabilities repayable on demand	180,790,768.03	161,649,972.38
Other liabilities		
a) up to 3 months	240,002,023.13	197,450,876.87
b) more than 3 months up to 1 year	542,923,264.27	474,589,679.49
c) more than 1 year up to 5 years	458,041,663.56	238,510,910.03
d) more than 5 years	310,562,828.54	276,083,010.15
	1,551,529,779.50	1,186,634,476.54
Total	**1,732,320,547.53**	**1,348,284,448.92**

4.13. Securitised liabilities

Securitised liabilities are broken down as follows:

Securitised liabilities in EUR	31/12/2019	31/12/2018
Bonds issued	860,813,702.84	912,699,365.93
Other securitised liabilities	276,381,816.75	325,250,750.33
Securitised liabilities	**1,137,195,519.59**	**1,237,950,116.26**

The bonds issued are exchange-listed; the securities reported under other securitised liabilities are non-listed.

Bonds issued with carrying amounts of EUR 138,962,041.65 (2019: EUR 69,000,000.00) and other securitised liabilities in the amount of EUR 30,100,377.23 (2019: EUR 23,929,603.93) will fall due in 2020. As in the previous year, securitised liabilities do not include any subordinated liabilities.

4.14. Other liabilities

Other liabilities in EUR	31/12/2019	31/12/2018
Interest accruals/deferrals from derivatives	15,141,334.83	16,020,638.93
Foreign currency valuation of derivatives in the banking book	7,980,299.12	6,681,004.48
Accruals/deferrals between the spot rate and forward rate of FX swaps	1,606,081.80	1,052,795.40
Other	5,610,388.59	2,647,722.17
Total	**30,338,104.34**	**26,402,160.98**
of which recognised as cash items after the closing date	*20,751,723.42*	*18,667,974.39*

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.

4.15. Deferred income

Deferred income in EUR	31/12/2019	31/12/2018
Deferred fees from derivative transactions	10,452,977.05	14,904,869.65
Issuing premiums of issued bonds	1,206,440.23	1,385,486.93
Loan fees deferred over the term	842,468.93	1,018,898.84
Total	**12,501,886.21**	**17,309,255.42**

4.16. Provisions

For details on **personnel provisions**, see Note 3.11.

Other provisions mainly include provisions for personnel-related expenses in the amount of EUR 11,227,138.30 (31/12/2018: EUR 11,371,435.79) and provisions for auditing, and legal and consulting expenses in the amount of EUR 926,566.17 (31/12/2018: EUR 641,845.95). In connection with derivatives, provisions in the amount of EUR 19,258.59 (31/12/2018: EUR 129,877.33) were set up.

4.17. 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 of 31 December 2019, the fund for general banking risks amounted to EUR 40,000,000.00, unchanged from the previous year.

4.18. Tier 2 capital under Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013

As of 31 December 2019, tier 2 capital items comprised eight (31/12/2018: eight) EUR-denominated issues in a total nominal amount of EUR 65,000,000.00 (31/12/2018: EUR 65,000,000.00) with residual maturities of up to 27 years. None of these issues will fall due in 2020.

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 of 31/12/2019 in %	Maturity	Currency	Nominal in EUR	Right to call	Conversion to capital
Subordinated liabilities pursuant to § 23 (8) of the 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 2019 amounted to EUR 3,221,991.28 (2018: EUR 3,224,125.00).

4.19. Subscribed capital

The share capital as of 31 December 2019 amounted to EUR 172,659,452.81 (31/12/2018: EUR 159,491,290.16). By way of a resolution passed by the Executive Board on 27 May 2019, an increase in the share capital of EUR 13,168,162.65 to EUR 172,659,452.81 by issuing 2,560,052 no-par-value shares pursuant to the authorisation granted by the Annual General Meeting held on 10 March 2017 (authorised capital) was approved and implemented with the consent of the Supervisory Board. The share premium of EUR 6,831,840.55 was added to the fixed capital reserves. The capital increase was entered in the commercial register on 19 June 2019.

Following the capital increase, Gesona Beteiligungsverwaltung GmbH holds 33,498,895 no-par-value shares, i.e. 99.80% (previously 99.78%) of the shares; 68,216 no-par-value shares, i.e. 0.20% (previously 0.22%) of the shares, 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 way of a resolution passed by the Annual General Meeting held on 27 June 2019, the Executive Board was authorised to increase the share capital of the company through the issue of up to 16,783,555 new no-par-value registered shares by a maximum amount of EUR 86,329,723.84 (authorised capital), subject to approval by the Supervisory Board, within a period of five years following registration of the amendment to the Articles of Association.

4.20. Capital reserves

EUR 6,831,840.55 (31/12/2018: EUR 0.00) was added to fixed capital reserves as part of the capital increase referred to in Note 4.19.

4.21. Retained earnings

a) Statutory reserves:
The statutory reserves as of 31 December 2019 amounted to EUR 7,277,086.54 (31/12/2018: EUR 5,761,933.32).

b) Free reserves
Of the EUR 30,303,064.38 in net income for the 2019 financial year, EUR 15,000,000.00 was allocated to the free revenue reserve; this reserve now has a volume of EUR 61,000,000.00 (as of 31/12/2018: EUR 46,000,000.00).

4.22. Liability reserve pursuant to § 57 (5) of the Austrian Banking Act

As of the balance sheet date, the liability reserve stood at EUR 15,511,502.36 (31/12/2018: EUR 12,106,226.51), thus meeting the legal requirements.

4.23. Net profit/profit distribution

The profit for the year reported by Kommunalkredit for 2019 amounts to EUR 30,303,064.38. Taking into account the appropriation to reserves in the amount of EUR 19,920,429.07 and the profit carried forward from the previous year of EUR 205,019.51, the net profit comes to EUR 10,587,654.82. In light of the COVID-19 pandemic and the recommendation of the ECB and FMA from 27 March 2020 regarding dividend payouts during the COVID-19 pandemic, the proposal for the distribution of profit is currently under review and not available at the time of the preparation of the statement of financial position.

5. Off-Balance-Sheet Items

5.1. Contingent liabilities

The off-balance sheet item of contingent liabilities in the amount of EUR 3,806,470.70 (31/12/2018: EUR 5,129,487.24) exclusively concerns guarantee lines granted, including a guarantee of EUR 1,350,000.00 (31/12/2018: 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 397,737,060.62 (31/12/2018: EUR 216,907,352.40) relate, as in the previous year, in their entirety to loan commitments and unused lines from the current lending business. As of the balance sheet date, unused credit lines of EUR 1,267,153.63 were granted to companies in which an equity investment is held (31/12/2018: EUR 1,374,764.65).

5.3. Fiduciary transactions

Kommunalkredit holds financial instruments with assets valued at EUR 314,066,367.94 (31/12/2018: EUR 432,671,186.55) in trust in its own name for the account and risk of third parties.

6. Supplementary Disclosures

6.1. Own funds and own funds requirements

Kommunalkredit is subject to the capital requirements set out in Article 92 CRR (common equity tier 1 ratio of 4.8%, a core capital ratio of 6.4% and a total capital ratio of 8.6%). Taking into account the capital maintenance and low cyclicality buffers as well as the premium from the supervisory review and evaluation process (SREP), the requirements for common equity tier 1 ratio increase to 7.5%, for core capital ratio to 9.1% and for total capital ratio to 11.3%. The statutory requirements were always adhered to in 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 Commercial Code/Austrian Banking Act, show the following composition and development:

Assessment base in EUR	31/12/2019	31/12/2018
Total risk exposure amount pursuant to Art. 92 CRR	1,675,668,201.46	1,334,717,606.25
of which credit risk	*1,545,515,561.26*	*1,210,502,124.00*
of which operational risk	*115,580,344.92*	*106,315,911.43*
of which CVA charge	*14,445,608.63*	*17,779,044.00*
of which default fund of a qualifying counterparty	*126,686.66*	*120,526.82*

Own funds – actual in EUR	31/12/2019	31/12/2018
Common equity tier 1 after deductible items (CET 1)	303,620,942.12	265,454,088.95
Additional tier 2 after deductible items	52,889,901.42	58,287,163.20
Own funds (tier 1 and tier 2)	**356,510,843.54**	**323,741,252.15**
Own funds ratio	21.3%	24.3%
CET 1 ratio	18.1%	19.9%

The own funds reported include the 2019 net profit of EUR 30,303,064.33 (2018: EUR 30,409,289.33), reduced by the originally intended dividend of EUR 10,000,000.00 (2018: retained in its entirety, thus increasing the company's own funds).

6.2. Total of assets and liabilities denominated in foreign currencies

As of 31 December 2019, assets denominated in foreign currencies in the amount of EUR 241,257,954.39 (31/12/2018: EUR 257,998,594.03) were shown on the balance sheet. Liabilities denominated in foreign currencies amounted to EUR 649,847,665.14 (31/12/2018: EUR 684,419,870.89). 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 as of 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 had not yet been settled on the balance sheet date:

31/12/2019 in EUR	Nominal	Positive fair value	Negative fair value
Interest rate swaps	2,824,102,396.95	173,701,458.30	-209,994,660.50
of which in macro hedge	*603,144,395.03*	*1,688,277.22*	*-116,051,408.48*
of which in unit of account	*2,220,958,001.92*	*172,013,181.08*	*-93,943,252.02*
FX forward transactions	803,932,334.09	11,253,114.25	-9,542,644.14
Total	**3,628,034,731.04**	**184,954,572.55**	**-219,537,304.64**

31/12/2018 in EUR	Nominal	Positive fair value	Negative fair value
Interest rate swaps	3,047,809,159.53	204,144,935.41	-193,803,369.96
of which in macro hedge	*772,018,729.45*	*6,923,370.83*	*-110,707,992.71*
of which in micro hedge	*2,275,790,430.08*	*197,221,564.58*	*-83,095,377.25*
Currency swaps	85,274,630.16	2,361,651.33	-5,845,745.28
of which in macro hedge	*55,895,274.61*	*1,412,277.43*	*-106,437.92*
of which in micro hedge	*29,379,355.55*	*949,373.90*	*-5,739,307.36*
FX forward transactions	712,775,070.29	14,379,367.17	-1,327,314.67
Total	**3,845,858,859.98**	**220,885,953.91**	**-200,976,429.91**

Interest accruals/deferrals, foreign currency valuations and accrued/deferred fees from derivative transactions in the amount of EUR 36,291,840.02 (31/12/2018: EUR 53,393,136.21) are reported under other assets and prepaid expenses on the assets side, and EUR 35,180,692.80 (31/12/2018: EUR 38,659,308.46) under other liabilities and deferred income on the liabilities side of the balance sheet. Moreover, provisions in the amount of EUR 19,258.59 (31/12/2018: EUR 129,877.33) relating to derivatives are recognised under other provisions. As in the previous year, no provision for impending losses from macro swaps was required as of 31 December 2019.

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 of 31 December 2019.

6.5. Legal risks

Immediately prior to the spin-off of Kommunalkredit to form a new company on 26 September 2015 and the merger of the remaining part of the former Kommunalkredit Austria AG (former KA) with KA Finanz AG (as the absorbing company), compensation was paid to the holders of participation capital at Kommunalkredit which bore interest at a rate of 8% of the nominal value p.a. assuming sufficient coverage by distributable annual profit. A former holder of participation capital claims that this constitutes the unlawful termination of participation capital and is asserting a claim for damages of EUR 25,228,640.00 plus interest against Kommunalkredit and KA Finanz AG, as jointly and severally liable parties, in a legal dispute pending in the first instance or, in the alternative, the granting of commercially equivalent rights in Kommunalkredit since 26 September 2015 based on a nominal value of EUR 22,260,952.90, or a ruling establishing the continuation of the participation capital. The outcome of these proceedings is not expected to have any major negative impact on Kommunalkredit’s financial position or income.

Furthermore, KA Finanz AG has entered into an irrevocable obligation to compensate for any entitlements and losses that could result from the assertion of claims by former holders of participation capital.

6.6. Other obligations

a) Liability arising from the demerger
Pursuant to § 15 (1) of the Austrian Demerger Act (SpaltG), Kommunalkredit is liable jointly and severally with KA Finanz AG for liabilities originated 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 originated after the effective date of the demerger. The liability arising from the demerger is limited to the net assets of the respective entity as of the effective date of the demerger.

b) Other obligations
Obligations in the amount of EUR 1,844,300.00 arise from rental contracts – including relating to the branch in Germany – in 2020 (of which vis-à-vis affiliated companies: EUR 1,703,000.00). The corresponding obligations for the years 2020 to 2024 are expected to total EUR 9,498,300.40 (of which vis-à-vis affiliated companies: EUR 8,770,500.00).

Pursuant to § 2 (3) of the Austrian Deposit Guarantee and Depositor Indemnification Act, Kommunalkredit is obliged to undertake proportional safeguarding of deposits within the framework of the deposit guarantee regime of Banken und Bankiers Gesellschaft mbH, Vienna.

6.7. Asset items pledged as collateral

Credit balances with banks with a nominal value of EUR 83,240,000.00 (31/12/2018: EUR 56,490,000.00) and credit balances with customers (central counterparties and/or non-bank financial institutions) with a nominal value of EUR 106,030,966.74 (31/12/2018: EUR 102,542,989.93) 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 79,880,000.00 (31/12/2018: EUR 104,600,000.00). Amounts owed to customers include collateral received in a nominal value of EUR 58,852,751.60 (31/12/2018: EUR 60,001,319.97).

For refinancing funds raised through participation in the ECB tender, Kommunalkredit pledged securities and loans in a volume of EUR 362,552,586.21 (31/12/2018: EUR 376,817,480.19) as collateral as of 31 December 2019. 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 (31/12/2018: EUR 69,500,000.00) 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 of KA Finanz AG, which is liable jointly and severally with Kommunalkredit for the obligations originated prior to the entry of the demerger in the Companies Register on 26 September 2015 and 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 894,071,310.13 (31/12/2018: EUR 875,876,297.84) as of 31 December 2019 and for the aforementioned covered bond issued as collateral for KA Finanz AG with a nominal value of EUR 107,000,000.00 (31/12/2018: EUR 107,000,000.00), loans with a nominal value of EUR 930,987,702.76 (31/12/2018: EUR 918,176,164.15) and securities with a nominal value of EUR 200,407,147.68 (31/12/2018: EUR 224,040,516.68) were appropriated to a cover pool which can only be drawn on with the approval of a government commissioner.

Moreover, as of 31 December 2019, an amount of EUR 15,190,712.13 (31/12/2018: EUR 17,072,528.49) was furnished as collateral for other funding.

6.8. Frankfurt branch office

Alongside its headquarters in Vienna, Kommunalkredit also has a branch office in Frankfurt am Main, Germany.

The branch generated a loss for the year before tax of EUR 131,229.23 in the 2019 financial year (2018: profit of EUR 113,747.81). Alongside operating income of EUR 2,670,701.06 (2018: EUR 2,380,671.25), operating expenses of EUR -2,539,471.83 (2018: EUR -2,266,923.44) were incurred. Taxes on income came to EUR -73,786.35 (2018: EUR -27,313.69).

As of 31 December 2019, there were ten employees (31/12/2018: seven employees).

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	2019	2018
Lending business	89,941,551.28	80,999,937.97
Investments in banks	-1,407,883.01	-2,180,183.95
Fixed-income securities	6,271,489.24	7,677,596.60
Swap income	54,617,384.18	64,549,566.15
Total interest income	**149,422,541.69**	**151,046,916.77**

Interest and similar expenses in EUR	2019	2018
Deposit business	-15,611,377.74	-18,833,134.69
Own issues	-40,435,266.09	-44,293,683.17
Swap expenses	-47,764,975.51	-50,258,599.99
Total interest expenses	**-103,811,619.34**	**-113,385,417.85**

Net interest income	**45,610,922.35**	**37,661,498.92**

The 2019 net interest income came to EUR 45,610,922.35 (2018: EUR 37,661,498.92), reflecting a significant year-on-year increase of EUR 15,270,878.42 in income from the infrastructure project and energy financing business to EUR 30,987,149.44 (2018: increase of EUR 7,577,693.64 to EUR 15,716,271.02). Net interest income was hit by the costs of liquidity: In 2019, negative interest in the amount of EUR 1,537,098.18 (2018: EUR 1,867,052.12) 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 investments

Income from shares in affiliated companies amounted to EUR 2,255,443.57 (2018: EUR 711,466.12), including the dividend of EUR 1,536,416.77 (2008: EUR 0,00), paid out by Kommunalkredit KBI Immobilien GmbH & Co KG (KBI), the dividend of EUR 502,974.00 (2018: 566,426.00) paid out by Kommunalkredit Public Consulting (KPC) and the dividend of EUR 216,052.80 (2018: EUR 156,040.12) paid out by Trendmind IT Dienstleistung GmbH.

7.1.3. Net fee and commission income

Fee and commission income in EUR	2019	2018
Lending business	15,799,886.03	10,845,850.53
Securities business	275,000.00	0.00
Other service business	1,086,768.45	4,480,175.11
Total fee and commission income	**17,161,654.48**	**15,326,025.64**

Fee and commission expenses in EUR	2019	2018
Lending business	-859,443.25	-438,059.25
Securities business	-555,390.15	-541,380.12
Money and FX trading	-263,503.50	-199,600.82
Other service business	-50.00	0.00
Total fee and commission expenses	**-1,678,386.90**	**-1,179,040.19**
Net fee and commission income	**15,483,267.58**	**14,146,985.45**

In 2019, fee and commission income increased to EUR 17,161,654.48 (2018: EUR 15,326,025.64) as a result of expanded advisory and structuring activities.

Fee and commission expenses of EUR 1,678,386.90 (2018: EUR 1,179,040.19) resulted mainly from transaction and payment transfer fees as well as guarantee fees paid.

7.1.4. General administrative expenses

General administrative expenses fell by 1.2% in 2019 and include the following:

General administrative expenses in EUR	2019	2018
Personnel expenses	-26,913,402.80	-28,843,222.19
Other administrative expenses	-17,912,834.02	-16,539,005.34
General administrative expenses	**-44,826,236.82**	**-45,382,227.53**

7.1.4.1. Personnel expenses

Personnel expenses in EUR	2019	2018
Salaries	-21,260,872.13	-20,642,059.64
Expenses for statutory social security contributions and salary-dependent charges and compulsory contributions	-3,679,648.51	-3,816,801.62
Expenses for efficiency programme	0.00	-2,500,000.00
Voluntary social contributions	-574,727.25	-717,861.73
Expenses for pension costs	-277,530.86	-555,408.46
Cancellation of/allocations to pension provisions	-91,025.15	408,883.71
Expenses for severance pay (including changes in provisions for severance pay) and contributions to company pension funds	-1,029,598.90	-1,019,974.45
Total personnel expenses	**-26,913,402.80**	**-28,843,222.19**

Personnel expenses decreased by EUR 1,929,819.39 from the previous year's level. The reduction is primarily due to capacity adjustments made in 2019 after the termination of the service level agreement with KA Finanz AG as of the end of the first quarter of 2019, for which EUR 2,500,000.00 in provisions had been set up in the previous year (expenses for efficiency programme). At the same time, capacities were built up on a selective basis in the financial year under review.

Personnel expenses include expenses for contributions to company pension plans in the amount of EUR 218,425.00 (2018: EUR 226,568.36), and expenses for severance pay of EUR 1,010,073.77 (2018: EUR 1,560,555.50).

7.1.4.2. Other administrative expenses

Other administrative expenses are as follows:

Other administrative expenses in EUR	2019	2018
Third-party services	-3,992,837.91	-3,234,934.43
Consulting and auditing fees	-2,697,429.30	-2,910,220.77
Data processing	-2,481,529.06	-2,042,949.89
Occupancy costs	-2,182,712.18	-2,245,122.96
Other non-personnel administrative expenses	-2,036,525.62	-1,533,763.50
Advertising and entertainment	-1,655,461.47	-1,724,473.83
Bank Resolution Fund	-1,614,829.40	-1,570,970.75
News services	-1,251,509.08	-1,276,569.21
Total of other administrative expenses	**-17,912,834.02**	**-16,539,005.34**

Other administrative expenses increased by EUR 1,373,828.68 year on year to EUR 17,912,834.02 (2018: EUR 16,539,005.34). The increase over the previous year's level is due, among other factors, to higher expenses for third-party services and travel expenses in respect of the rising business volume, and to investments in headhunting and development.

Pursuant to § 238 para. 1 fig. 18 of the Austrian Commercial Code (UGB), expenses for the statutory auditor for the financial 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	2019	2018
Income from services charged to KA Finanz AG and Kommunalkredit Public Consulting GmbH	3,745,255.13	10,496,942.38
Other	1,073,964.48	640,206.16
Total other operating income	**4,819,219.61**	**11,137,148.54**

An amount of EUR 3,745,255.13 (2018: EUR 10,496,942.38) was charged for the services under the service level agreements with KA Finanz AG and Kommunalkredit Public Consulting GmbH (KPC) in 2019. The drop as against the previous year is due to the planned termination of the service level agreement with KA Finanz AG with effect from 31 March 2019. Since then, Kommunalkredit has only been acting as a service provider for KPC.

7.1.6. Other operating expenses

Other operating expenses of EUR 1,013,210.58 (2018: EUR 784,614.69) mainly comprise the stability tax payable by Austrian banks and contributions to the Austrian deposit guarantee regime.

7.1.7. Loan impairment, valuation and sales result

The loan impairment, valuation and sales result (items 11 and 12 of the income statement) comprises the following items:

Loan impairment, valuation and sales result in EUR	2019	2018
Proceeds from the placement of infrastructure and energy transactions	4,800,880.94	1,571,457.32
Proceeds from the buyback of own issues	4,713,556.06	12,233,829.55
Proceeds realised from the partial reduction of derivatives	910,129.94	0.00
Provision reversed pursuant to § 57 (1) of the Austrian Banking Act	400,000.00	900,000.00
Other valuations	-2,176.16	-15,278.93
Proceeds from asset sales	-406,169.00	-240,470.78
Change in portfolio valuation allowance	-3,461,926.95	-1,545,260.09
Total	**6,954,294.83**	**12,904,277.07**

The 2019 loan impairment, valuation and sales result amounted to EUR 6,954,294.83 (2018: EUR 12,904,277.07). The drop compared with the previous year is primarily due to a considerable reduction in effects from the buyback of own issues, and to the increase in the provision for statistically expected loan defaults under the expected credit loss model. Details on the calculation of this portfolio valuation allowance are contained in Note 3.3.

As in the previous year, there were no credit defaults in 2019. Kommunalkredit's non-performing loan (NPL) ratio (default definition based on Basel III) still comes to 0.0%.

The placement of infrastructure and energy transactions resulted in income of EUR 4,800,880.94 (2018: EUR 1,571,457.32) being generated.

Moreover, the general risk provision pursuant to § 57 (1) of the Austrian Banking Act was reduced by EUR 400,000.00 (2018: reduction of EUR 900,000.00).

7.1.8. Taxes on income

The "Taxes on income" item, which exclusively concerns the company's ordinary business operations, comprises the following items:

Corporate income tax in EUR	2019	2018
Corporate income tax expense of the reporting year	-34,071.21	-19,265.89
Corporate income tax from previous years	-5,660.12	0.00
Deferred tax income	1,664,661.09	737,726.78
Total	**1,624,929.76**	**718,460.89**

Effective as of 2016, a tax group pursuant to § 9 of the Austrian Corporate Income Tax Act was formed, with Satere as the group parent and Gesona, Kommunalkredit, Kommunalkredit Public Consulting and TrendMind IT Dienstleistung GmbH (TrendMind) as group members as of 31 December 2019. 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. 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. 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. As a result, the corporate tax expense for the financial year results largely from the branch in Germany and amounts to EUR 34,071.21 (2018: EUR 19,265.89).

Deferred tax income 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 30,303,064.38 (31/12/2018: EUR 30,409,289.33). The return on assets, calculated from the quotient of the profit for the year divided by the total assets as of the balance sheet date, stood at 0.80% (31/12/2018: 0.87%).

7.2. Presentation of revenues by geographic market (§ 237 Austrian Commercial Code)

Interest and similar income in EUR	2019	2018
Austria	85,925,827.91	96,750,262.65
Western Europe	46,473,662.14	37,244,085.99
Central and Eastern Europe	11,925,544.86	14,343,751.75
Rest of the world	5,097,506.78	2,708,816.37
	149,422,541.69	**151,046,916.77**

Fee and commission income in EUR	2019	2018
Austria	115,195.56	1,038,608.84
Western Europe	14,743,939.19	8,186,232.02
Central and Eastern Europe	251,500.00	6,101,184.78
Rest of the world	2,051,019.73	0.00
	17,161,654.48	**15,326,025.64**

Other operating income in EUR	2019	2018
Austria	4,765,713.41	10,829,899.21
Western Europe	53,506.20	157,249.33
Central and Eastern Europe	0.00	0.00
Rest of world	0.00	150,000.00
	4,819,219.61	**11,137,148.54**

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

Following the outbreak of the coronavirus at the end of 2019/beginning of 2020 in China and its ensuing spread into a global pandemic, all forecasts regarding economic developments and trends must be revised. As the situation is developing so quickly and the ultimate impact cannot yet be predicted, no quantitative estimate can be made on how Kommunalkredit will be affected. Should the measures in place to prevent the further spread of the virus become even stricter or stay in place for longer, this will especially affect new business volume and risk provisions for Kommunalkredit.

10. Disclosures Regarding the Boards of the Bank and its Employees

10.1. Average number of employees during the financial year

As of 31 December 2019, Kommunalkredit had 161 employees (31/12/2018; 165 employees).

The average number of employees during the year under review was 162 (2018: 182), including two (2018: three) 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	2019	2018
Active Executive Board members	1,434,174.42	1,961,556.26
Active Supervisory Board members	119,170.53	116,130.61
	1,553,344.95	**2,077,686.87**

As of 31 December 2019, and as in the previous year, there were no outstanding loans to members of the Executive Board or members of the Supervisory Board. No guarantees were provided by Kommunalkredit for Board members either.

As of 31 December 2019, the outstanding volume of loans to employees of the company amounted to EUR 385,877.68 (31/12/2018: EUR 409,634.23).

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	2019	2018
Executive Board members and senior employees	550,317.11	596,813.49
Other employees	847,837.80	569,685.70
	1,398,154.91	**1,166,499.19**

The increase in expenses for severance pay and pensions, as compared to the previous year, primarily results from higher severance payments made.

10.4. Relationships with affiliated companies

Tax group

Effective as of 2016, a tax group pursuant to § 9 of the Austrian Corporate Income Tax Act was formed, with Satere as the group parent. Group members as of 31 December 2019 included Gesona, Kommunalkredit, KPC and TrendMind (for details, see 7.1.8.).

Relationships with affiliated companies

Transactions with affiliated companies are recognised under the balance-sheet items concerned. All transactions with affiliated companies 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

Jochen Lucht
Member of the Executive Board

Jörn Engelmann
Member of the Executive Board
Until 31 January 2019

Members of the Supervisory Board

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

Christopher Guth
Deputy Chairman; delegated by Attestor Capital

Friedrich Andreae
Delegated by Attestor Capital; Managing Director Gesona Beteiligungsverwaltung GmbH and
Satere Beteiligungsverwaltungs GmbH

Jürgen Meisch
Managing Director Achalm Capital GmbH

Martin Rey
Managing Director Maroban GmbH

Alois Steinbichler

Patrick Höller
Nominated by the Works Council

Renate Schneider
Nominated by the Works Council

10.6. State Representative

Philip Schweizer
State Commissioner, Federal Ministry of Finance

Bettina Horvath
Deputy State Commissioner, Federal Ministry of Finance
Until 30 November 2019

Markus Kroiher
Deputy State Commissioner, Federal Ministry of Finance
Since 1 December 2019

10.7. Government Commissioner

Appointed to serve as Government Commissioner of the cover pool for covered bonds in 2019:

Karin Fischer
Government Commissioner, Federal Ministry of Finance

Sandra Kaiser
Deputy Government Commissioner, Federal Ministry of Finance

Vienna, 30 March 2020

The Executive Board of
Kommunalkredit Austria AG

Bernd Fislage
Chief Executive Officer

Jochen Lucht
Member of the Executive Board

Schedule of Participations and Investments in Affiliated Companies as of 31/12/2019 (Annex 1)

Pursuant to § 238 (2) of the Austrian Company Code, the Schedule of Participations schows all direct companies.

Name and registered office in EUR	Invest-ment in % 2019	Invest-ment in % 2018	Equity	Acquisition cost	Carrying amount 31/12/2019	Carrying amount 31/12/2018	Profit for the period after tax	Latest annual financial statements
I. Participations								
Kommunalnet E-Government Solutions GmbH, Vienna	45,00%	45.00%	1,147,276.35	344,025.00	344,025.00	344,025.00	134,994.21	31/12/2019
Kommunalleasing GmbH, Vienna	50.00%	50.00%	-15,501,553.59	750,000.00	0.00	0.00	7,901.83	31/12/2019[1]
Fidelio KA Infrastructure Opportunities Fund SICAV-RAIF SCA, Luxembourg	14.29%	15.80%	165,337,000.00	23,589,000.00	23,589,000.00	21,870,000.00	2,912,042.85	31/12/2019[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%	1,559,082.98	346,500.00	346,500.00	346,500.00	630,292.63	31/12/2019
Kommunalkredit KBI Immobilien GmbH, Vienna	100.00%	100.00%	54,312.94	35,000.00	35,000.00	35,000.00	4,462.37	31/12/2019
Kommunalkredit KBI Immmobilien GmbH & Co KG, Vienna	100.00%	100.00%	32,727,402.66	32,081,365.00	32,081,365.00	32,081,365.00	646,037.90	31/12/2019
Fidelio KA Beteiligung GmbH, Frankfurt am Main	85.00%	85.00%	52,424.28	58,281.24	58,281.24	57,800.00	-8,547.83	31/12/2019
TrendMind IT Dienstleistung GmbH, Vienna	100.00%	100.00%	443,679.65	150,000.00	150,000.00	150,000.00	192,679.65	31/12/2019

[1] Preliminary unaudited figures.

Schedule of Non-Current Asset Transactions pursuant to § 226 (1) of the Austrian Commercial Code as of 31 December 2019 (Annex 2)

Non-current assets in EUR	Acquisition costs						Cumulative depreciation and amortisation				Residual carrying amounts			
	As of 1/1/2019	Currency translation	As of 1/1/2019	Additions	Disposals	As of 31/12/2019	Cumulative depreciation, amortisation and reversals as of 1/1/2019	Additions	Disposals	Cumulative depreciation, amortisation and reversals 2019	Carrying amount 31/12/2019	Carrying amount 31/12/2018	Amortisation, depreciation and write-downs 2019	Reversals of write-downs 2019
1. Debt securities from public issuers	148,593,180.00	0.00	148,593,180.00	11,085,990.00	0.00	159,679,170.00	386,115.85	414,937.41	-12,040.77	789,012.49	158,890,157.77	148,207,064.15	414,937.41	0.00
2. Loans and advances to customers	230,749,377.68	0.00	230,749,377.68	0.00	23,633,369.00	207,116,008.68	0.00	0.00	-7,850.07	-7,850.07	207,123,858.75	230,749,377.68	0.00	0.00
3. Bonds and other fixed-income securities	267,702,884.49	0.00	267,702,884.49	55,581,188.00	1,446,134.09	321,837,938.40	177,250.79	382,838.70	-124,000.76	436,088.73	321,401,849.83	267,525,633.70	382,838.70	0.00
4. Investments	22,965,095.00	0.00	22,965,095.00	1,749,000.00	0.00	24,714,095.00	750,000.00	0.00	0.00	750,000.00	23,964,095.00	22,215,095.00	0.00	0.00
5. Investments in affiliated companies	32,700,665.00	0.00	32,700,665.00	481.24	30,000.00	32,671,146.24	0.00	0.00	0.00	0.00	32,671,146.24	32,700,665.00	0.00	0.00
6. Non-current intangible assets	4,523,821.37	0.00	4,523,821.37	144,360.68	0.00	4,668,182.05	4,319,944.45	101,642.64	0.00	4,421,587.09	246,594.96	203,876.92	101,642.64	0.00
7. Land and buildings, including buildings on third-party land	923,893.28	0.00	923,893.28	3,590.91	0.00	927,484.19	369,780.09	50,315.54	0.00	420,095.63	507,388.56	554,113.19	50,315.54	0.00
8. Office furniture and equipment*	7,687,550.38	0.00	7,687,550.38	209,822.42	0.00	7,897,372.80	5,432,562.30	381,989.32	0.00	5,814,551.62	2,082,821.18	2,254,988.08	381,989.32	0.00
	715,846,467.20	**0.00**	**715,846,467.20**	**68,774,433.25**	**25,109,503.09**	**759,511,397.36**	**11,435,653.48**	**1,331,723.61**	**-143,891.60**	**12,623,485.49**	**746,887,912.29**	**704,410,813.72**	**1,331,723.61**	**0.00**
* *of which low-value assets as defined by § 226 (3) of the Austrian Commercial Code (UGB)*	*385,441.32*	*0.00*	*385,441.32*	*132,464.40*	*0.00*	*517,905.72*	*385,441.32*	*132,464.40*	*0.00*	*517,905.72*	*0.00*	*0.00*	*132,464.40*	*0.00*

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, 2019, 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, 2019, 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 Company 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.

As at December 31, 2019, loans and advances to customers amount to EUR 2.6 billion before deducting loss allowances of EUR 7.1 million.

Kommunalkredit Austria AG takes into account statistically determinable empirical values in determining the fair value of the loan receivables. Due to a lack of data histories, collected statistical parameters such as PDs and LGDs are used by an international rating agency:

- 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. 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 the rating process;
- reviewed the validation processes and the results of backtesting and model validations for credit risk models, which assesses the appropriateness of the purchased parameters, inter alia on the basis of detailed monitoring reports of the international rating agency
- 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 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 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, 2019, at the shareholders' meeting on March 6, 2018. We were engaged by the supervisory board on April 13, 2018. 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 30, 2020

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 financial statements and the management report for the Company are identical with the German audited version. This audit opinion is only applicable to the German and complete financial statements with the management report for the Company. For deviating versions, the provisions of Section 281 (2) UGB apply.

We draw attention to the fact that the English translation of this auditor's report according to Section 274 of the Austrian Commercial Code (UGB) is presented for the convenience of the reader only and that the German wording is the only legally binding version.

Statement by the Legal Representatives

KOMMUNALKREDIT AUSTRIA AG

Annual Financial Statements 2019

We hereby **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 material risks and uncertainties to which the company is exposed.

Vienna, 30 March 2020

The Executive Board of
Kommunalkredit Austria AG

Bernd Fislage	**Jochen Lucht**
CEO	CFO, CRO, COO

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Corporate Communications
communication@kommunalkredit.at
Phone: +43 1 31631 577

Investor Relations
investorrelations@kommunalkredit.at
Phone: +43 1 31631 678

www.kommunalkredit.at

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www.kommunalkredit.at