INFRASTRUCTURE IS OUR FUTURE

Annual Report 2020 of Kommunalkredit Austria AG

Kommunalkredit at a glance

SELECTED PERFORMANCE INDICATORS in EUR m	IFRS				Austrian GAAP			
	2017[1]	2018	2019	2020	2017	2018	2019	2020
Net interest income	35.2	49.2	58.6	77.1	32.8	37.7	45.6	57.4
EBIT[2]	9.4	23.9	33.2	47.5	7.8	21.8	27.0	31.9
Profit on ordinary activities	7.1	32.6	27.3	48.0	18.3	29.7	28.7	32.4
Profit for the year after tax	18.1	14.3	29.6	36.4	18.9	30.4	30.3	33.6
Cost-income ratio	87.9%	70.2%	63.3%	56.1%	85.2%	67.0%	63.2%	61.0%
Return on equity before tax	3.1%	14.0%	10.3%	15.3%	8.4%	12.8%	10.8%	10.3%
CET 1Ratio	n. a.	n. a.	n. a.	n. a.	23.5%	19.9%	18.7%	20.3%

1 Prepared according to IAS 39.
2 Profit for the year before tax under IFRS, adjusted for net provisioning for impairment losses, measurement gains/losses and restructuring expense (2018). 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 (2018).

56.1%
Cost-income ratio
based on EBIT

20
nationalities
43% share of women
43 years average age
»Diversity«

0.0%
NPL ratio

BBB
DBRS rating raised
R-2 (high)

15.3%
RoE before tax

29
transactions in 2020
»Focus on Europe«

Awards 2020
Best ESG Infrastructure Finance Europe
Austria's second best direct bank
German Brand Award Winner

Green electricity covering
100%
of electricity consumption
at the Vienna site

EUR 344.0 m
Capital doubled
since privatisation in 2015
from EUR 170m

All figures – unless otherwise stated – reported under IFRS.
* According to the Austrian Commercial Code (UGB).

EUR 1.1 bn

+ 11% New business volume

from infrastructure and energy financing

EUR 603 m

Placement volume

EUR 354 m

Assets under Management

Close of the Fidelio KA Infrastructure

Debt Fund Europe 1 02/2020

EUR 47.5 m

EBIT + 43 %

A-

Premium portfolio with average rating

20.3%

CET 1 ratio*

Contribution to

12

Sustainable Development Goals

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 do to achieve this?	How would this appeal to our shareholders?
We will become the partner of choice for infrastructure investments: ▪ Increasing financing by more than double ▪ Increasing placements with our "originate and collaborate" approach ▪ Contributing to Sustainable Development Goals	**We focus on our core business:** ▪ Customer focus ▪ Operational efficiency ▪ Strict placement criteria ▪ SDG-compliant infrastructure	**We act decisively:** ▪ Expanding our product base ▪ Developing our fee business ▪ Enhancing productivity ▪ Boosting profitability ▪ Maintaining risk-return-centric management of the bank	**We broaden our resources:** ▪ Boost our capital ▪ Invest in talent ▪ Embrace digitalisation ▪ Improve our rating ▪ Increase our underwriting capacity	**We generate solid values:** ▪ Increase EBIT to EUR 50m ▪ Reduce cost-income ratio to 50% ▪ Achieve a return on equity of 10% ▪ Achieve an attractive return on investment

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Annual Report 2020
Kommunalkredit Austria AG

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INFRA. BANKING. EXPERTS.

Letter by the Chief Executive Officer

SUSTAINABILITY.PIONEER.

Dear stakeholders,

Let me start with a word of thanks. After all, 2020 was a special year. We have seen the extent and speed with which economic and social changes can impact everyday life. We have seen how important and necessary it is to ensure the proper functioning of relevant infrastructure. The fragility and yet the resilience of social cohesion have been palpable. And we dealt with this situation together, accepted the challenge and seized opportunities. I would therefore like to extend a special thanks to our employees, who showed great commitment and dedication despite changed working conditions and personal setbacks, and thus made our excellent results possible.

COVID-19 has placed extreme demands on social infrastructure, such as hospitals and nursing homes. Working from home and distance learning have highlighted the importance of a secure energy supply and a high-performance communications infrastructure. This prompted us to provide increased financing in this area and thereby make a contribution to society. Transactions, permanent monitoring of potential COVID-related risks and sustainable business management went hand in hand. Amid this acute market environment, we were able to demonstrate our expertise in arranging, underwriting, and syndicating infrastructure and energy financing – and, in doing so, prove the resilience of our business model.

This was broadly welcomed by the market – the rating agency S&P assigned us an investment grade rating of "BBB-/A-3" with a stable outlook as of 24 February 2021, while the covered bond rating was upgraded to "A+" with a stable outlook as of 3 March 2021. Fitch Ratings also assigned an investment grade rating of BBB-/F3 with a stable outlook to Kommunalkredit in March 2021. As early as October 2020, DBRS Morningstar upgraded our rating by a notch to "BBB/R-2 (high)", likewise with a stable outlook. In addition to our continuously increased operational profitability, particular attention was paid to the strengthened franchise arising from partnerships with our customers and institutional investors as well as the demand for our infrastructure fund KA Fidelio based on the "originate and collaborate" approach.

Our net income for the year underscores the growing need for infrastructure, not only as an asset class, but also as an essential factor for modernising and realising general agendas such as digitalisation, national and international climate and energy targets as well as the Green Deal. New business in the field of infrastructure and energy financing came to EUR 1.1bn, 11% above the previous year's figure. The contribution of this core field of business to gross earnings increased from 61% to 71%. EBIT increased significantly by 43% to EUR 47.5m against the previous year. The cost-income ratio was reduced to 56.1% in a difficult environment and against the backdrop of a tense low-interest-rate environment, and the return on equity before tax came to 15.3%. CET 1 capital amounted to EUR 344.0m, and the CET 1 ratio increased to 20.3%. Our non-performing loan (NPL) ratio is at 0.0% – as it has been since privatisation back in 2015.

The final close of the infrastructure fund (Fidelio KA Infrastructure Debt Fund Europe 1) took place at the end of February 2020. At over EUR 350m, the original target volume of EUR 150m was significantly exceeded. The interest shown has encouraged us to launch an additional fund (Fidelio KA 2) with a focus on renewable energies, digitalisation and healthcare. We are aiming for a first close of EUR 150m during the first half of 2021. This allows us to offer our business partners access to infrastructure and energy financing via an asset management solution.

Kommunalkredit's strategic fields of activity are distinguished by their low default rates and high recovery rates. Our portfolio is proving crisis-resistant – despite the beleaguered wider economic environment. Strengthening our capital base allows us to mobilise more capital for sustainable use in infrastructure that meets SDG/ESG (Sustainable Development Goals/Environment, Social, Governance) criteria. This approach is also generating a positive market response. After 2019, we were again recognised as the "Best ESG Infrastructure Finance Europe 2020" by the international platform "Capital Finance International". Transactions in which we were closely involved were recognised by Proximo as "EMEA EV Charging Deal of the Year" and by IJGlobal as a "European Innovation" (charging stations for electric cars). Or the German offshore wind farm, which was selected as the winner of the "German Renewables Award 2020". KOMMUNALKREDIT INVEST, our online investment portal for private customers, won the "German Brand Award", while Austrian business magazine "Der Börsianer" also awarded us top spots (second place among direct banks, third place among specialist banks). In the rankings of the European infrastructure trade journals, we are consistently among the Top 25 in a highly competitive environment.

What is particularly encouraging is our inclusion in the Hydrogen Alliance, which was introduced by the European Commission in mid-2020. Kommunalkredit is the first Austrian financial service provider to be a member of the "European Clean Hydrogen Alliance", which aims for an ambitious deployment of hydrogen technologies in industry and mobility. With this move, we are highlighting the importance of ESG and SDG criteria in the context of our activities and supporting our customers in implementing sustainable infrastructure projects to achieve global energy and climate targets.

No topic will shape the coming decades as much as the energy transition. The switch to a sustainable energy supply is the declared global goal. It is a commitment to our future. Europe will have to move even closer together to accommodate future requirements in the Green Deal, which had already been introduced before the health crisis, be it in relation to decarbonisation, or in relation to clean hydrogen production as the energy source of the future. Climate protection also means making sustainable investments in local jobs and regional economic cycles. This will only work in conjunction with suitable stimulus packages for the economy.

Kommunalkredit is ready and willing to keep taking responsibility in this area. We are aware that our position allows us to play a pioneering role in the implementation of sustainable infrastructure projects. The flexibility, commitment and expertise of our employees are integral to our success. With our strong network of contacts to infrastructure developers, constructors and operators, to investors and public institutions, and as we engage constantly with stakeholders from political, business, academic and media circles, we are helping to set the course for the future.

In this context, I would like to mention two relatively recent projects in the Austrian domestic market. In the case of the TrIIIple and Austro Tower projects we financed the energy system intended to provide five high-rise buildings with heating and cooling. The heating and cooling plant uses water obtained from the Danube Canal in this flagship project. This is a new type of energy supply, and an example of sustainable and pioneering energy solutions. And together with OMV, we are jointly investing in the construction of the largest electrolysis plant in Austria to produce up to 1,500 tonnes of green hydrogen annually and to reduce approximately 15,000 tonnes of CO_2 emissions per year. In doing so, we also seek to promote innovative technologies in Austria and make a contribution to society.

Our subsidiary Kommunalkredit Public Consulting (KPC) also plays a key role in this regard. KPC is the main contact for the Austrian Ministries as regards subsidy management, particularly in relation to the issues of climate protection and the energy transition. In 2020, it once again appointed a member of the Austrian negotiation team in the climate negotiations at EU level.

2020 was a special year. The challenges that arose from it will remain with us in 2021 and beyond. Supported by the encouraging performance of the bank and the resulting improved ratings, we will further expand our presence on the capital markets. While the focus in 2020 was exclusively on senior preferred private placements, the focus in 2021 is on public issues. In addition to refinancing the first social covered bond ever issued in Austria, which is set to mature in July 2021, we aim to place a senior preferred bond to diversify and expand the investor base. Apart from that, the main focus is on optimising the capital structure and, with it, the opportunity for investors to participate in a successful and sustainable business model.

We will continue to support our customers and partners as a sparring partner in 2021. With the appointment of Sebastian Firlinger as Chief Risk Officer, we strengthened our senior management at the beginning of the year and gained the benefit of additional experience for the company.

With our financing expertise in infrastructure and energy, we will continue to enable sustainable projects in the future. We are ready to play a pioneering role in achieving national and international climate targets. We are confident that we can make our contribution.

Infrastructure is our future! Let us shape it together.

Best regards,

Bernd Fislage
Chief Executive Officer
Kommunalkredit Austria AG

Vienna, March 2021

Executive Committee

The Executive Committee is Kommunalkredit's central management body. It comprises the Executive Board, the Executive Vice Presidents and the management personnel from Front Office and Strategy.

1st row:
Mariella Huber (Head of Corporate Services)
John Philip Weiland (Head of Banking)

2nd row:
Jochen Lucht (CFO, COO), Bernd Fislage (CEO), Sebastian Firlinger (CRO)

3rd row:
Harald Brunner (Executive Vice President IT, Banking Operations)
Claudia Wieser (Executive Vice President Corporate Development)
Kors Korsmeier (Executive Vice President Risk Controlling, Credit Risk Management)


MUNAL
DIT

Functions within the Company

Executive Board

KARL-BERND FISLAGE
Chief Executive Officer

JOCHEN LUCHT
Member of the Executive Board

SEBASTIAN FIRLINGER
Member of the Executive Board, since 1 January 2021

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
Managing Director AST Beratungs- und Beteiligung GmbH

PATRICK HÖLLER
Nominated by the Works Council, until 9 October 2020

ALEXANDER SOMER
Nominated by the Works Council, since 4 March 2020

RENATE SCHNEIDER
Nominated by the Works Council

State Representative

PHILIPP SCHWEIZER
State Representative
Federal Ministry of Finance

MARKUS KROIHER
Deputy State Representative
Federal Ministry of Finance

Government Representative for Cover Pool for Covered Bonds

KARIN FISCHER
Government Representative
Federal Ministry of Finance

SANDRA KAISER
Deputy Government Representative, until 30 September 2020
Federal Ministry of Finance

ANNA STAUDIGL
Deputy Government Representative, since 1 October 2020
Federal Ministry of Finance

Report of the Supervisory Board

The Supervisory Board of Kommunalkredit Austria AG submits its report on the 2020 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 Beteiligungsverwaltungs 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. Patrick Höller (who left the Supervisory Board on 9 October 2020) and Renate Schneider were delegated by the Works Council. Alexander Somer was delegated to the Supervisory Board as an employee representative on 25 February 2020. At the time of reporting, the Supervisory Board comprises four capital representatives, two independent members and two employee representatives.

As of 1 January 2021, Dr. Sebastian Firlinger has been appointed to the Kommunalkredit Executive Board as Chief Risk Officer. At the time of reporting, the Executive Board consists of CEO Karl-Bernd Fislage (Chief Executive Officer), Jochen Lucht (Chief Financial Officer and Chief Operating Officer) and Sebastian Firlinger (Chief Risk Officer).

Kommunalkredit continued on its growth path in the 2020 financial year despite the global health crisis. Regardless of the decline in new transactions on the European infrastructure market caused by the pandemic, a new business volume of EUR 1,145.3m was achieved (+11%). EBIT increased significantly by 43% to EUR 47.5m compared to 2019. The cost-income ratio was reduced to 56.1% against the backdrop of a tense low-interest-rate environment, and the return on equity before tax came to 15.3%. The CET 1 ratio improved to 20.3%. The non-performing loan (NPL) ratio is at 0.0% – as it has been since privatisation back in 2015. The continuous expansion of consulting and structuring activities led to an increase in risk-free net fee and commission income. In Structured Finance, Kommunalkredit applied its in-depth industry expertise to engage in project financing as well as intensify its activities in the fields of acquisition finance, hybrid/corporate finance and financial advisory. The particular focus on the bank's ability to place its transactions on the international financing market is reflected in an investment volume of over EUR 600m among insurance companies, asset managers and banks. The final close of the infrastructure fund Fidelio KA Infrastructure Debt Fund Europe 1 took place at the end of February 2020. With over EUR 350m, it significantly exceeded the original target volume of EUR 150m. This allows Kommunalkredit to offer its business partners access to infrastructure and energy financing via an asset management solution. This is a path that it will continue to follow in 2021.

The Supervisory Board performed its tasks, as defined in the Articles of Association and the Rules of Procedure, at four ordinary meetings, two extraordinary meetings and a constituent meeting; the committees (Audit Committee, Risk Committee, Remuneration Committee and Credit Committee) also held their meetings and performed their tasks in accordance with the Articles of Association. The allocation of responsibilities of the Executive Board has been redefined and adopted due to the extension of the Executive Board and the appointment of a third Executive Vice President.

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 2020.

These annual financial statements and the management report were audited by KPMG Austria 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 2020, the auditors issued an unqualified audit opinion. The Supervisory Board endorsed the results of the audit and approved the 2020 annual financial statements, which were therefore formally adopted, at its meeting held on 23 March 2021. Moreover, the consolidated financial statements as of 31 December 2020, including the management report, were examined and acknowledged by the Supervisory Board.

The Supervisory Board

Patrick Bettscheider
Chairman

Vienna, 23 March 2021

VISION. MISSION. ALWAYS FIRST.

ALWAYS COMMITTED.

Infrastructure specialist

Kommunalkredit is a specialist for infrastructure and energy financing. The significance of ensuring that key infrastructure such as hospitals and care homes is available and in good working order and the importance of dependable energy supply and powerful communications infrastructure is clearly evident in times of global challenges such as the COVID-19 lockdowns in 2020.

Our aim

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 solutions – 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 sustainably improves people's lives.

Our goal

We use our business model to continuously improve the standard of living in society. At the same time, we generate substantial returns for our investors in the long run.

The positive feedback from our business partners, customers, competitors and industry media serves as confirmation that we are on the right track with our focus on infrastructure and energy financing and public finance. This is also reflected, by way of example, in the **sustainability awards** we received in the 2020 financial year, with the international platform "Capital Finance International" singling us out again after 2019 as the "Best ESG Infrastructure Finance Europe 2020". Our online investment portal for private customers, KOMMUNALKREDIT INVEST, won the "German Brand Award" in the "Excellent Brand – Banking & Financial Services" category. At home, the renowned business magazine "Der Börsianer" put us in second place in the "Direct Banks" category and third place as a special bank. Being the first Austrian financial service provider to be included in the "European Clean Hydrogen Alliance", introduced by the EU Commission in mid-2020, is especially encouraging.

german brand award '20 winner

European Clean Hydrogen Alliance

1 Our vision

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

2 Our mission

We are always first when it comes to delivering outstanding results with speed and precision. We take always first as an obligation to improve every day.

3 We provide benefit to the community

We help to create a better world by enabling the development of sustainable infrastructure that improves 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
- Climate protection measures

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

Kommunalkredit's business model is associated with a good risk/reward profile due to its specific structure. The bank provides a point of contact for both corporate and financial sponsors active in the construction, acquisition and/or operation of infrastructure and energy projects, and is on hand to assist the public sector when it comes to providing advice and financing investments in the field of public finance.

Our focus

We deliver sustainable benefits to the community by helping to tackle key challenges such as economic growth, regional development, 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 and precision. We have strong relationships with international clients and investors as well as local authorities. We make use of our ability to create sustainable value by providing flexible financing solutions across all levels of the capital structure. We provide an extensive range of products, from financial advisory services to structuring, arranging and underwriting debt and subordinated capital, to asset management services through our Fidelio KA Infrastructure Debt Fund platform. We are supported in our endeavours by two international owners with a long-term focus.

Our segments

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 from our competitors

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

Energy & Environment

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

Communication & Digitalisation

Broadband
Fibre optic
Data centres

Transport

Roads, bridges, tunnels
Airports, ports, waterways
Rail/public transportation, rolling stock

Natural Resources

LNG terminals
Pipelines
Energy storage

Social Infrastructure

Nurseries, schools, universities
Hospitals, nursing homes
Court buildings
Administrative buildings

Our markets

Whether it's supplying sustainable energy, high-speed broadband connections, vital transport routes or steps for climate change ... Infrastructure knows no bounds. Successful projects in our core markets provide the foundation for our dedicated approach in the European infrastructure and energy market. We mainly operate in the member states and associated countries of the European Union.

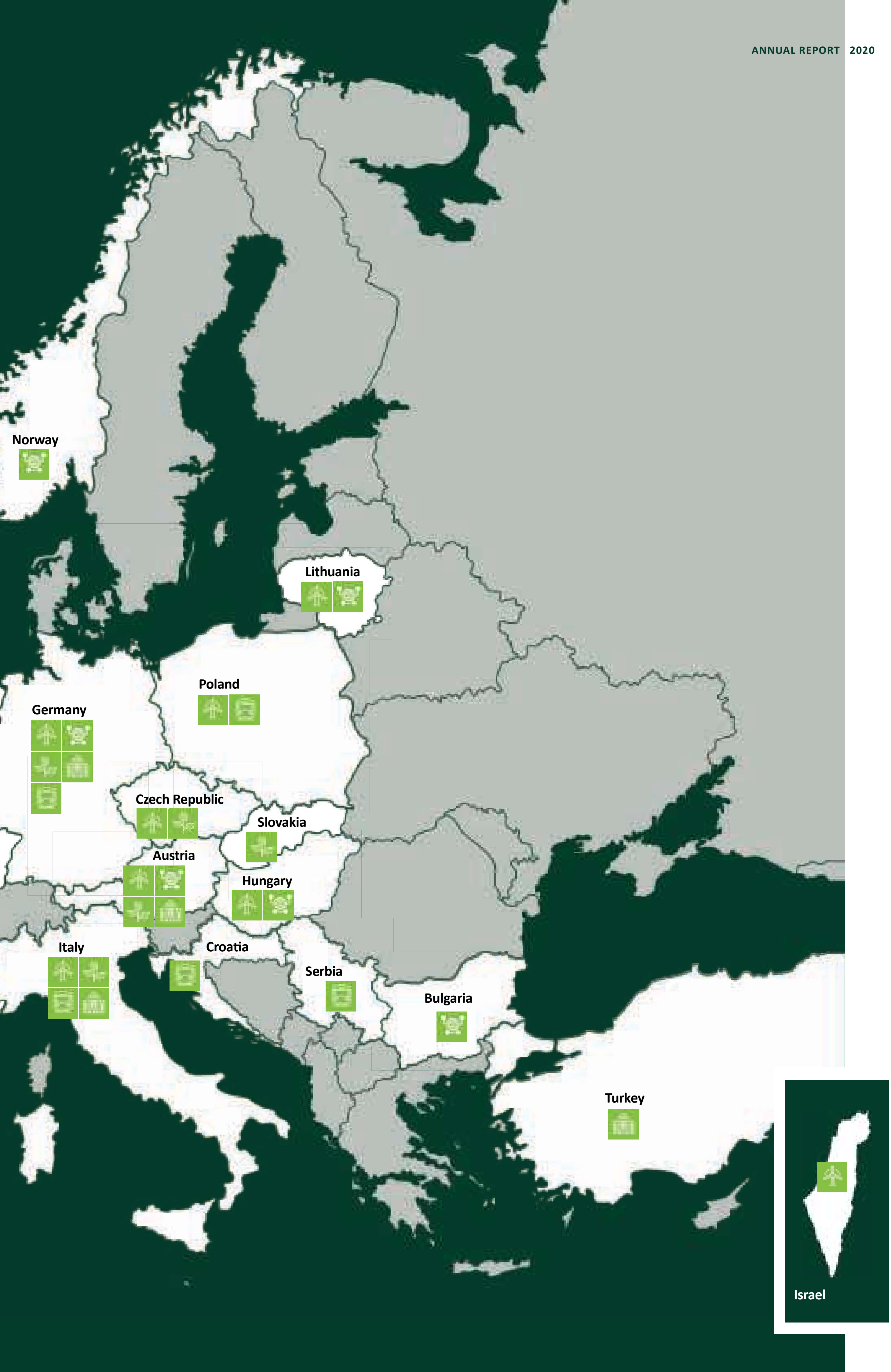
Energy & Environment

Communication & Digitalisation

Transport

Social Infrastructure

Natural Resources


Norway
Lithuania
Poland
Germany
Czech Republic
Slovakia
Austria
Hungary
Italy
Croatia
Serbia
Bulgaria
Turkey
Israel

ALWAYS AMBITIOUS.

Our objectives

Kommunalkredit launched a strategy programme with clear and ambitious objectives in 2018: investing in sustainable infrastructure and energy has allowed the bank to not only establish long-term customer relationships, but also to generate attractive returns in the process and strengthen its capital by reinvesting approximately EUR 90 million since 2018.

1 What is our goal?

We aim to establish Kommunalkredit as the partner of choice for infrastructure investments and, with this, as a leading player in the European infrastructure market. The generation of attractive returns and the sustainable deployment of capital are for us the two sides of the same coin.

2020 saw us execute transactions worth approx. EUR 1.1bn across Europe. We placed a volume of EUR 603m (> 50%) with investors. We pursue a business approach based on close cooperation with established partners and our customers (originate and collaborate)

2 How will we achieve this goal?

We focus on our core business. We live customer centricity. We focus on operational efficiency and the execution of transactions in accordance with ESG (Environment, Social and Governance) and SDG (Sustainable Development Goals) criteria and clearly defined placement criteria while meeting our partners' requirements in terms of returns.

2020 saw us broaden our client network and ensure a great deal of repeat business with key clients. The high implementation ratio in our acquisition and execution activities – even in challenging times globally – confirms that we are taking the right approach. We are making active contributions to ESG and SDG goals with projects we have financed.

3 How are we improving in our core business?

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

Our fund "Fidelio KA Infrastructure Debt Fund Europe 1" successfully closed in 2020 at EUR 354m, greatly exceeding the original target volume of EUR 150m. This enables us to give investors direct access to a transaction pipeline with attractive returns. We have also expanded our financial advisory business and increased our net fee and commission income by 27%.

4 What do we need to achieve this?

We aim to continuously strengthen our capital base. 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 also committed to improving our rating.

A strong capital base has allowed us to realise sustainable infrastructure projects in 2020. Our team of international experts was expanded with absolute focus. Our online platforms received a technical and visual relaunch. The rating agency DBRS Morningstar lifted the long-term rating to BBB – contrary to the general market trend – in October 2020 (stable outlook).

5 Why is this attractive to our shareholders?

We aim to increase 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 2020, we boosted our EBIT by 43.1% to EUR 47.5m. The cost-income ratio was reduced to 56.1% and a return on equity before tax of 15.3% based on a CET 1 ratio of 20.3% was generated. (All values according to IFRS) We are well on the way to achieving our goals ahead of schedule.

ALWAYS ESSENTIAL.

Infrastructure is our future

Infrastructure is, by its very nature, vital to the efficient functioning of society. Its quality has a significant impact on economic growth at local, regional, national and global levels. The global health crisis has illustrated yet again just how essential an efficient infrastructure is for social and economic well-being.

Infrastructure is key

By giving communities improved access to a functioning water supply, dependable energy supplies, a powerful communications infrastructure, state-of-the-art hospitals and progressive care homes, the **standard of living of the public** will be improved sustainably. Effective infrastructure must meet the needs of today's generation and create opportunities for the generations to come. Investments in infrastructure are therefore forward-looking and are becoming a matter of great interest. Especially for the modernisation and implementation of agendas such as digitalisation and the Green Deal, they play an important role. Climate change increases the need for solutions for sustainable energy supplies. This challenge has 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 modernise their existing utility, transport and social infrastructure to cope with the demographic shift towards an ageing population, to provide them with living conditions that meet their needs and to prevent any crises.

High demand

The effects caused by the COVID-19 pandemic have not impaired the need for investment – quite the contrary. The European Investment Bank (EIB) had raised EUR 514bn in additional funds through the European Fund for Strategic Investments (EFSI) by the summer of 2020 and had already met its target of injecting an additional EUR 500bn into the real economy by the end of 2020[1], ahead of schedule. The European Commission also proposed a recovery plan for Europe at the end of May to drive the recovery in the aftermath of the COVID-19 crisis. It provides for a seven-year European Union (EU) budget totalling EUR 1,850bn.[2] In December 2020, an agreement was reached on the Recovery and Resilience Facility as the last key element of the EU recovery agreement. This facility amounts to EUR 672.5bn[3] and is a clear signal of the intent to work together to overcome the crisis. There is a **particular need** for investment in energy – with a focus on the Green Deal – as well as digitalisation, social infrastructure and transport routes. The public sector will increasingly have to work hand-in-hand with private-sector companies in the necessary investment projects.

Increasing acceptance

The financing of infrastructure projects has changed significantly over the past few years. On the one hand, the financial latitude of the public sector is decreasing due to government debt and budget caps. There has been 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.

Low risk

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 2018, average default rates over the entire project term in the infrastructure (3.2%) and energy (4.1%) sectors were several times lower than in the manufacturing industry (21.3%).[4] Meanwhile, recovery rates on infrastructure investments average 72%[5]. Among Kommunalkredit's focus industries, recovery rates come in between 60% and 80% for infrastructure & telecoms and between 80% and 100% for energy.[6]

1 European Investment Bank (EIB) – The European fund for strategic investments, July 2020.
2 European Commission (EC) – The EU Budget Powering the Recovery Plan for Europe, 27/05/2020.
3 European Council (EC) – Recovery and Resilience Facility: Provisional agreement between the Council Presidency and Parliament, press release, 18/12/2020.
4 Moody's Investors Service – Default and Recovery Rates for Project Finance Bank Loans 1983-2018, 09/03/2020.
5 Moody's Investors Service: Infrastructure Default and Recovery Rates 1983-2019, 09/10/2020.
6 Moody's Investors Service: Default and Recovery Rates for Project Finance Bank Loans 1983-2018, 09/03/2020.

ALWAYS SUSTAINABLE.

Benefit to the community

As a specialist bank for infrastructure and energy financing, Kommunalkredit provides tangible benefit to the community. The bank helps its customers to create a better world by enabling the development of sustainable infrastructure that improves the quality of people's lives. Its focus here is on efficiency and effectiveness in accordance with ESG (Environment, Social and Governance) and SDG (Sustainable Development Goals) criteria.

Sustainability as a key component

Investments in infrastructure are a tool for addressing social needs and increasing the general well-being of society. Powerful infrastructure bolsters economic momentum, encourages urban development, gives regions a new lease of life, creates jobs, supports social cohesion and is an indispensable part of the **fight against climate change**.

We actively address key global and local modern infrastructure trends. We fully understand the private sector's responsibility when it comes to doing its bit for prosperity and core ethical values within society. Sustainable management – 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) makes a key contribution to the sustainable implementation of environmental and climate protection projects on both a national and international scale. It develops and implements national and international environmental and energy support programmes. The "Climate Austria" initiative, for example, which allows CO_2 emissions to be offset voluntarily, was established by KPC back in 2008. KPC 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 in response to climate change. In addition, KPC contributes towards the development and spread of modern environmental and technological standards through a wide variety of international consulting projects in the areas of water management, energy and climate finance.

The concept of sustainability is firmly embedded in Kommunalkredit's business model and processes. 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 comprehensive sustainability management system ever since. The fact that we became the first Austrian issuer of a Social Covered Bond in 2017 attests to just how important sustainability is to us.

Sustainability as a joint contribution

Kommunalkredit has sustainability ratings from renowned agencies. imug (consultancy firm for social and ecological innovation and investment research), for example, assigned a rating of "very positive" to Kommunalkredit's covered bonds; the performance of the bank was rated "positive". These sustainability ratings are reviewed and evaluated at regular intervals.

Kommunalkredit was the first Austrian financial service provider to be included into the "European Clean Hydrogen Alliance" that was created by the EU Commission in mid-2020. Clean hydrogen technologies as climate-neutral energy sources have huge potential to decarbonise industries with high emissions. They are the key to a carbon-neutral economy.

Hydrogen is considered highly climate-friendly, as it does not emit carbon dioxide when used and is used for various purposes – from the storage of renewable energy to the refuelling of heavy haulage and as energy and primary material in energy-intensive industries. The economic and financial system is therefore called to promote economic and sustainable projects in order to meet national climate and energy plans, the Green Deal and achieve climate neutrality. The establishment of an investment pipeline enables projects to be implemented using this technology.

After joining the alliance in November 2020, Kommunalkredit already took the first concrete step at the beginning of 2021 and is investing jointly with OMV in the construction of the largest electrolysis plant in Austria. The bank therefore plays a leading role in economic, innovative and sustainable projects and actively supports global sustainability goals.

The path taken has also been noticed by the market. We have regularly received industry awards from renowned infrastructure magazines since 2017. We most recently received **awards** from Capital Finance International (cfi), IJGlobal and Proximo. The focus on sustainability in Kommunalkredit's overall strategy was explicitly highlighted in the cfi jury's decision to award "Best Infrastructure Finance Europe 2020".

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.

Despite the additional challenges caused by the COVID-19 pandemic, climate change is and remains one of the biggest global challenges. This will require extensive investment, especially in the areas of infrastructure and energy. The financial sector, in particular, is called upon to play its part in climate protection. The aim is to redirect cash flows towards sustainable investments (**Green Finance**). With our Energy & Environment, Social Infrastructure, Communications & Digitalisation, Transport and Natural Resources investment segments, we at Kommunalkredit are leveraging the opportunities that arise from this. And in doing so, we enable sustainable infrastructure projects that help to improve quality of life.

This 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) an integral element of our corporate culture. Kommunalkredit conducted 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 – economy, ecology and society. The topics of "business ethics" (legal and regulatory framework, compliance, data protection and client satisfaction), "employees" (initial and further training, motivation, health, etc.) and "operational ecology" were also studied in detail.

Sustainability as a global challenge

In September 2015, the resolution "Transforming our World: The 2030 Agenda for Sustainable Development" was adopted at the United Nations General Assembly. 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.[7]

The analysis identified a series of SDG criteria currently being achieved by means of the activities of Kommunalkredit and KPC. For each infrastructure project, we identify how compliant it is with the SDG criteria and which effects it will have on the environment and society. Future projects are being assessed using the ESG catalogue. Our aim is to provide high-quality, dependable, sustainable and resilient infrastructure that accounts in particular for the challenges posed by climate change. Kommunalkredit not only wants to set a good example in this regard, but also aims to establish itself as a trendsetter for debt financing.

7 Contributions of the Federal Ministries to Austria's implementation of the 2030 Agenda for Sustainable Development, March 2016.

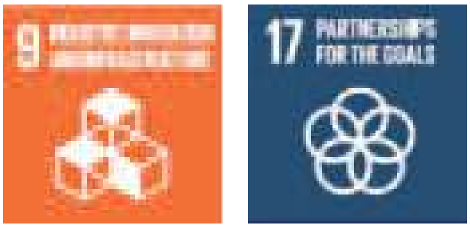
17 GOALS THAT WILL CHANGE THE WORLD.

How we contribute to this

1

What is our 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 to this end?

We concentrate on our investment segments:

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

3

How do we achieve this?

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:

Creating a better everyday life

We connect people – in schools and universities, in hospitals and support/care institutions, 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.

Our services allow us to ...

... connect over

15.5 million

people with one another with telecommunications technology.

... contribute to the education of around

1,100

students.

... equip

five

high-rise buildings with an efficient heating and cooling energy system.

... support infrastructure development, financing over

480 km

of roads.

... develop the refuelling infrastructure for electromobility with around

10,400

charging stations.

... enable transport solutions for

27 million

passengers per year.

... create support institutions for around

1,500

patients.

... create accommodation for more than

8.300

elderly and disabled people.

... enable around

3.4 million

households to use renewable energy each year.

... contribute to eliminating

3.0 million

tonnes of waste.

... supply drinking water to

9.3 million

people.

Retrospective. Perspective.

We have undoubtedly had one of the most challenging years of our partnership. The Covid-19 pandemic shaped the past financial year and will continue to occupy us.

Bernd Fislage: At this point, I would like to express our sincere thanks to you, as Chairman of the Supervisory Board and to all capital representatives. You have not only supported our strategic realignment, but actively contributed to it.

Kommunalkredit weathered 2020 well. How was this accomplished in such a difficult market environment?

Patrick Bettscheider: Kommunalkredit's performance confirms that is was the right decision to position the bank as an infrastructure, energy and public finance expert in the European market. The current global health crisis in particular has shown how essential functioning infrastructure is for society, especially regarding climate protection and the implementation of the Green Deal. These targets can only be achieved through sustainable business management.

Bernd Fislage: The future needs infrastructure. At Kommunalkredit, we are contributing to a greener future. The environmental and climate challenges that must be overcome are enormous. As an institution, it is all the more important that we incorporate ESG (Environment, Social, Governance) and SDG (Sustainable Development Goals) criteria in our long-term strategy to pave the way for a sustainable future. Large investments are required if we are to achieve the climate plans proposed by politicians. The private sector, the government and each individual can contribute. As the Kommunalkredit Group, we see ourselves in an active role: financing ecological projects, managing of government support measures such as the withdrawal from fossil oil and gas heating systems in close collaboration with the relevant ministries, and consulting for national and international organisations and financial institutions.

Not only economic but also ecological criteria are becoming increasingly important with respect to infrastructure and energy projects. Where does Kommunalkredit stand in this regard?

Patrick Bettscheider: Kommunalkredit is well positioned to meet the challenges of the future. Since the privatisation in 2015, capital has been more than doubled, and we have developed a top team with comprehensive, international experience which passes on a great deal of expertise to talented junior professionals, thereby strengthening it. These are good prerequisites for continued achievement of excellent results in the future, the support of sustainable projects, and further advancement of our growth path.

Bernd Fislage: Looking back, the last few months have shown us more than ever that our business model, with the two pillars of Infrastructure & Energy and Public Finance at its heart, is more than robust, even during a global crisis. We reacted quickly to the changed market conditions and focused more specifically on the Digitalisation & Telecommunications, Renewable Energy and Social Infrastructure segments. But we have also seen that there is still a long way to go if we want to achieve our ambitious goals. Digitalisation, decarbonisation and the Green Deal require innovative ideas and projects so that we can live up to our socio-political responsibility.

We are more than a bank. We see ourselves as a platform connecting companies, politics and science and to develop and implement solutions for a sustainable future. Let us continue on this path together.

MANAGEMENT REPORT.

WORLD. CHANGE.

Economic environment

2020 – A year like no other. The world seemed fine at the beginning. But the global spread of the COVID-19 pandemic has changed the situation with severe consequences. It has caused personal losses and social restrictions, as well as economic decline caused by continued lockdowns. The significance of systemically important infrastructure has certainly become evident in this time.

The year of restrictions – the impact on the real economy

2020 began in Europe with a clear commitment – the financing of the **Green Deal**[8] was initiated with the "investment plan for a sustainable Europe". One trillion euros were to be used to step up public and private investments in the next ten years. The "industry strategy for Europe" adopted shortly thereafter would ensure that European companies could successfully overcome the transition to climate neutrality and a digital future – ideal conditions for infrastructure financing in renewable energy and digitalisation, as became apparent in the first three months.

But then everything changed very quickly. It took just a few days for governments to quickly implement safety measures from the time the first cases of illness were reported in Europe in the first quarter. Citizens' freedom of movement, public life and the economic capacity that goes hand in hand with these conditions were reduced to a minimum. The global economy was in crisis mode. Widespread lockdowns accelerated the decline of local production and industries (especially leisure, tourism, restaurants, services, transport) were almost completely "frozen". Systemically important infrastructure such as healthcare and telecommunications were pushed to breaking point. This caused a rise in unemployment, a dramatic increase in national debt and a shortage of emergency medical care capacity. And despite the rapidly implemented strict measures, approximately 83 million people were infected with the virus in 2020, with more than 1.8 million people losing their lives.[9]

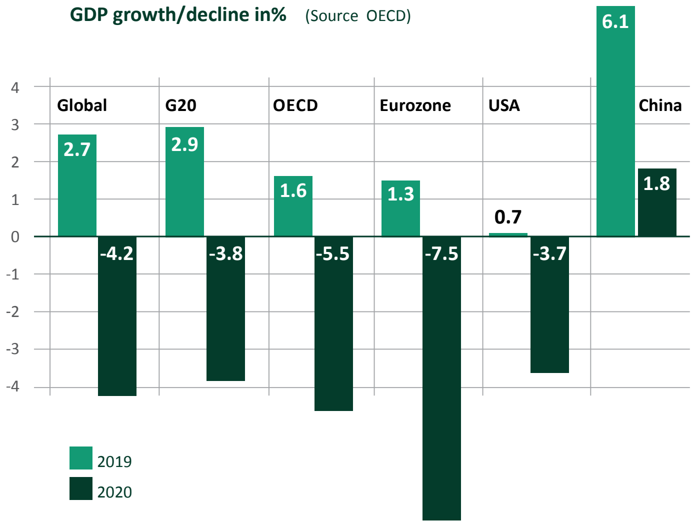
As the COVID-19 pandemic progressed, stock exchanges became volatile, rents were unpaid, mortgage loans entered a state of default, oil prices fell, commodity prices fluctuated and there was a continued negative interest rate environment. The response to this was a huge drawdown on liquidity. The gross domestic product (GDP) declined significantly – as a response to the first global shutdown – in the first half of 2020 alone.

It was not until the third quarter that the seasonally-adjusted GDP in the **eurozone**[10] increased by 12.6% after declines in the first and second quarters (by 3.7% and 11.8% respectively). Countries that recorded dramatic slumps in the first half of the year experienced a significant recovery in the third quarter. This was especially true of Spain, whose economy is heavily dependent on the service sector, and also of Italy, which was particularly affected by the pandemic, and of France, which imposed extremely strict lockdown measures in the spring. Expansive monetary policy and fiscal measure packages – especially one-time support packages for selected sectors and population groups, funding of short-time work, temporary tax cuts, deferrals of taxes or fees – had a stabilising effect. This resulted in a relatively moderate increase in unemployment to 8.3% in September. However, service companies in particular were still forced to handle sustained huge drops in demand. The OECD expects the decline in GDP for the eurozone to come to 7.5% for 2020.

Austria[11] came through the first lockdown relatively well. It was one of the first countries whose government responded to the risk and steered it calmly through the first phase. Economic activity increasingly began to gain momentum again in the summer and the employment situation was handled relatively well with approximately 400.000 employees in short-time work (over 1.3m in April). The heaviest losses were recorded in domestic tourism, hospitality and the service industries that require direct customer contact. Austria also took a severe beating by the second wave of infections in the autumn. Different lockdown levels ultimately culminated in another hard lockdown that has continued since mid-November 2020 into 2021. According to estimates, the GDP will decline by 8%. The significant rise in unemployment, low tax revenues and a generous aid package have resulted in a high budget deficit.

Germany[12] expects its economic performance to decline by 5.5% due to the decrease in private consumption, corporate investments and exports. Rapid action at the level of taxation and government spending have enabled events to remain relatively manageable. The increase in unemployment was cushioned by short-time working models. However, a long-term decline – depending on how long the restrictions last – will only be evident in mid-2021. The economic activity of France suffered even more greatly, with a reduction in GDP of 9.1% being forecast. **France**[13] was faced with explosive rises in infection numbers at times. Closures, curfews and the complete loss of tourism, hospitality and transport services also had a negative impact on economic activity. Major delays in the payment of social security contributions indicate significant liquidity bottlenecks within businesses. The unemployment rate climbed to 9% in the third quarter of 2020. **Italy**[14] went through public health states of emergency on multiple occasions. Even though the impact on businesses and private households has been mitigated by government measures, GDP – much like in France – is expected to fall by 9.1%. The associated reduction in employment, especially of low-skilled workers, women and young people, will not do consumption any favours for the time being either.

GDP growth/decline in% (Source OECD)



The economy also shrank in the **CEE region**[15]. This region is expected to return to pre-crisis levels in 2022, and individual countries such as Serbia (GDP 2020: -2.0%) and Turkey (GDP 2020: -3.5%) are expected to return to normality sooner. Croatia (GDP 2020: -9.4%), Hungary (GDP 2020: -6.5%) and Bulgaria (GDP 2020: -5.1%), on the other hand, are expected to need more time to recover. The economy can be boosted more quickly with the partial relocation of goods production from Asia to Eastern Europe.

The **United Kingdom**[16] recorded a slight decline in GDP of 11.2%. The great impact of the pandemic and the long period of uncertainty about how the post-Brexit negotiations would turn out slowed consumption and private investments. The European Union (EU) and the United Kingdom finally concluded a partnership agreement on 30 December 2020, providing a new basis for their relationship.

The economic collapse in the **USA**[17] was not as severe as in Europe, mainly due to significantly higher transfers that limited the decline in private consumption. GDP is expected to drop by 3.7% for 2020 before it rises again by a smaller percentage in subsequent years. The unemployment rate is gradually falling, but will remain high compared to the level before the pandemic. The new US administration elected at the end of 2020 makes another substantial fiscal stimulus package more probable.

GDP in the **People's Republic of China**[18] shrank for the first time in 40 years. Following a contraction of 10.8% in the first quarter of 2020, it rose again in the second and third quarters (by 11.7% and 2.7% respectively). The country in which the pandemic originated was extremely rigorous in fighting it and taking economic measures to limit the impact. With GDP growth of 1.8%, China is one of the few countries to even experience an increase in 2020. Debt-financed investments in infrastructure and real estate in particular stimulated this process. Exports have picked up significantly due to the huge demand for protective masks and home office products.

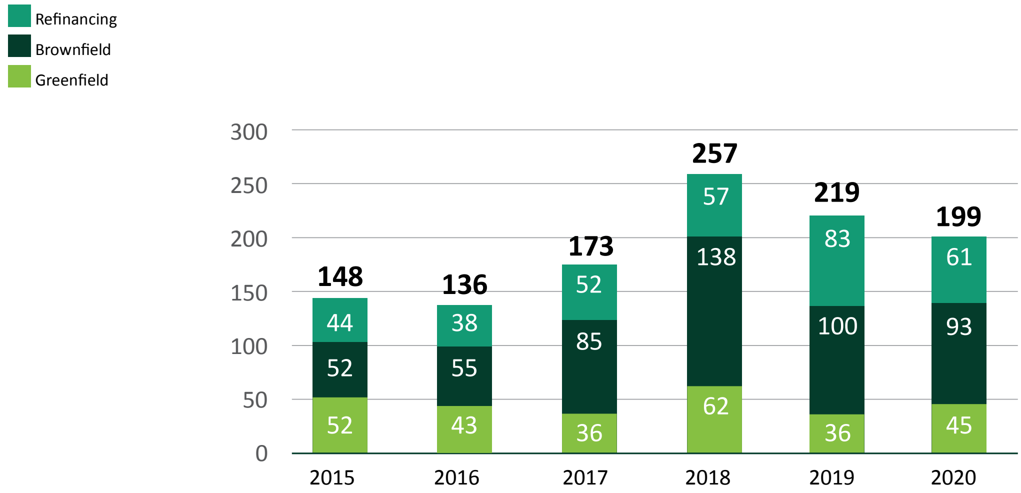
Parts of the world have been in lockdown again since mid-November. This has resulted in new record debts. The provision of vaccines initiated at the turn of the year makes the outlook a little more promising, but the relief will only gradually become noticeable. The Organisation for Economic Co-operation and Development (OECD) is expecting a decline of 4.2% in the global GDP in 2020[19].

The year of challenges – the achievements of the central banks

To sum up, the COVID-19 pandemic has posed huge challenges to the global economy. Monetary policy – same as during the financial crisis of 2008/2009 – has once again become a tool of temporary relief. Based on an overnight rate target range of between 1.50% and 1.75% at the start of the year, the US **Federal Reserve Bank** (Fed) effectively returned to a zero-rate level in two steps that occurred in quick succession. Because there was, strictly speaking, no limit on the purchase of US government securities, the Fed's total assets also rose from USD 4.000bn to over USD 7.000bn, providing the financial markets with liquidity and stability.

8 European Parliament (EP) – Green Deal: Key to a climate-neutral and sustainable EU, press release, 29/6/2020.
9 World Health Organisation (WHO) – Weekly epidemiological update, 5/1/2021.
10 Organisation for Economic Co-operation and Development (OECD) – Economic Outlook, Issue 2/2020, 1/12/2020.
11 Organisation for Economic Co-operation and Development (OECD) – Economic Outlook, Issue 2/2020, 1/12/2020.
12 Organisation for Economic Co-operation and Development (OECD) – Economic Outlook, Issue 2/2020, 1/12/2020.
13 Organisation for Economic Co-operation and Development (OECD) – Economic outlook, Issue 2/2020, 1/12/2020.
14 Organisation for Economic Co-operation and Development (OECD) – Economic outlook, Issue 2/2020, 1/12/2020.
15 Vienna Institute for International Economic Studies (wiiw) – Monthly Report, 11 November 2020.

The European infrastructure market in 2020:
Transaction volumes broken down into greenfield, brownfield and refinancing in EUR bn[20]



The **European Central Bank** (ECB) announced additional purchases of assets in March 2020 that have been increased to a total of EUR 1,350bn[21] as part of the PEPP (Pandemic Emergency Purchase Programme). 50% of the PEPP had been used up by the end of October. The scope of the PEPP was increased by a further EUR 500bn in December and the time period for net purchases was extended to at least the end of March 2022. Another important signal to the financial markets was the suspension or removal of key restrictions to the "previous" programme for acquiring public bonds (PSPP) as part of the PEPP; the self-imposed limit of 33% on the ECB's share of the outstanding bond volume and the division of purchases according to the ECB capital key therefore ceased to apply.

In order to strengthen the banks, the conditions for long-term refinancing operations (TLTRO III) were improved, a series of pandemic emergency longer-term refinancing operations (PELTROs) were launched, and additional short-term refinancing operations were offered for the transition period to ultimately ensure low-cost refinancing and provide sufficient liquidity for banks. They 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 Pillar 2 Guidance together with the capital conservation buffer and the countercyclical capital buffer and allowing institutions to fall below the liquidity coverage ratio (LCR) if need be.

The year of opportunities – the relevance of infrastructure

Expectations for 2020 were high. After the European market for infrastructure financing showed itself to be very robust in 2019 with a total volume of approximately EUR 220bn, the first few weeks of the 2020 financial year were also impacted by this positive trend, which offered the best general conditions thanks to the still favourable interest rate environment and the high level of liquidity from a loan and equity perspective.

This made Kommunalkredit's pipeline at the beginning of the year very promising with a large number of planned greenfield[23], brownfield/M&A[24] transactions as well as refinancings.

After several significant transactions were successfully concluded in the first quarter (telecommunications in Germany and Spain, combined cycle gas turbine plants in the Netherlands), it became clear by March at the latest that the financing market was also facing difficult-to-predict **challenges** when it came to concluding transactions. A number of transactions involving substantial volumes that were already at advanced stages at this time in markets that are considered stable, such as Germany (acquisition of the fibre-optic provider inexio and subsequently of Deutsche Glasfaser by the Swedish company EQT Infrastructure and the Canadian pension fund Omers), the Netherlands (refinancing of two power plants by Castleton Commodities International) or France (expansion of the next section of motorway on the Route Centre-Europe-Atlantique) were completed by employees working from home already.

Kommunalkredit was quick to see the crisis resulting from COVID-19 as an opportunity and transformed a difficult year into an extremely successful one for the bank – against the market trend.

From a macroeconomic perspective, COVID-19 rapidly accelerated existing megatrends such as decarbonisation, digitalisation and investments for an ageing population. The international and national objectives associated with the Green Deal have – aside from the coronavirus – brought the need for sustainable investments to the fore. Current issues such as working from home and distance learning highlighted existing problems with digital infrastructure (broadband, data centres).

Kommunalkredit deepened its expertise in **communications and digitalisation**, with a particular focus on the expansion of broadband and data centres. It was active in several European countries for leading infrastructure investors such as Antin, DWS, Infracapital in significant transactions such as Eurofiber (Netherlands), ReConnect (Germany), Gigaclear and G.Network (both United Kingdom). This sector has proven to be a driving force in the infrastructure market. It was characterised by a series of major transactions for telecom towers and FTTH networks such as Illiad FTTH in France, Altice FTTH in Portugal and Deutsche Glasfaser in Germany. This development is not expected to slow down any time soon.

2020 was also very positive for the **renewable energy** segment. Driven by the need to not only promote decarbonisation as a goal per se, but also as a driver of growth in the national economies impacted by COVID-19, governments have provided corresponding incentives. In Spain, for example, the regulatory "return" for a wide range of assets in the renewable energy sector (onshore wind, photovoltaics, solar thermal power) was put on a solid footing before the summer after a long period of uncertainty, causing investments in this sector to develop even more strongly. Kommunalkredit also used the beginning of this development to its advantage and assumed a leading role in several transactions at an early stage. The rising transaction volume is divided between a smaller number of transactions – an indication that the market is moving towards larger transactions. This development is also reflected in several especially large projects in the offshore wind market, such as Seagreen 1 in the United Kingdom or Global Tech One in Germany. The offshore wind farm in the German North Sea produces 400 MW of sustainable energy for around 450.000 households. As the mandated lead arranger, Kommunalkredit played a leading role in this project with MEAG (Munich Ergo Assetmanagement GmbH), which is deemed to be the key pillar in the energy transition and was recognised as the "Product Innovation of the Year" with the German Renewables Award 2020.

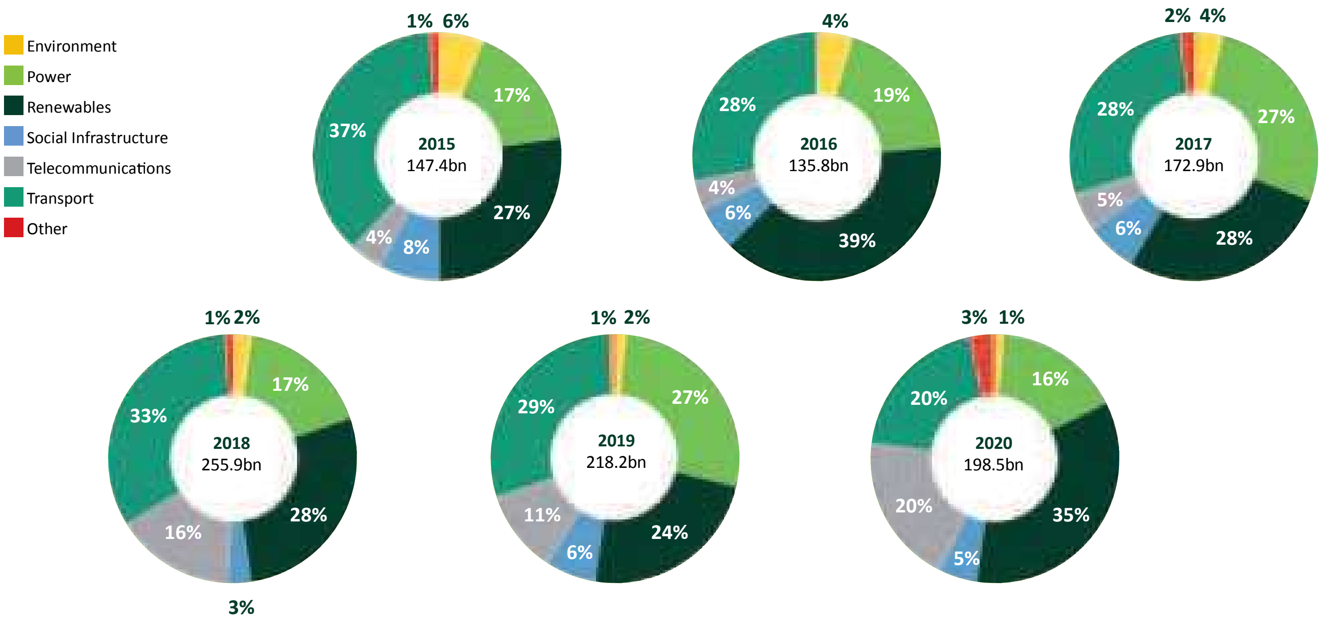
As expected, COVID-19 had the biggest negative impact on the **transport** sector in 2020, which experienced a substantial collapse after airports and toll roads in particular had been ensuring constant growth in previous years. High hopes had been placed in upcoming privatisations such as Athens Airport or ADP (Paris Airport Operator) at the beginning of 2020, which now remain on hold due to the complete absence of tourism. However, Kommunalkredit was still involved in the transport sector with a small number of transactions.

Social infrastructure showed a rather uneven picture in 2020. While greenfield investments declined due to the uncertainty caused by COVID-19, which in turn had a negative effect on the long lead times of planning and construction – for example of hospitals – a rising number of M&A transactions in the healthcare sector, which is closely related to infrastructure, did play a defining role on the market. EQT Infrastructure acquired the French care home operator Colisée and DWS Infrastructure took over a leading diagnostics company in Italy. Kommunalkredit played an important role in the financing here.

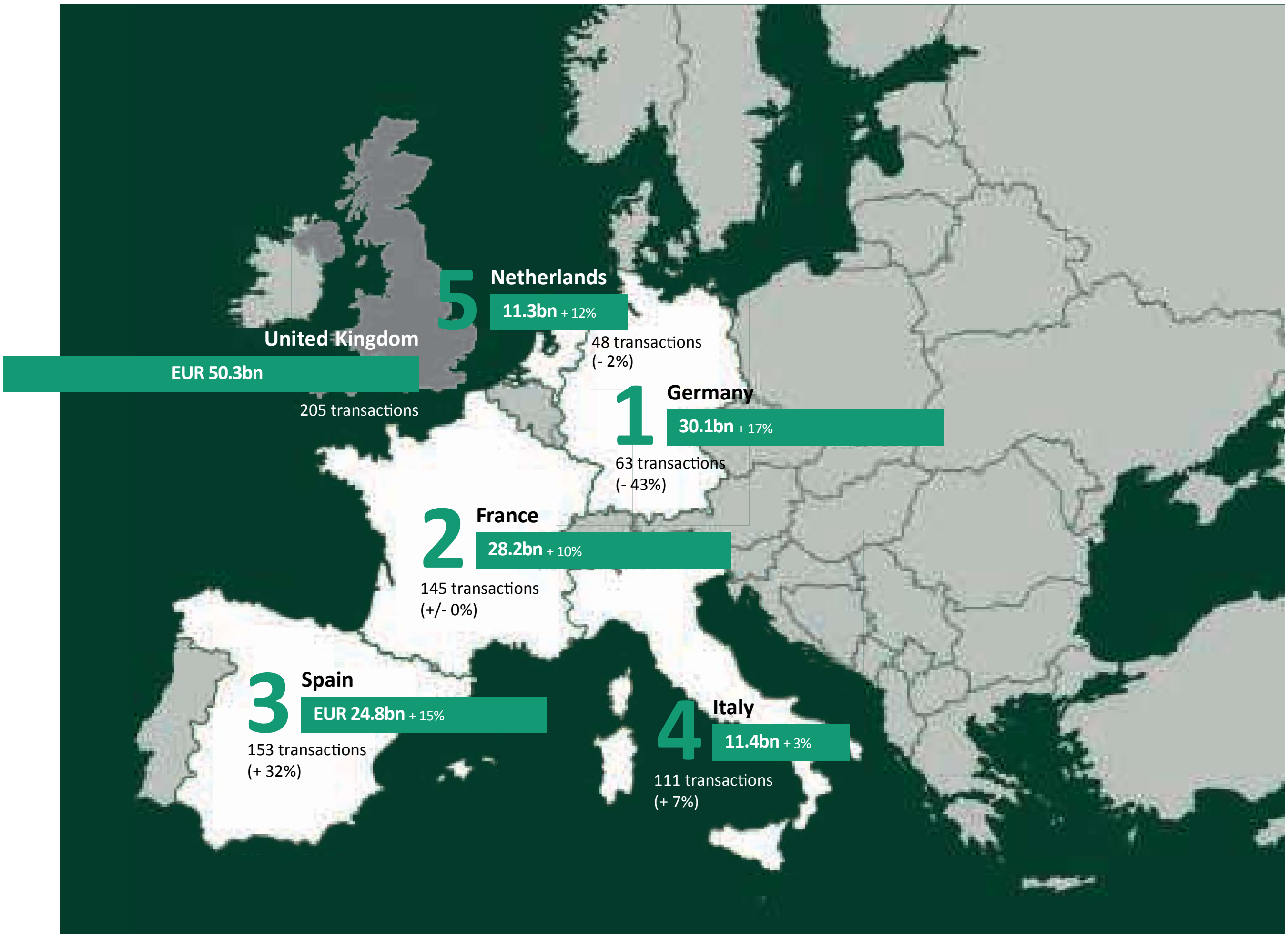
20 Inframation & SparkSpread database, 1/2021. An adjustment to the measurement method may lead to changes in comparative values from the past.
21 EZB – Press Release, 4/6/2020.
22 European Central Bank (ECB) – Press Release, 10/12/2020.
23 Greenfield projects are new infrastructure assets built "on greenfield land". Depending on the sector/characteristics, they are characterised by construction phases of varying length and by a variety of financing requirements up until the time the projects enter operation.
24 Brownfield projects are pre-existing, often already-operational infrastructure assets whose financing is restructured mostly through M&A transactions (mergers & acquisitions).
25 FTTH = Fibre to the home.
26 Inframation & SparkSpread database, 1/2021. An adjustment to the measurement method may lead to changes in comparative values from the past.

The European infrastructure market 2015 – 2020: Transaction volumes broken down into sectors

in EUR bn[26]



The five largest infrastructure markets in the eurozone in 2020
by volume (in EUR bn) and number of transactions[27]



Kommunalkredit has successfully positioned itself in a challenging environment in a market in which individual sectors are developing very differently. The bank is consistently among the top 25 in this highly competitive environment (e.g. IJGlobal Project Finance #8, Infra Finance #14; Inframation Loans Europe #24; PFI Project Finance Loans #24).

One year of COVID-19 has shown how important crisis-resistant infrastructure is for society, which is why more and more capital is being invested in this sector. This industry is also becoming increasingly attractive for institutional investors. As a specialist bank for infrastructure and energy financing, Kommunalkredit is aware of its opportunities, but also of its responsibility.

The progress made in developing and distributing vaccines mean that the future outlook looks brighter. The measures of governments and central banks have significantly boosted global economic activity in certain sectors. How the pandemic develops will show how quickly we can return to normality. Thus the immediate future continues to be dominated by a sense of uncertainty.

27 Inframation & SparkSpread database, 1/2021.
An adjustment to the measurement method may lead to changes in comparative values from the past.

Interview

Thierry Déau, CEO and Founder of Meridiam

Infrastructure as an asset class is relatively "young". Is that an advantage in terms of incorporating sustainability and ESG as a key component into investments?

Infrastructure may be a "young" asset class, but it is an old practice! Therefore, at the asset level, there is a real need to catch up with the best practice in terms of sustainability, especially when it comes to financial and non-financial reporting. The good news is that environmental laws are very demanding in many advanced countries and that infrastructure project developers and operators are thus used to abiding by strict standards. The opportunity that lies in the structuring of this new asset class is to propagate most advanced practices across the world. Indeed infrastructure "starts" to become an asset class mostly in European countries and is spreading to other developed and developing economies. Consequently, it can create a level playing field by putting everyone at the highest level of requirement since asset owners investing in the asset class are waiting for the best level of ESG and sustainability standards and will continue across geographies. The EU "green" taxonomy is an opportunity as it should soon be applied to investments in the whole financial world through European financial institutions requirements. It is time to natively implement it on the infra-asset class.

What lessons do you think the asset class can take from the current global health crisis?

It is all about resiliency! The infrastructure asset class demonstrated that it is very resilient when taking into account two major parameters. First, being an essential tool for the communities to develop themselves: essential roads, ports or even airports continued to be used and, in the worst cases, helped by the governments, when it brought real value to the people. It implies to analyse the projects through the lenses of the sustainable development goals and always take affordability as a prerequisite for investing. Second, resiliency also comes from well balanced financial plans, with proportionate leverage and mechanisms to go through crisis over the long term. Indeed, over the long term, a crisis always happens: the health crisis can appear as a "black swan" but global warming, for lots of companies, will also deeply impact revenues and opex, and is coming, surely. If those two points are well managed, infra assets have proven a strong ability to preserve value during the crisis.

What do you think the future holds for infrastructure in terms of ESG?

The new frontier for ESG and sustainability in general is the measure of impact: investors, and in particular the retail investors, want to really know how their investments are making a difference, not only financially but more and more on all the aspects of sustainability. Soon it will not be enough to offer safeguards, but asset managers will have to prove they are committed to delivering impact on a large scope in order to attract the funds they need. It is a challenge, as the need for contribution to global warming is now well known, but topics like local pollution, biodiversity preservation, social equality are not that well measured and accounted for.

At Meridiam we are very proud to have developed a special tool that is not only measuring our alignment with SDGs but also gives us the possibility to pilot additional impact during the whole project life. We expect this tool to be able to be used by other participants in the investment field and to develop a community of impact oriented users.

"The young infra asset class has proven its resiliency during the health crisis, providing often essential services to the communities around the world. It is now time to focus on impact measurement in order to increase the value brought to the people by those investments and answer investors demand."

About Meridiam: Meridiam was founded in 2005 by Thierry Déau, with the belief that the alignment of interests between the public and private sector can provide critical solutions to the collective needs of communities. Meridiam is an independent investment Benefit Corporation under French law and an asset manager. The firm specializes in the development, financing, and long-term management of sustainable public infrastructure in three core sectors: mobility, energy transition and environment, and social infrastructure. With offices in, Addis Ababa, Amman, Dakar, Istanbul, New York, Luxembourg, Paris, Toronto and Vienna, Meridiam currently manages US$8 billion and more than 80 projects and assets to date. Meridiam is certified ISO 9001: 2015, Advanced Sustainability Rating by VigeoEiris and applies a proprietary methodology in relation to ESG and impact based on United Nations' Sustainable Development Goals (SDGs). **www.meridiam.com**

INFRASTRUCTURE. FINANCING.

Business review

With its focus on infrastructure and energy financing, Kommunalkredit operates in a sector that has proven to be largely crisis-resistant and secure even before the outbreak of the COVID-19 pandemic. The bank has seen the most recent challenges as an opportunity and, despite the adverse circumstances, surpassed its objectives for 2020, contrary to the general market environment.

Focus on infrastructure

The global health crisis has shown us to spectacular effect how important it is to have the relevant infrastructure in place and functioning, such as hospitals and care homes, and how vital a secure energy supply and powerful communications infrastructure are. These are exactly the sectors the bank has been focusing on for several years. Infrastructure will become even more of a focal point in future, not just as an asset class, but also as an essential factor for modernising and realising agendas such as digitalisation and the Green Deal. This is precisely where Kommunalkredit has been active across Europe.

This path – combined with the years of experience in the public finance sector – has also proven to be correct in the challenging year of 2020. With its in-depth market expertise, a high level of diversification and quick reactions, Kommunalkredit has **continued** on its **growth path**. The contribution made by the core business to gross revenues rose to 70.6% (31/12/2019: 60.6%) under IFRS and to 75.6% (31/12/2019: 69.2%) under the Austrian Commercial Code (UGB). New business came to EUR 1,213.4m (including public finance) and has broken the billion barrier for the third time in a row (31/12/2019: EUR 1,036.3m).

The bank has a balanced diversity in its new business in terms of asset classes, regions, terms, and product and customer segments. Business acquisitions focus on clearly defined selection criteria and efficient use of capital. In addition to the risk-and-return profile of a transaction, attention is also paid to the ability to place it among institutional investors.

New business in 2020 generated attractive risk-adjusted returns. Digital infrastructure, which is in especially high demand in times when people are working more from their private households (home office, distance learning) and – in relation to the Green Deal – the switch to renewable energy dominated activities. 49.3% of the financing volume was attributable to the Energy & Environment segment, while 40.0% was accounted for by Communication & Digitalisation. Transport (8.9%) and Natural Resources (1.8%) played a minor role in the financial year. Geographically, business was consistently diverse across the European Union and the EU's associated countries. Kommunalkredit was especially active in Germany, Spain, Italy and Poland.

In addition to project finance, Kommunalkredit specifically expanded its activities in the fields of hybrid/corporate finance and financial advisory. Public finance also has a long-standing tradition and forms a key pillar of the business model. The bank provided support in particular for municipalities and public sector entities in Germany, Austria and Switzerland in 2020, serving as an innovative incubator.

The bank conducts business in a manner that is geared towards collaborative endeavours with established partners (**originate and collaborate**). It focuses on its ability to place its transactions with its business partners on the international financing market. The volume placed with insurers, asset managers and banks in 2020 was EUR 603.6m (2019: EUR 462.4m). Thanks to its Fidelio KA Infrastructure Debt Fund Europe 1 fund established in 2018, Kommunalkredit is also capable of offering its business partners access to infrastructure and energy financing by means of an asset management solution. With a total of EUR 354m, the original target volume of EUR 150m was far surpassed at the final close at the end of February 2020. This sub-fund is almost fully invested and illustrates the great interest in sustainable infrastructure projects.

In terms of achieving climate goals, Kommunalkredit was involved in several notable transactions in the 2020 financial year; these include the financing of water supply companies in Italy, the expansion of photovoltaic systems and solar parks in the Netherlands, Italy, Spain, Portugal, the Czech Republic and Hungary, and the construction of a wind farm in Germany. There was also an increasing focus on critical infrastructure such as broadband projects in Germany, Spain and the United Kingdom as well as the financing of a British specialist provider of clinical and high-tech equipment and services in the healthcare sector.

REFERENCE PROJECTS

Viveracqua – Regional water supply (Italy)

The supply of drinking water, the treatment of wastewater and the protection of water resources are the main focal points of twelve independent Italian water suppliers that have joined together in the "Viveracqua" consortium. This association in the regions of Venezia and Friuli-Venezia Giulia coordinates joint procurement and financing to create economies of scale. The pooling of financial requirements for investments in water infrastructure in special purpose vehicles (SPVs) allows regional suppliers flexible access to international and long-term debt at attractive conditions while maintaining economic independence. Further financial resources were generated through what is now the third "hydrobond"; these funds are being invested in the modernisation and development of essential water infrastructure. Six members of the consortium took part in the current financing programme; they implemented the project jointly without being mutually liable. This approach can also serve as a model at the Austrian municipal level. Kommunalkredit participated in the EUR 248m financing package, which was co-financed by the EIB as the sole underwriter.

Solaer – Renewable energies (Israel/Spain)

Solaer Israel – whose parent company is based in Spain – is a specialist for photovoltaic projects. It has developed and implemented 120 projects with a total output of 400 MW in the past ten years. Solaer specialises in the innovative development, design, engineering, construction, operation and maintenance of renewable energy systems. The focus is on rooftop plants, especially for the municipal sector. Due to the close and cooperative partnership, Kommunalkredit has so far been involved in six Solaer projects since June 2019, most recently at the end of 2020 as part of a HoldCo facility, which greatly contributed to Solaer's successful IPO in January 2021.

Medipass – Advanced technology for the healthcare sector (United Kingdom & Italy)

EUR 110m was invested to finance the acquisition of the specialist British provider of clinical and high-tech equipment in the healthcare sector. It offers hospitals and clinics financing as well as operational & maintenance solutions for high-tech medical equipment, in particular for radiology, radiotherapy and nuclear medicine. Kommunalkredit held a leading position as the mandated lead arranger. Medipass mainly works with leading public and private hospital operators. With more than 5,500 employees at 83 major locations, it is the longest-established MES (Manufacturing Execution System) company in Europe.

Adamo – Fibre optic for rural areas (Spain)

Kommunalkredit acted as the mandated lead arranger and global coordinator in the EUR 250m refinancing to support the future expansion of a fibre-optic network in rural Spain. Adamo is a rapidly growing telecommunications company that achieved approximately one million "homes passed" by the end of 2019, helping to connect economically underdeveloped regions in Spain. The Spanish telecommunications sector offers great potential since broadband still requires further expansion, especially in rural regions.

Camden – Combined cycle gas turbine plant (Netherlands)

Acting as mandated lead arranger, Kommunalkredit played a key role in the EUR 194m refinancing of two combined cycle gas turbine plants with a total capacity of 861 MW in the port of Rotterdam. Both gas-fired plants are highly efficient and rank among the three largest combined cycle gas turbine plants currently in operation in the Netherlands. In the transition to a more sustainable energy mix, such systems will be instrumental as they provide the network stability that is urgently required.

TrIIIple – Ecological heating and cooling system (Austria)

As part of the SORAVIA projects TrIIIple and Austro Tower at the Danube Canal in Vienna, Kommunalkredit financed the energy plant intended to provide five high-rise buildings with heating and cooling. Water obtained from the Danube Canal and five groundwater wells is used for the heating and cooling system. The system uses the water as a heat source or a heat sink and is the only air-conditioning supply to the building. The electrical energy is used to operate industrial-grade heat exchangers and the system can be operated in dual-use mode. This ensures the apartments can be heated while the office and retail spaces are also being air-conditioned. This new type of energy supply is considered to be a flagship project for sustainable and pioneering energy solutions, making its contribution key to the achievement of climate goals.

Green Genius – Energy from biogas (Lithuania)

Green Genius wants to become one of the top 25 project developers in the European renewable energy market in the next five years. The company focuses on solar and biogas projects in Europe. Kommunalkredit acted as the mandated lead arranger for the EUR 22m refinancing of the Lithuanian biogas portfolio, with 50% of the Senior Term Loan subscribed by our own Fidelio KA Debt Fund. This transaction marked the first time that Kommunalkredit was active in the Lithuanian energy market.

Industry awards & level of recognition

The bank's success has not gone unnoticed by the market. Kommunalkredit won its first **industry awards** in 2017. This was followed by numerous awards from renowned leading infrastructure magazines (Business Vision, cfi Capital Finance International, IJGlobal, PFI Project Finance International from Thomson Reuters). In 2020, Proximo selected the "Allego – charging stations for electric cars" project as the "EMEA EV Charging Deal of the Year". Kommunalkredit supported and implemented the project as mandated lead arranger, global bookrunner, structuring coordinator and senior lender; IJGlobal granted the same project an award in the "European Innovation" category. The offshore wind farm project "Global Tech One" (in which Kommunalkredit acted as mandated lead arranger for the largest single ticket) was selected as the winner of the German Renewables Award 2020 in the "Product innovations of the year" category.

The bank itself was again singled out as the "Best ESG Infrastructure Finance Europe 2020" by the international platform "Capital Finance International" after its recognition in 2019. The online investment portal for private individuals, KOMMUNALKREDIT INVEST, won the "German Brand Award" in the "Excellent Brand – Banking & Financial Services" category. At home, Kommunalkredit came in second place in the "Direct Banks" category and third place as a specialist bank in the survey conducted by the renowned business magazine "Der Börsianer". What is particularly encouraging is our inclusion as the first Austrian financial service provider in the "European Clean Hydrogen Alliance", which was introduced by the European Commission in mid-2020.

One look at the **rankings of the infrastructure journals** shows that Kommunalkredit is seen as a valued stakeholder and contact of interest within Europe. The bank is consistently among the top 25 in this highly competitive environment (e.g. IJGlobal Project Finance #8, Infra Finance #14; Inframation Loans Europe #24; PFI Project Finance Loans #24).

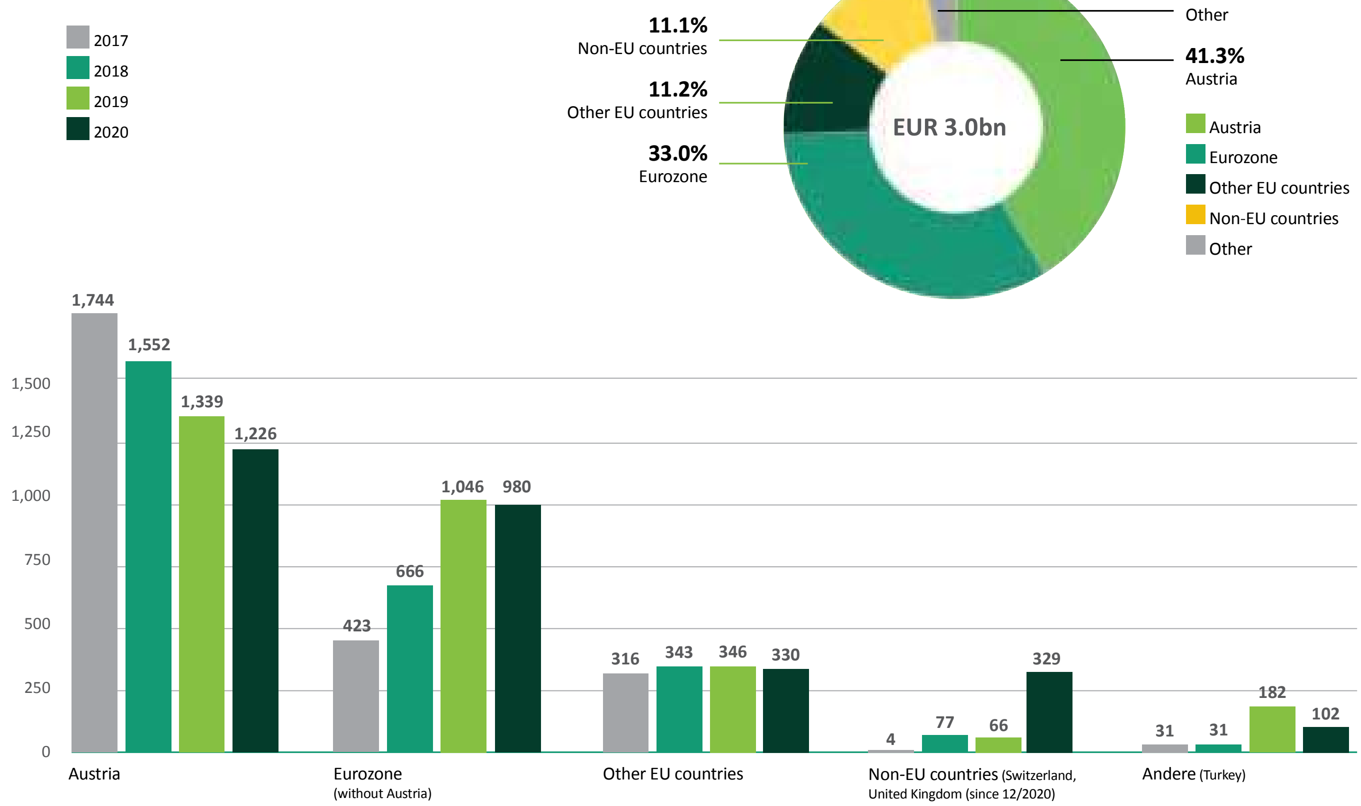
This development was also received positively by DBRS Morningstar. Against the general market trend, the agency raised the long-term rating for unsecured debt issues to "BBB" (from "BBB (low)" most recently) and the short-term rating to "R-2 (high)" (from "R-2 (mid)" most recently), both with a stable outlook. This change was justified with the franchise of Kommunalkredit with a view to its collaboration with customers, institutional investors, its own infrastructure fund and the associated syndications.

A solid basis

In times of crisis, two key issues become a major focus at any bank: the quality of the portfolio and sufficient liquidity. Kommunalkredit manages a balanced overall portfolio and all transactions are backed by sufficient liquidity. As of 31 December 2020, no requests had been submitted for deferral or restructuring in the field of infrastructure and energy – despite COVID-19. Geographically, 41% was attributable to Austria (2019: 45%), followed by the rest of the eurozone (33%) and other EU countries (11%) (2019: 35% and 13%, respectively).

Loan portfolio by region

in EUR m, as of 31/12/2020



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 2020 reporting year. As of 31 December 2020, it had an average rating of "A-", with 69.7% 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 finance loans. As of the end of the year, loans to municipalities accounted for 31% of the portfolio (almost exclusively Austrian municipalities), infrastructure and energy financing transactions accounted for 42%, while loans to public sector enterprises had a share of 10%. Since privatisation in 2015, the non-performing loan ratio (NPL) has been kept at 0.0%.

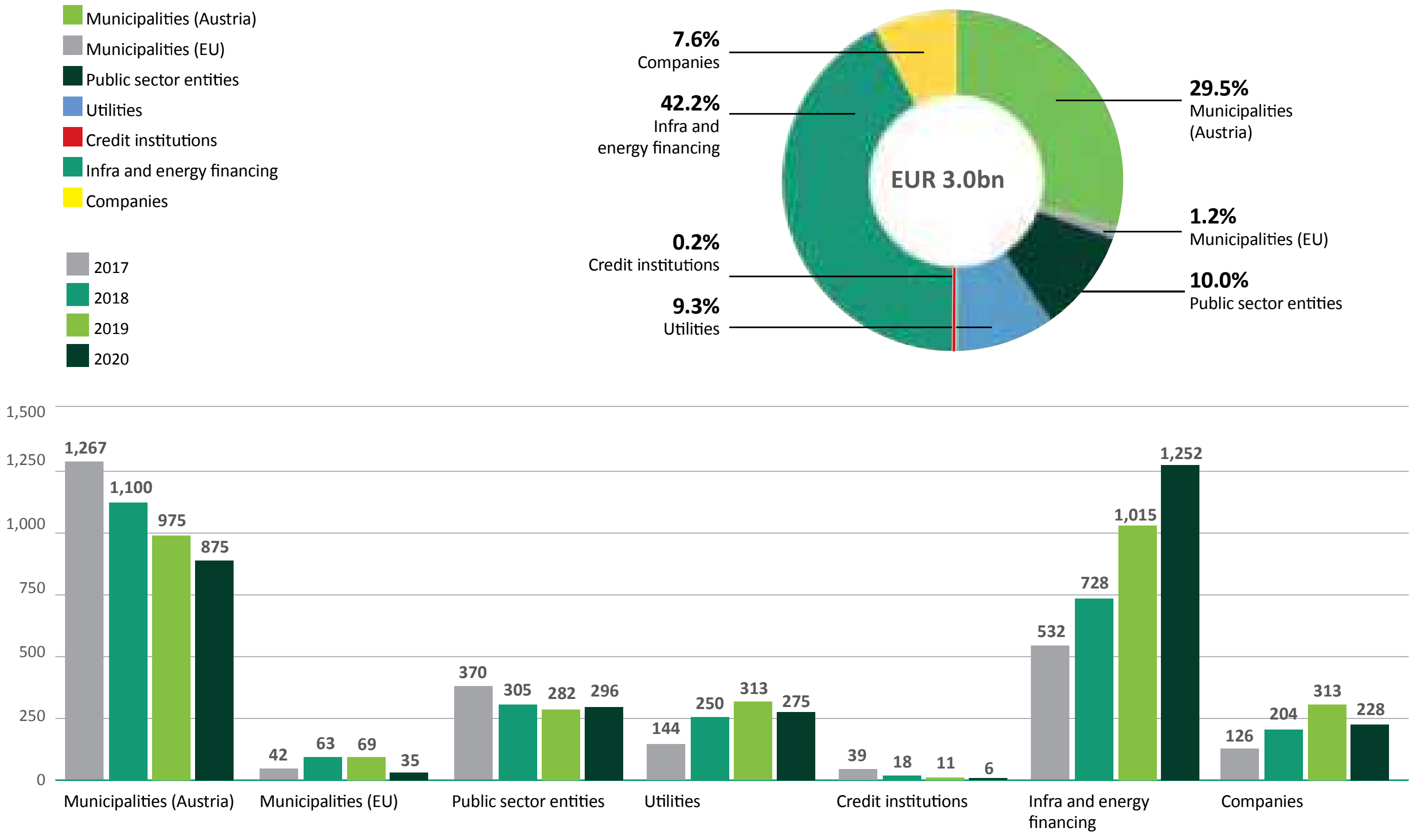
Stable and diversified refinancing structure

As of 31 December 2020, Kommunalkredit reported a comfortable liquidity position with a free liquidity reserve of EUR 268.1m (31/12/2019: EUR 308.5m). This included high-quality liquid securities (HQLA) with a nominal value of EUR 255.8m (31/12/2019: EUR 303.8m). The bank also held liquid securities with a nominal value of EUR 9.0m (31/12/2019: EUR 59.0m) and cash, cash equivalents and balances with central banks of EUR 808.6m (31/12/2019: EUR 462.6m). This liquidity buffer counteracts potential fluctuations in the different funding channels.

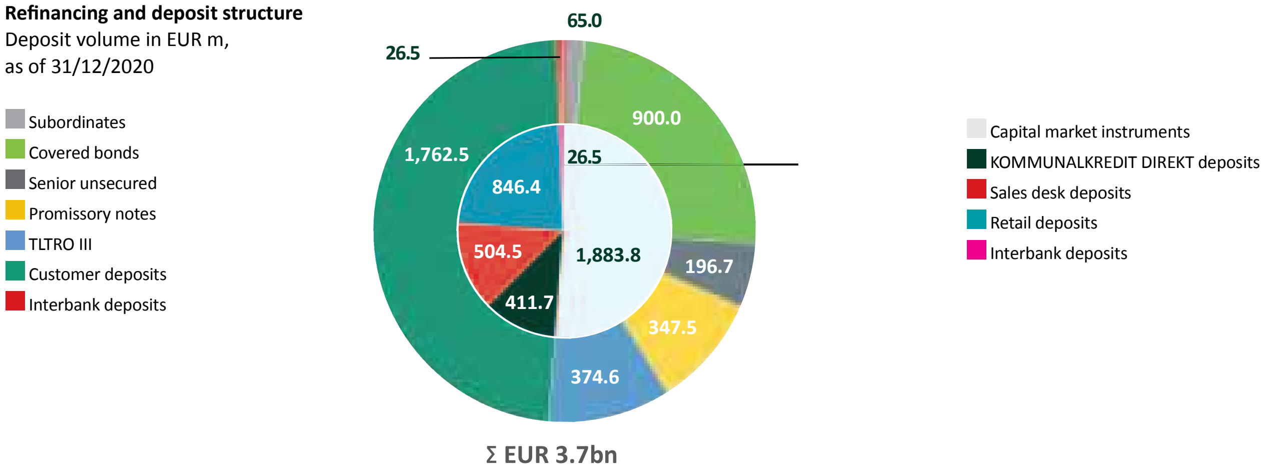
Kommunalkredit has placed great emphasis on a balanced funding profile for limiting liquidity risks since the privatisation which was completed in September 2015 and based on historical experience. The bank is solidly positioned and has a diversified refinancing strategy that was continuously expanded in 2020. Refinancing is carried out with balanced proportions of retail deposits (KOMMUNALKREDIT INVEST), wholesale deposits (KOMMUNALKREDIT DIREKT for municipalities and public sector entities and direct business with corporate/institutional customers) and of private placements of senior preferred bonds issued to institutional investors. All refinancing sources have – despite the difficult COVID-19 conditions – proven to be very stable in 2020.

Amounts owed to customers increased to a total of EUR 2,104.6m (31/12/2019: EUR 1,732.3m). This positive development was in part driven by the increase in customer deposits by 26.9% to EUR 1,773.9m (31/12/2019: EUR 1,398.2m). Amounts owed to customers also included long-term private placements totalling EUR 273.2m (31/12/2019: EUR 275.3m) and liabilities from collateral received in connection with derivatives of EUR 57.5m (31/12/2019: EUR 58.9m).

Loan portfolio by borrowers
in EUR m, as of 31/12/2020



Refinancing and deposit structure
Deposit volume in EUR m,
as of 31/12/2020



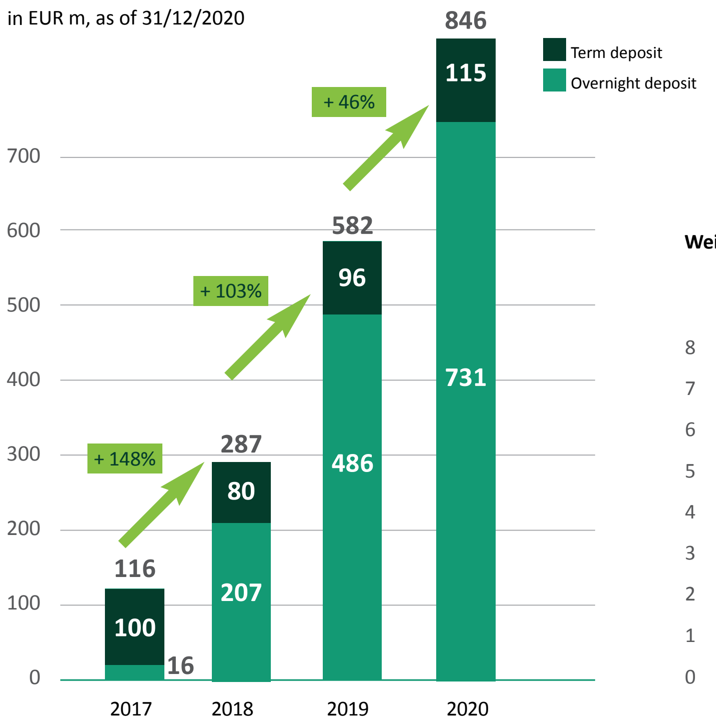
Customer deposits up by 27.3%

With its focus on predominantly European infrastructure and energy financing – many of which are beneficial for society in terms of their social and/or environmental impact – Kommunalkredit's deposits represent a sustainable investment. Municipalities and corporates with close ties to municipal authorities, private customers and institutional customers can choose between short- and long-term investments at fair market conditions. The customer structure is characterised by investors who feel catered to with the socially beneficial, green and sustainable focus of Kommunalkredit instead of investing in abstract financial products. This enables Kommunalkredit to target investments in future-oriented infrastructure projects in the Energy & Environment (solar installations, wind farms, hydro power plants), Social Infrastructure (hospitals, care homes), and Communication & Digitalisation (broadband expansion, data centres) sectors.

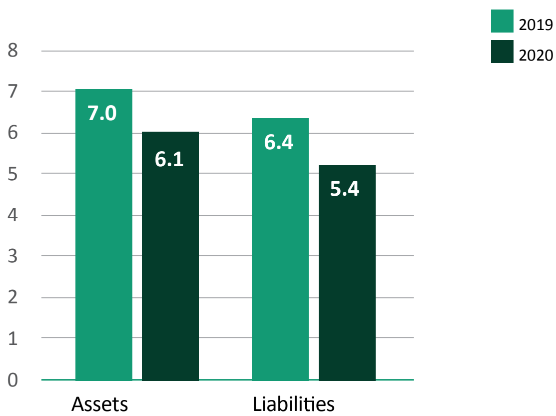
Retail deposits (KOMMUNALKREDIT INVEST): The bank conducts its business with private customers in Austria and Germany via its online retail platform KOMMUNALKREDIT INVEST. KOMMUNALKREDIT INVEST offers overnight and term deposits for terms of up to ten years. As of 31 December 2020, the bank had 14.489 private customers (31/12/2019: 9.790), which represents an increase of 48.0%.

The average deposit volume per customer remains at a high level at EUR 58.416 (31/12/2019: EUR 59.401). As of 31 December 2020, 86.4% of the total volume of term deposits are invested (31/12/2019: 83.5%). The average term reached a historic high of 26.3 months (31/12/2019: 22.9 months); more than half of the term deposits are invested in terms from three to ten years. The deposit volume at the end of the year came to EUR 846.4m (31/12/2019: EUR 581.5m), up by 45.6%.

Retail deposits (KOMMUNALKREDIT INVEST)
in EUR m, as of 31/12/2020



Weighted average term in years



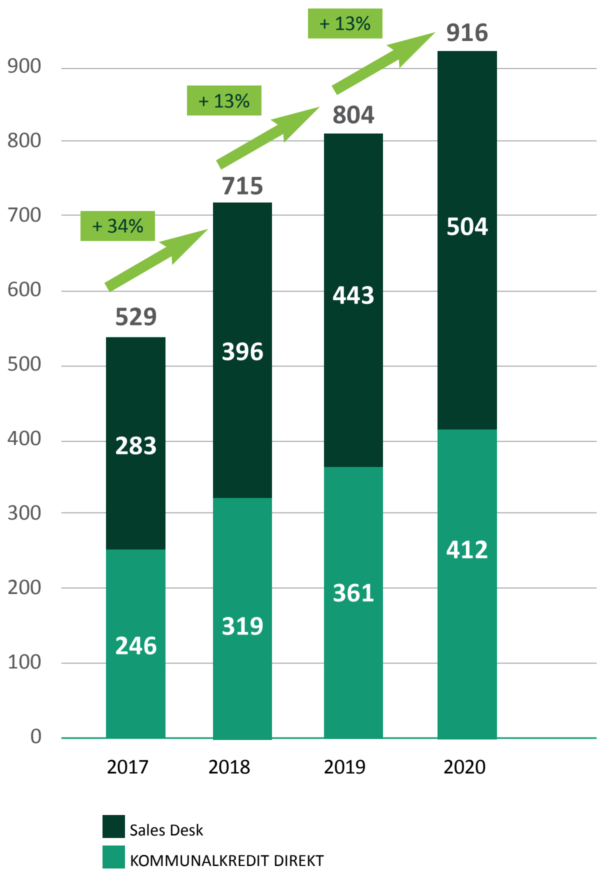
Wholesale deposits (KOMMUNALKREDIT DIREKT and direct business with corporate/institutional customers): With its online platform KOMMUNALKREDIT DIREKT, the bank offers an efficient investment and cash management tool for municipalities and public sector entities. The reporting period saw an extensive relaunch of this digital platform, giving customers using KOMMUNALKREDIT DIREKT a modern online platform. New customers register using a completely digital onboarding process. The clear, user-centric design allows customers to manage their investments (including automatic reinvestments) themselves in a transparent manner, as well as to monitor any financing arrangements.

The investment made to enhance the platform only serves as further evidence of Kommunalkredit's close connection with its traditional municipal customer base in Austria. This is also reflected in the notable number of KOMMUNALKREDIT DIREKT depositors who are regular borrowers as well. In spite of the difficult economic environment in relation to COVID-19, wholesale deposits increased by 13.1% in 2020 to a total of EUR 916.1m (31/12/2019: EUR 804.1m).

Private placements of capital market issues: A new debt issuance programme (DIP 4) was launched in 2020 amounting to EUR 800m. Issues under this programme are listed in Vienna and highlight Kommunalkredit's sense of solidarity with its domestic capital market. EUR 57.8m of privately placed senior preferred bonds were issued in 2020 and placed with institutional investors.

Wholesale deposits

in EUR m, as of 31/12/2020



The major trend towards sustainable investment products, both in the private customer business and for institutional customers and corporates, also continued in 2020. While the demand of institutional customers and corporates is driven by the investment guideline or corporate governance (ESG), small investors are showing an increased interest in supporting sustainable business and infrastructure with their savings deposit. This is evident from the number of customer enquiries about KOMMUNALKREDIT INVEST in relation to the transparent and sustainable use of proceeds by the bank. Customer interest in this field is expected to continue to rise further.

Social covered bond – social asset reporting as of 31 December 2020

As of 31 December 2020, Kommunalkredit's social asset portfolio encompassed 43 loans with a total volume of EUR 313.4m in the fields of education, healthcare and social housing. Kommunalkredit issues annual reports (as of 30 June) on the use of proceeds from the issuance of its social covered bond.

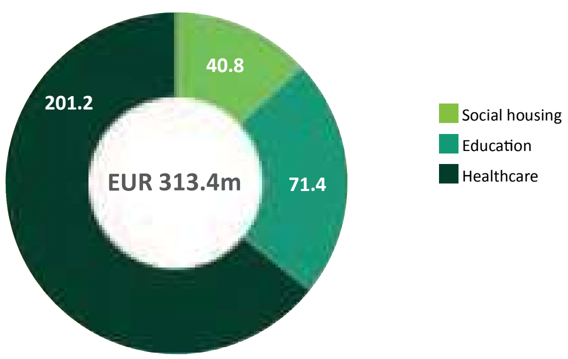
Strong liquidity ratios

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 420.6% as of 31 December 2020 (31/12/2019: 765.5%), Kommunalkredit continued to **significantly exceed the regulatory minimum ratio** of 100%.

Banks are also required in accordance with the CRR (Capital Requirements Regulation) to maintain a stable long-time refinancing fund in terms of their assets and off-balance-sheet activities. Kommunalkredit's net stable funding ratio (NSFR), which must be adhered to with at least 100% as of June 2021, was also further strengthened in 2020. As of 31 December 2020, it was at 117.5% (31/12/2019: 111.9%).

Social asset portfolio

in EUR m, as of 31/12/2020



Rating

Kommunalkredit's unsecured debt issues have a long-term rating of "BBB" and a short-term rating of "R-2 (high)" from rating agency DBRS Morningstar after the rating for these debt issues was raised from "BBB (low)" and "R-2 (mid)" with a positive outlook on 2 October 2020. All ratings now have a stable outlook.
This **increase against the market trend** was due to the strong results and the resilience of Kommunalkredit's business model during one of the biggest economic and social crises in recent decades. The Kommunalkredit franchise drew particular attention due to the cooperation with customers, institutional investors and Kommunalkredit's infrastructure fund using the "originate and collaborate" approach, the associated syndications and the institutional network. The balanced diversification and the associated risk diversification across different regions and asset classes were listed as a key factor.

The continuous increase in operating profitability, stable liquidity as well as the risk-bearing capacity and capital strength were also emphasised.

The outlook for S&P Global Ratings (S&P) covered bond rating ("A") was lowered from "stable" to "negative" on 11 May 2020 due to COVID-19 crisis and the deterioration in the operating environment in Austria and Europe.
This was consistent with the development seen at a large number of other European banks. The rating was initially confirmed on 21 January 2021 and raised to an "A+" with a stable outlook on 4 March 2021. This upgrade followed the awarding of an investment grade rating of "BBB/A-3" from S&P on 24 February 2021. Fitch Ratings also assigned an investment grade rating of "BBB-/F3" with a stable outlook in March 2021.

"There is a lot of flexibility in this field as a PV system can be constructed to virtually any size."

Interview

Alon Segev, Managing Partner Solaer

The demand for renewable and sustainable energy is constantly rising. What part does solar energy play in that equation?
Over the last decade the demand for renewable and sustainable energy has risen enormously, due to various political and social initiatives regarding measures to combat climate change and provide for a greener and more sustainable future. The share of solar energy in power generation has more than doubled over the past ten years, according to a study of BP (Energy Economics: Renewables). This study also predicts that solar power will account for up to 25% of power generation by 2040. This reiterates the path we have chosen with providing clean energy to societies.

What are the main benefits of using solar PV?
Apart from the fact, that solar PV is furthering the measures against climate change as it is a renewable energy source, electricity produced by solar cells is clean and "silent", i.e. PV systems do not release and emit any harmful air or water pollution into the environment, deplete natural resources, or endanger animal or human health. Another benefit is that (small scale) solar plants can take advantage of unused space, such as rooftops of existing buildings. Yet another advantage is that solar energy is a locally available renewable resource. It does not need to be imported from other regions of the country or across the world. This reduces environmental impacts associated with transportation and also reduces our dependence on imported oil. And, unlike fuels that are mined and harvested, when we use solar energy to produce electricity we do not deplete or alter the resource. A PV system can be constructed to any size based on energy requirements. Furthermore the owner of a PV system can enlarge or move it if his or her energy consumption needs to change.

Is the cost of solar energy competitive compared to the traditional fossil fuels?
The world's best solar power schemes now offer the "cheapest electricity in history" with the technology being cheaper than coal and gas produced electricity in most major countries. That is according to the International Energy Agency's (IEA) World Energy Outlook 2020. The outlook, also outlines the "extraordinarily turbulent" impact of coronavirus and the "highly uncertain" future of global energy use over the next two decades. Reflecting this uncertainty, this year's version of the highly influential annual outlook offers four "pathways" to 2040, all of which see a major rise in renewables. The IEA's main scenario has 43% more solar output by 2040 than it expected in 2018, partly due to detailed new analysis showing that solar power is 20-50% cheaper than thought. Despite a more rapid rise for renewables and a "structural" decline for coal, the IEA says it is too soon to declare a peak in global oil use, unless there is stronger climate action. Similarly, it says demand for gas could rise 30% by 2040, unless the policy response to global warming steps up. This means that, while global CO_2 emissions have effectively peaked, they are "far from the immediate peak and decline" needed to stabilize the climate. The IEA says achieving net-zero emissions will require "unprecedented" efforts from every part of the global economy, not just the power sector. For the first time, the IEA includes detailed modeling of a 1.5°C pathway that reaches global net-zero CO_2 emissions by 2050. It says individual behaviour change, such as working from home "three days a week", would play an "essential" role in reaching this new "net-zero emissions by 2050 case" (NZE2050).

About Solaer:
Solaer Israel Ltd. is a private renewable energy company specialized in innovative development, design, engineering, construction, operations and maintenance of renewable energy systems. To date, the company developed and realized more than 120 projects with aggregate power of 400MW and total cost of US$ 500m. **www.solaer-il.com**

PERFORMANCE.INDICATORS.

Assets, financial position and income

Kommunalkredit's business model has proven robust, even in the face of the challenges of the COVID-19 pandemic. Despite the general market environment, the focus on infrastructure and energy financing and public finance has proven to be a solid foundation.

Financial performance indicators according to Austrian GAAP

in EUR m or %	2020	2019
Total assets (31/12)	4,108.7	3,802.8
Total capital (31/12)	307.4	273.9
Net interest income	**57.4**	**45.6**
Net fee and commission income	20.4	15.5
General administrative expenses	-47.4	-44.8
Other operating income[28]	3.0	4.8
Operating result	**33.1**	**21.8**
Operating result from sale of infrastructure/energy financing[29]	-0.3	4.8
Net allocation to provision (§ 57 (1) Austrian Banking Act)[29]	-0.9	0.4
EBIT	**31.9**	**27.0**
Other loan impairment, valuation and sales result [29]	0.5	1.8
Profit on ordinary activities	**32.4**	**28.7**
Taxes on income	1.2	1.6
Profit for the year after tax	**33.6**	**30.3**
Cost/income ratio (based on EBIT)	61.0%	63.2%
Return on equity before tax	10.3%	10.8%

28 Mainly income from services provided to Kommunalkredit Public Consulting GmbH; 2019 also KA Finanz AG.
29 Included in items 11 to 13 of the income statement.

Regulatory performance indicators

in EUR m or %	31/12/2020	31/12/2019
Risk-weighted assets	1,692.2	1,675.7
Total capital	392.8	366.5
Total capital ratio	23.2%	21.9%
CET 1 ratio	20.3%	18.7%

Rating

	31/12/2020	31/12/2019
Long-term DBRS Morningstar	BBB stable	BBB (low) positive outlook
Short-term DBRS Morningstar	R-2 (high) stable	R-2 (mid) positive outlook
Covered bonds Standard & Poor's	A negative outlook	A stable

Statement of financial position structure

The total assets in accordance with Austrian GAAP came to EUR 4.1bn as of 31 December 2020 (31/12/2019: EUR 3.8bn). The main asset items in the statement of financial position were loans and advances to customers amounting to EUR 2.6bn (31/12/2019: EUR 2.6bn). Bonds and debt securities, which mainly include securities from the liquidity book, amounted to EUR 0.5bn as of 31 December 2020 (31/12/2009: EUR 0.5bn). Customer liabilities of EUR 2.1bn (31/12/2019: EUR 1.7bn) and securitised liabilities of EUR 1.0bn (31/12/2019: EUR 1.1bn) are the largest items under equity and liabilities. Kommunalkredit's equity amounted to EUR 307.4m as of 31 December 2020 (31/12/2019: EUR 273.9m). The bank also still has EUR 40.0m from a fund for general bank risks according to § 57 (3) of the Austrian Banking Act.

Income

Kommunalkredit Austria AG reported an operating result of EUR 33.1m for 2020 in accordance with Austrian GAAP (2019: EUR 21.8m). The rise of 51.7% illustrates an impressive increase in operating earnings power in 2020. EBIT, which adds the operating sales from infrastructure/energy and the change in the provision pursuant to § 57 (1) of the Austrian Banking Act, also illustrates this positive trend at EUR 31.9m (2019: EUR 27.0m). Based on EBIT, this results in an improved cost/income ratio of 61.0% (2019: 63.2%).

The other loan impairment, valuation and sales result came to EUR 0.5m (2019: EUR 1.8m), the main components of which were EUR 3.2m from the repurchase of own issues (2019: EUR 4.7m), EUR -1.5m from the increase in the provision for expected losses from derivatives and EUR -0.9m (2019: EUR -3.5m) from the change in statistically calculated provisions for expected credit losses.

The profit on ordinary activities came to EUR 32.4m and was 12.9% above the previous year's value of EUR 28.7m. The profit for the year after tax increased by EUR 3.3m to EUR 33.6m (2019: EUR 30.3m).

The main income and expense items were as follows:

Net interest income
Net interest income increased by 25.9% to EUR 57.4m (2019: EUR 45.6m). The significant increase in the share of infrastructure & energy financing business of EUR 46.0m was the main contributor to this (2019: EUR 31.0m).

Net fee and commission income
Net fee and commission income increased by 31.7% to EUR 20.4m (2019: EUR 15.5m) as a result of revenue in conjunction with new business activities, but especially also as a result of the continued expansion of the consulting and services business. Fee and commission income from the bank's lending and services business of EUR 22.5m (2019: EUR 17.2m) was offset by fee and commission expenses of EUR 2.1m (2019: EUR 1.7m) from the lending business and fees from the money trading and custody business.

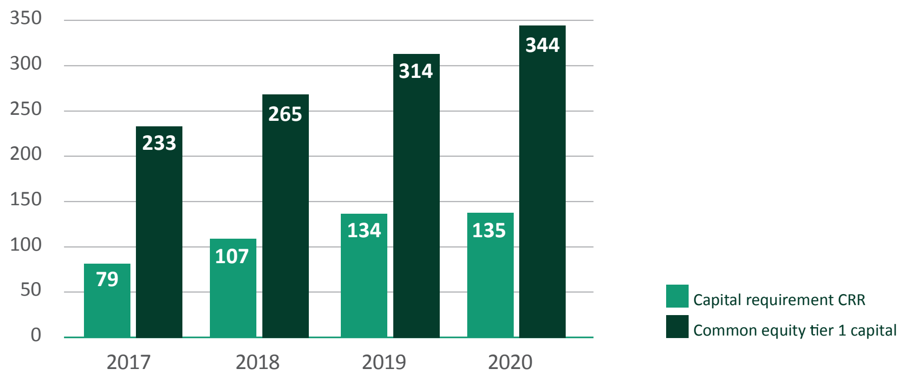
General administrative expenses
General administrative expenses increased by 5.7% to EUR 47.4m (2019: EUR 44.8m). EUR 29.8m (2019: EUR 26.9m) of this was attributable to personnel expenses, EUR 15.8m (2019: EUR 16.3m) to other administrative expenses and EUR 1.8m (2019: EUR 1.6m) to the Bank Resolution Fund contribution. The rise in personnel expenses is primarily attributable to the selective increase in personnel capacities.

Other operating income
Other operating income amounted to EUR 3.0m (2019: EUR 4.8m) and mainly consisted of income from the provision of operational services for Kommunalkredit Public Consulting GmbH of EUR 2.7m (2019: EUR 2.1m). The decline compared to the previous year is the result of the termination of the Service Level Agreement with KA Finanz AG with effect from 31 March 2019.

Other operating expenses
Other operating expenses of EUR 1.7m (2019: EUR 1.0m) were mainly the contribution to the deposit guarantee fund and stability tax paid by Austrian banks.

Loan impairment, valuation and sales result
The loan impairment, valuation and sales result amounted to EUR 0.5m (2019: EUR 1.8m) and is composed of income of EUR 4.0m and expenses of EUR 3.5m. The income mainly results from the repurchase of own issues amounting to EUR 3.2m (2019: EUR 4.7m). The expenses mainly reflect the allocation of statistical risk provisions. Kommunalkredit's loan portfolio was solid despite the impact of the COVID-19 pandemic; the non-performing loan ratio remains constant at 0.0% and there were also no loan defaults in 2020. The provision for expected credit losses was increased by EUR 0.9m (2019: increase of EUR 3.5m) to EUR 6.3m (As of 31/12/2019: EUR 5.4m).

Risk-weighted assets and total capital
Capital resources in EUR m



Risk-weighted assets and total capital

As of 31 December 2020, Kommunalkredit reported total capital of EUR 392.8m (31/12/2019: EUR 366.5m) and common equity tier 1 capital (CET 1) of EUR 344.0m (31/12/2019: EUR 313.6m). Risk-weighted assets rose slightly in 2020 to EUR 1,692.2m (31/12/2019: EUR 1,675.7m). As of 31 December 2020, Kommunalkredit therefore once again reported strong capital ratios: the total capital ratio came to 23.2% (31/12/2019: 21.9%) and the common equity tier 1 ratio to 20.3% (31/12/2019: 18.7%). The improvement in capital ratios reflects the positive effects from the profit retention, the efficient use of capital through the ongoing placement of transactions with institutional investors and the use of lower risk weightings for qualified infrastructure financing. The values shown reflect the total capital performance indicator basis of Kommunalkredit's separate financial statements according to Austrian GAAP, taking into account the profit for the year in 2020 after a planned dividend of EUR 3.4m.

Impact of COVID-19 on risk provisions

The COVID-19 pandemic prompted an evaluation of, and update to, the IFRS 9 probabilities of default (PDs), which serve as the basis for calculating ECL[30] (expected credit loss), in 2020. The model evaluation did not result in any need to change the methodology used, and the definition of the macroeconomic scenarios, including their weightings, also remained unchanged. Furthermore, the LGD values were adjusted following a regular evaluation based on external benchmarks, paying increased attention to the usual high level of collateral in the infrastructure and energy portfolio which leads to higher recovery values.

Since March 2020, Kommunalkredit has been continuously reviewing all infrastructure and energy transactions in terms of the possible impact of the COVID-19 crisis on borrowers, whether it be in the form of potential interruptions in the supply chain, delayed completion, low demand, a decline in market prices (e.g. electricity), or changes in user behaviour for projects with traffic or demand risks and the like.

Based on availability models and structural risk mitigation factors, the bank portfolio has proven to be largely resistant to the impact of the COVID-19 pandemic. There were only isolated rating downgrades in the infrastructure portfolio, in particular in relation to financing involving market or traffic risks that had a negative impact on the risk provisions. A transfer was made in the second half of 2020 from level 1 (oneyear ECL) to level 2 (lifetime ECL) for an exposure in the infrastructure portfolio. There were three exposures at level 2 with a total exposure value of EUR 51.9m as of 31 December 2020. All loans in the infrastructure portfolio were serviced in accordance with contract terms without the need for deferrals.

Isolated deferrals (credit volume of EUR 29.5m, deferred interest payments and repayments of EUR 1.5m) were granted in the Austrian municipality and municipalrelated portfolios due to temporary liquidity shortages. There were no longterm financial difficulties/deteriorations in credit ratings in this portfolio as of 31 December 2020.

30 ECL = Expected credit loss, Risk provisions for expected credit losses.

Interview

Erwin Soravia, CEO SORAVIA und Herbert Jansky, COO ADOMO

Infrastructure forms the backbone of developed markets. Its functionality is key to sustainable and balanced development. Successful infrastructure projects have long been more than just a means to an end: they are multifunctional and sustainable, and they serve as landmarks. How are these things compatible?

These three aspects go hand in hand with good planning across the entire life cycle. The possibility of multifunctional use – not only topographically but chronologically – is a characteristic of sustainability in an economically meaningful context. If the possibility of alternative usage is already developed during the course of planning and the life cycle is planned, reproduced and managed in an integrated manner, then it is sustainable. There are databases for building materials that facilitate both sustainable building and methods and processes for sustainable management. And there are solutions for media supply for infrastructure which complement both these elements. With regard to the landmark aspect, a common understanding needs to be found regarding the architectural context and district development (urban development). It is not a matter of constructing a single building, but of creating something outstanding in an overall context.

In Vienna, a high-rise complex that is recognisable from quite a distance is currently being built right next to the Danube Canal. The TrIIIple project combines living, working and residential space at a critical intersection in the Austrian capital. Water is obtained from the Danube Canal for use in the heating and cooling system. A first?

The combination of elements in a project this size and their organic integration into a district are "a first". People who will live and work here in the future can have a positive feeling about the TrIIIple complex, because from an ecological point of view, there's not much more that can be done. No pollutants are produced, and all energy comes from ecologically generated electricity. The energy system is designed to supply neighbouring projects such as the Austrotower and to be able to provide the entire district with a clean air-conditioning solution in the longer term. It's not the technology that's new but rather the combination and commitment to preserving Vienna as the most liveable city. This doesn't only benefit the users of the TrIIIple complex; the trend is clearly towards a more conscious life and sustainable use of multifunctional infrastructure. We believe this is a landmark for Vienna.

Your role within the SORAVIA Group is the general supervision of real estate. What challenges are you increasingly confronted with? Do we need to rethink infrastructure after the experience of the global health crisis?

We anticipate that both the office and residential real estate sectors will change. According to recent studies, the floor-space turnover of office real estate fell by 34% in the first half of 2020 compared to 2019. There will continue to be a decrease in demand for floor space as mobile working and working from home become the norm. Based on this, however, requirements will also change in the residential sector. There will be more open space, places for work stations, and separable areas to separate "work" from "living". Within the Group, we will pass on and take into account lessons learned from the changed needs of our customers. We will support our customers by combining their new approach to the use of space with our services – technical, infrastructure-related and commercial facility services – so they can focus on their core business. However, we need to rethink infrastructure not only because of the health crisis- the climate crisis and new technological developments are making this even more urgent. In this respect, the COVID-19 pandemic was (and is) more of a catalyst. Necessary changes regarding our responsibility towards future generations have been greatly accelerated. From our perspective, the infrastructure of the future will require more multimodal transport concepts, a greater network expansion for data transfer, and especially, well thought-out planning with a flexible use of space.

"Multifunctionality, sustainability and landmark status – these three elements must be kept in balance in infrastructure projects. Ultimately, infrastructure serves people, not the other way around."

About the company

SORAVIA is a growth-oriented and owner-managed family company. For over 140 years, the name has stood for continuity in the construction and real estate business. SORAVIA focuses on the sectors of urban development, privately financed housing, commercial projects, subsidised housing, hotel developments and the revitalisation of listed properties.

ADOMO is a subsidiary of SORAVIA and combines its service portfolio in the areas of asset, property and facility management. ADOMO supports real estate projects not only until they are completed but beyond the development phase. The aim is to expand the value chain of real estate projects and to extend the cycle from their realisation to sustainable operation of the real estate.

KNOW-HOW. PROVIDERS.

Branch office and equity investments

In addition to 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 is the hub from which the bank 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 are strategic investments or investments in affiliated companies, while the companies relating to the bank's real estate (serving as head office) primarily serve to support the core business.

Kommunalkredit Public Consulting GmbH

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 2020, KPC awarded subsidies of EUR 445.9m, in particular on behalf of the Ministry for Climate Action (BMK), 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 2,515.1m. KPC has subsidised a broad variety of support initiatives in the water management, land reclamation, energy efficiency, renewable energies, thermal rehabilitation and oil phase-out measures, as well as resource efficiency and e-mobility sectors. Across all of these segments, a total of 40,608 projects were approved and 42,881 projects were billed in 2020.

KPC acts as the **point of contact** between the subsidisers who provide the financial resources and the applicants and oversees the entire process of a project. Its 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" funding strategy 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, capacity development and policy advice, specifically in Central Europe, South-East Europe and Eastern Europe. The **Sustainable Finance** segment has been part of the portfolio since 2019. Current clients include the World Bank, the European Commission, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Organisation for Economic Cooperation and Development (OECD), the German Kreditanstalt für Wiederaufbau (KfW), the German Gesellschaft für internationale Zusammenarbeit (GiZ), the German Ministry of the Environment, the Austrian Development Agency (ADA) and also Finance in Motion, one of the largest asset managers in the development finance sector.

KPC in 2020.

40,608
project assessments

EUR **2,515**m
investment volume

EUR **446**m
subsidy volume

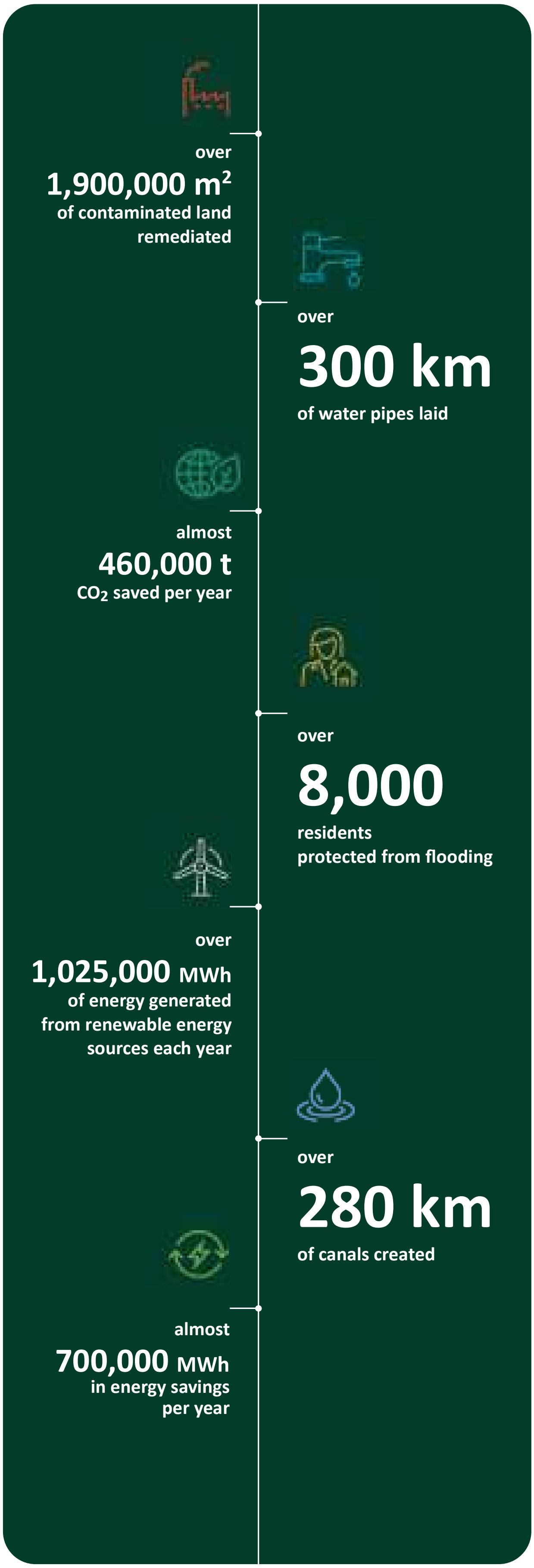
On behalf of the BMK, KPC also appointed a member of the Austrian negotiation team in the climate negotiations at EU level and in the context of the international association in 2020. The contribution of donor countries to international climate finance will be negotiated as part of this mandate and the position of the Member States at EU level concerning this will be coordinated. KPC also acts as an advisor to the Austrian representative in the **Green Climate Fund** (GCF), an international climate project funding instrument that provides support for projects to reduce greenhouse gas emissions and for enabling adjustments to climate change in developing countries.

In the field of bilateral climate project funding, KPC manages climate protection projects financed directly by the BMK to support climate protection measures in developing countries and emerging markets.

In 2020, KPC received new attractive commissions as well as extensions for existing appointments to support Green Financing Facilities in the energy efficiency segment. Especially noteworthy is an appointment by the OECD, for example. The aim of the project is to increase the capacity of the treasuries of government authorities in Armenia, Azerbaijan, Georgia, Moldova, Ukraine and Belarus in environmental investments. OECD's technical support is intended to provide local experts with the knowledge and practical skills they need to establish an environmentally friendly public investment programme.

Since 2008, KPC has also offered a platform in the form of "**Climate Austria**" in partnership with numerous businesses for the voluntary offsetting of CO_2 emissions, for example in travel. The ISO certification for KPC's consulting segment was recently renewed in 2020.

Effects of environmental support 2020



Interview

Alexandra Amerstorfer &
Christopher Giay, KPC Management Board

What defined the year 2020 for KPC?
2020 was mainly characterised by increased subsidy budgets for environmental support, renovation support, the oil phase-out campaign and the Climate and Energy Fund – an encouraging development for KPC and especially for climate protection. KPC has managed this positive challenge superbly and proven to be very effective, despite the very difficult conditions of the COVID-19 pandemic. The subsidy business has fared well – and it is important to note how these subsidies not only benefit the climate but also make an important contribution to kickstarting the economy again after the latest restrictions and the sharp economic downturn as a result of the pandemic. The existing subsidies (keyword: climate protection billion) will increase again considerably and new support instruments will be launched.

Are the coronavirus restrictions also reflected in the environmental support?
Fortunately, KPC did not suffer any major slumps in application numbers as a result of the coronavirus. Even if the figures dropped slightly in the first lockdown at the beginning of 2020, they increased again significantly in the second half of the year. The Federal Government's programmes for reviving the economy such as the investment bonus and the municipal investment programme are likely to have contributed to this. They can be combined with environment support and offer very attractive subsidy options. The situation was different for the consulting division and for Climate Austria; many services could not be provided on site in Southern and Eastern Europe due to the lockdowns and travel restrictions. New decisions on offers were either not taken or taken with a delay. Climate Austria, the platform for the voluntary carbon offsets of flights, was most affected by the air traffic almost coming to a complete standstill.

„Subsidies play an important role in kickstarting the economy after the current restrictions and the economic downturn caused by the pandemic."

Was there one particularly successful experience in 2020?
The publication of the Court of Auditors report for the urban water management was a particular highlight. KPC, who served as the performance agent for this subsidy instrument, received an extremely positive evaluation, especially in relation to the organisational and information structure. The creation of guidelines, checklists and manuals, for example, were very well-received by the Court of Auditors. A major factor here is that the entire process, from application to archiving, is illustrated with clarity in these documents. The fact that the company has its own guidelines for the Internal Control System and operational risk management as well as a consistent two-person review principle were also rated highly. Last but not least, KPC also impressed by making online submissions possible since April 2018.

About Kommunalkredit Public Consulting: KPC is the main point of contact for environment support schemes in Austria. It implements national and international climate protection projects in the areas of renewable energy, energy efficiency, mobility management, urban and protective water management and remediation of contaminated sites. **www.publicconsulting.at**

Fidelio KA Debt Fund platform

With the establishment of the Luxembourg Fidelio KA Infrastructure Opportunities Fund SICAV-RAIF SCA in 2018, Kommunalkredit created an infrastructure debt fund platform that gives institutional investors diversified access to the bank's infrastructure pipeline. The successful launch of the first infrastructure debt fund enhanced the product range to include the **Asset Management** segment. Investors profit from the bank's significant origination, structuring and portfolio management expertise in sustainable, European infrastructure and energy transactions and projects which benefit the public. The bank benefits from deep strategic partnerships with fund investors, ultimately translating into an increased number of transactions and higher volumes.

The sub-fund "Fidelio KA Infrastructure Debt Fund Europe 1", which had its final close at the end of February 2020 with a volume of EUR 354m, outstripping the original target volume of EUR 150m by a wide margin, is nearly fully invested; refinancing transactions will be reinvested in the coming months.

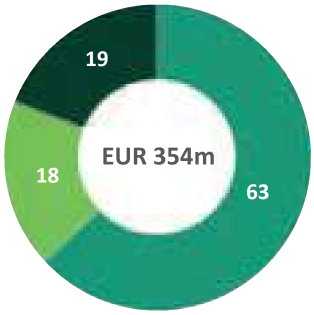
The global health crisis has not had an impact on the performance of the portfolio and the valuation of assets. On the contrary – despite the COVID-19 crisis and the challenges that it has entailed, four further renewable energy and digital infrastructure projects were invested in at attractive conditions in April and May alone. The integration of a further five projects into the portfolio in the second half of the year is proof of the **significant interest from investors**. Unlike the traditional asset management approach, Kommunalkredit is a reliable partner whose interests are aligned. This way, own investments are made in parallel with the fund.

The high investor demand is taken as encouragement to evaluate further fund concepts. The marketing of a second European infrastructure fund with a focus on infrastructure and energy projects in Europe that are on average structured as investment grade began at the turn of the year.

Facts on Fidelio KA Infrastructure Debt Fund Europe 1.

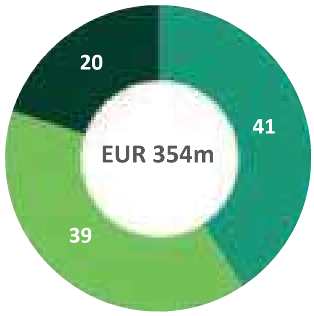
Closing prosess

Portfolio status 12/2020
in %



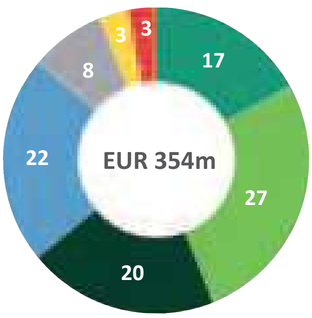
- Project in operation
- Project being created
- Project in operation or in creation phase

Sector diversification
in %



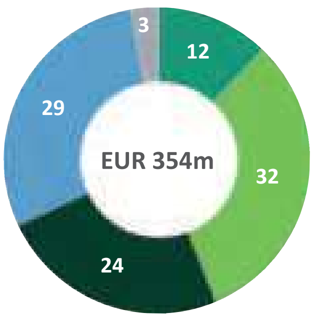
- Energy & Environment
- Communication & Digitalisation
- Transport

Geographical allocation
in %



- Germany
- Spain
- Italy
- Netherlands
- Poland
- Portugal
- Lithuania

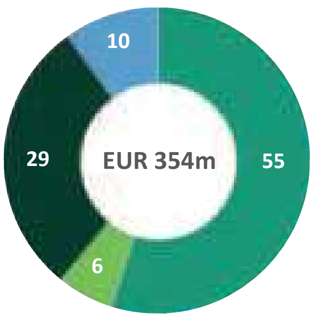
Credit profile*
in %



- BB-
- BB+
- BBB
- BB
- A-

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

Interest rate
in %



- 0 Floor
- Euribor
- Fixed interest rate
- Euribor + Marge

„Fidelio KA offers institutional investors continuous and long-term revenue from infrastructure and energy investments.“

Interview

Frank Schramm & Mariella Huber,
Managing Directors of Fidelio KA Infrastructure Opportunities Fund GP S. à r. l.

Kommunalkredit's first infrastructure fund was launched in 2018. Why did you expand in the direction of fund and asset management solutions?

It was a well-considered step to enhance our core expertise in infrastructure and energy financing and to deepen our strategic partnerships in terms of placements. We want to offer interested investors an attractive investment opportunity. As the funds flow into sustainable investment projects that benefit the public, we are contributing towards achieving national and international climate goals. The value development of the fund ensures a healthy return in an all-time low-interest rate environment. This enables investors to enjoy advantages that traditional investment products do not provide.

The first fund Fidelio KA Infrastructure Debt Fund Europe 1 was successfully concluded at the beginning of 2020 during the COVID-19 pandemic. Are you satisfied with its performance?

It is very encouraging that we have not only reached the original target volume of EUR 150m, but even surpassed it significantly with EUR 354m. The funds are mostly fully invested again. There are approximately 15 transactions with a focus on renewable energy, digitalisation and social infrastructure. We place particular importance on ESG and SDG criteria when selecting transactions. They are the foundations for achieving a sustainable future which we must lay not only for us, but also for future generations. COVID-19 was still not a global issue at the time of the financial close, and has had only a marginal impact on the performance of the portfolio and the valuation of assets. The majority of projects integrated into the portfolio were carried out over the summer months. This illustrates the great interest shown by investors.

Will there be follow-up funds?

An "initial" fund indicates a continuation by its name. We were so encouraged by the high demand that we started working on follow-up fund concepts. The marketing of another senior debt infrastructure fund for Europe in the investment grade segment was started at the turn of the year.

About the Fidelio KA Debt Fund platform: The establishment of the Luxembourg Fidelio KA Infrastructure Opportunities Fund SICAV-RAIF SCA in 2018 has provided the Kommunalkredit institutional investors with direct access to the bank's infrastructure pipeline. **www.kommunalkredit.at**

Kommunalnet E-Government Solutions GmbH

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 for municipalities and access to important databases for municipal authorities, and serves as an information and communication hub for the federal, state and municipal authorities. Kommunalnet is an official component of the Austrian **eGovernment-Roadmap**.

With 15,905 registered users from 2,074 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.

Despite the COVID-19 crisis, numerous projects that will support the municipalities support even more with their day-to-day work have been initiated and implemented in 2020. Divisions were expanded and growth potential was leveraged. Major projects included the relaunch of the Kommunalnet website (www.kommunalnet.at), which was restructured, modernised and equipped with a large number of new features. The "GemNet Salzburg" project – a knowledge database to make work easier in the municipalities – was launched in cooperation with the Salzburg provincial government. It was also seen as an important step towards integrating federal states and is intended to serve as a benchmark.

Losing some of the planned advertising revenue due to COVID-19 was more than offset by the "Municipality Deal" product. Necessary products such as face masks, disinfectants, sneeze guards and similar materials were made available to the municipalities quickly and unbureaucratically.

The partnership entered into in 2018 with the fintech company Loanboox was continued in 2020. Since this online platform for municipal loans went live, more than 900 municipalities have been contacted and more than 190 municipalities and banks are represented on the platform. The portal published 79 financing requests in 2020.

Kommunalkredit TLI Immobilien GmbH & Co KG

Kommunalkredit TLI Immobilien GmbH & Co KG holds and manages the properties at Tuerkenstrasse 9 and 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 59.8m in the municipal leasing sector. The company has not engaged in any new business since August 2008 due to changes in municipal tax law.

TrendMind IT Dienstleistung GmbH

TrendMind IT Dienstleistung GmbH (TrendMind), an IT specialist for financial products, SAP and subsidy processing software that was held to support the core business, was reorganised and sold in the first half of 2020. This step was taken in the interest of structural efficiency and involved reincorporating some of TrendMind's services into Kommunalkredit, making it easier to focus on internal areas of responsibility. All employees were taken on by the bank. The solution has allowed the bank to bundle economic synergies and use the resources available in an even more focused manner.

Interview

Lucas Sobotka, Managing Director
of Kommunalnet

Kommunalnet is the digital work and information portal for Austrian municipalities. An advantage in times of great limitations?
Digitalisation is certainly not a disadvantage. And in any case, it has been an essential part of everyday municipal work for many years now. There is such a comprehensive range of services that there seems no other reasonable way to handle things nowadays. Municipal civil servants have a 24/7 tool in Kommunalnet that, of course, has also proven to be useful in times of personal restrictions. Approximately 96% of all Austrian municipalities are customers of ours. This makes it easier to exchange information, especially when dealing with a challenge we are all facing like the COVID pandemic. It has enabled current developments, new measures and important information to be made widely available as quickly as possible and experiences to be exchanged.

Have the goals set for 2020 been achieved?
I am satisfied about how we have developed technically and economically. Numerous projects have been introduced and implemented. The planned website relaunch was a success and was adopted very quickly and received very positively by the users. In addition to changing the content management system (CMS) and an extensive redesign, we have reprogrammed the user management, introduced the Kommunalnet benefit club and the job forum, and launched our own Kommunalnet TV channel. The modern website now offers clarity with the most important content, services and tools just a click away. We have adapted our editorial style – with fewer expert talks and "Tatort Gemeinde" and more in-depth and diverse reporting. However, we are sticking to these formats and will continue in this direction as soon as it is once again possible. The cooperation with loanboox – an online platform for municipal loans – has continued successfully and, with the Wiener Zeitung, the Salzburg provincial government project GemNet, and the WhatsApp service for citizens, we have implemented new digital services for the municipalities.

„Despite all the benefits of digitalisation, personal contact will always play a key role."

Kommunalnet is creating an Austria-wide network on a municipal level. What will 2021 and 2022 be remembered for?
Our role as a news source for COVID-related events will no doubt intensify over the next few months. We already provide necessary products such as masks, disinfectants, sneeze guards and other materials quickly and easily through our "Municipal Deal". We will continue to look into improvements and additions so that we remain indispensable for our users. And we will continue to engage openly in future, working with our users to meet the needs of the citizens as comprehensively as possible.

About Kommunalnet: Kommunalnet is the biggest work and information portal in the Austrian municipal sector with approximately 2,100 municipalities and municipal associations (96% market share). **www.kommunalnet.at**

EMPLOYEES. SKILLS.

Employees

Kommunalkredit's most important asset is its employees. Satisfaction and success go hand in hand. The bank's good performance therefore largely depends on commitment and performance. We all pull together to achieve our goals.

Responsibility & trust

It depends on the right combination. Individual knowledge and personal skills are the breeding ground of our diversity. The diversity of our employees is a fundamental asset and indicative of a modern, dynamic business. As of 31 December 2020, 20 nationalities contributed to a strong corporate culture. Respect and appreciation, fairness and acknowledgement of each other's skills, privacy and individual needs – all these are key. Discrimination due to gender, origin, nationality, skin colour, sexual identity, age, disability, religion or world view and any form of bullying have no place at Kommunalkredit.

Responsible business management is the basis of our long-term success. Professional standards and basic ethics are the norm in our day-to-day business and embedded in our Code of Conduct. We consider compliance with this Code of Conduct to be essential for the reputation and continued existence of the company and a positive contribution to the public image of the financial industry. Appreciation, problem-solving, performance and innovation – both internally and externally – are key pillars of how we engage with one another every single day. Respectful interaction, transparency and commitment are fundamental.

As an employer, we offer attractive employment opportunities in a dynamic and exciting environment. We handle infrastructure projects every day which improve the quality of people's lives and provide tangible benefits to the community. Creativity, initiative and personal development are encouraged in order to provide top-class results with precision and speed.

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 always engage in **proactive and transparent dialogue** with our stakeholders. We see it 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 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, the handling of company property and proper disposal of waste must satisfy the high standards of environmental protection and sustainability.

Encourage & support

We have a top-class team with extensive international know-how and a broad range of **experience in the infrastructure business**. This dynamic, entrepreneurial environment offers attractive employment opportunities with room for creativity, initiative and personal development. We therefore invest specifically in talents to build on our competitive advantage.

Recruiting and retaining talented and motivated employees and ensuring their continued development is something that we 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 key to the success of Kommunalkredit itself. We support 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 the employees and managers. And it plays an important role in ensuring that together, we remain true to our vision and our mission and achieve our goals.

Employees should see themselves not only as employees, but rather as contributors and shapers. Our common goal is to create an environment where people can develop and apply their talents and gifts to the fullest. The working environment should be challenging and performance-centric, but also positive, respectful and healthy. Our approach also involves **commitment** to a healthy work-life balance. This creates the space needed for an arm's length or gives a top-down perspective to generate momentum, produce ideas and foster creativity.

Safety & prevention

The health and safety of our employees has top priority. Current risks and health burdens are identified, assessed and are quickly counteracted. This enables us to guarantee continuous improvement in the workplace and provide a **high level of safety** for people in the company.

Especially in times where health is at greater risk, this topic is even more important. Kommunalkredit has switched its working approach in March 2020 with the first measures of the Austrian federal government against the growing COVID-19 pandemic. The majority of employees quickly relocated their workplace to their homes at the beginning of March in order to keep the risks of infection as low as possible. Needs for mobile devices, office utensils and ergonomic furniture were met immediately. In-person meetings and business trips were reduced to an absolute minimum. Making the core hours rule more flexible for the colleagues that are still working in the office spaces has helped them to avoid rush hour on public transport. Room occupancy, disinfectants, masks, safe distances and rules of conduct as well as the restricted use of lifts, kitchen areas, etc. have helped to minimise the potential risk of infection.

The **coronavirus management team** unified all of the COVID-19 information channels and has been in permanent contact with the Executive Board. Regular, open and personal communication with all employees by email or digital channels gave them an additional feeling of trust. It was also evident that this rule offered colleagues with school-age children a significant advantage with looking after their children.

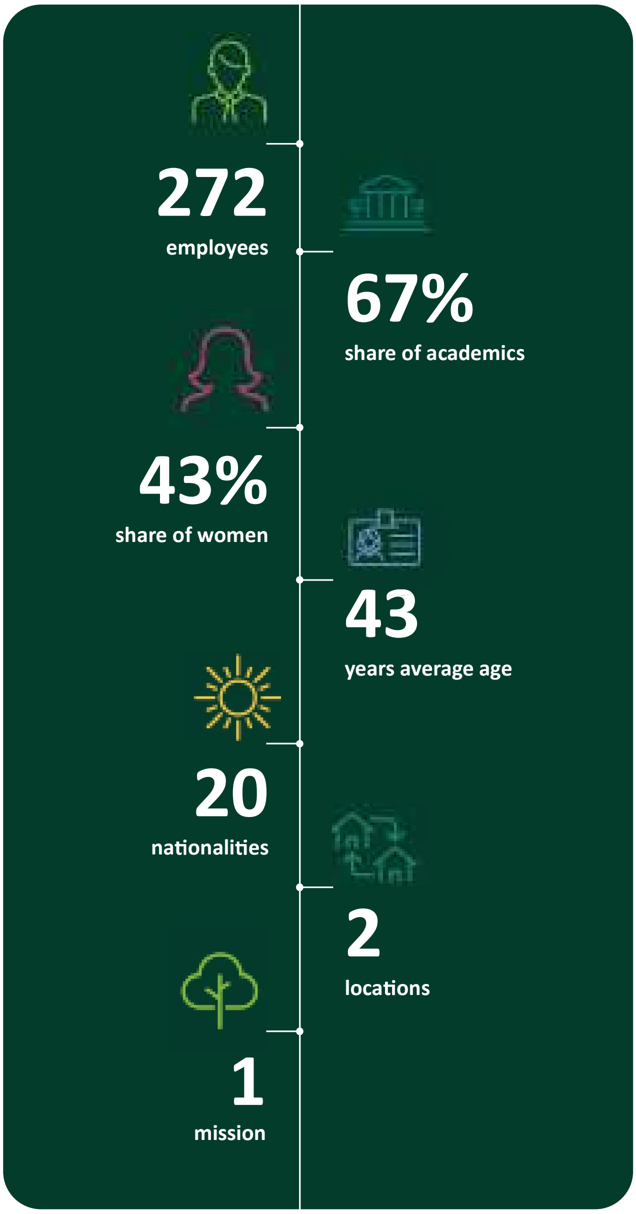
There are currently still clear safety precautions in place. Employees who travel into the office or go on a business trip are tested several times a week. Of course, these measures will remain in force of course as long as the situation requires it.

The period of physical absence has also made **IT security** even more important to a level that is standard for financial institutions. There have been an increasing number of cyber attacks and cases of fraud worldwide which have taken advantage of vulnerabilities caused by restricted communication and the use of private devices. Kommunalkredit was also the victim of fraud. The case was closed without any damage thanks to the company acting swiftly and working directly with the authorities.

Facts & figures

The company's employees are the engine that drives it. As of 31 December 2020, the number of employees of the Kommunalkredit Group was 272 full-time equivalents (31/12/2019: 251). 168 of these worked at Kommunalkredit Austria AG (31/12/2019: 161), while 104 worked for Kommunalkredit Public Consulting GmbH (31/12/2019: 90). Of the 168 banking employees, eleven work in the branch office in Frankfurt am Main.

The share of women in the Kommunalkredit Group was 43% (35% in management positions) as of 31 December 2020. The average age was 43. The share of academics of 67% increased ever so slightly and is at a high level. Nine women were on parental leave as of 31 December 2020; during the year, six employees took paternity leave and one employee took a "dad month" – as established in the collective bargaining agreements for births since 1 July 2011 – or "family leave" – as established for births since 1 March 2017.



DIALOGUE. CULTURE.

Communication

In a world of continuous change, open dialogue is fundamental for the ability to take effective action. Kommunalkredit places great value in communicating transparently with its stakeholders – the community, customers, business partners, investors, the media, regulatory authorities, shareholders and, of course, its employees.

Information & cooperation

In the 2020 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 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. The COVID-19 restrictions were utilised to enhance the bank's social media presence. We report on completed transactions, sustainability-related achievements and exciting events through our **online channels**. We provide an insight into the genesis of the bank and the DNA of our employees. And we get national and international experts to take the microphone and talk about sustainable infrastructure for our series of videos or our own podcast "Stadt I Land I Fluss".

External communications focused on intensifying discussions with the media, both in the Austrian domestic market and with international specialist infrastructure-related media. Activities were performed mainly 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 – as we are supporting the public sector with consulting and financing in relation to infrastructure projects (public finance), we also continued our partnerships with the most important municipal decision-makers in Austria in 2020. Despite the Congress of City & Town Authorities held by the Austrian Association of Cities & Towns and the Congress of Municipalities held by the Austrian Association of Municipalities ultimately being postponed to 2021 due to the COVID-19 pandemic, we have been in active contact with both municipal partners. Our event forum **KOMMUNALE SOMMERGESPRÄCHE** (Municipal summer talks), which has been held together with the Austrian Association of Municipalities for 16 years, brought together guests from political, business, academic and media circles to Bad Aussee for active discussions at the end of August despite coronavirus restrictions. An extensive COVID-19 prevention concept was developed in advance in conjunction with the Austrian Red Cross and discussed with the municipal authorities to increase the safety of all the people in attendance. Face masks, disinfectant points, visitor management systems, distancing rules as well as the permanent presence of rescue teams and the setting up of an isolation ward ensured maximum precautions were taken. Under the motto "Sustainable public service – crisis-proof into the future", this live event helped us keep up to speed with the times .

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 management and sponsors sustainable initiatives such as the Neptune Water Award (from the Federal Ministry for Agriculture, Regions and Tourism) or the Phönix Waste Management Award (from the Federal Ministry for Climate Protection, the Environment, Energy, Mobility, Innovation and Technology and the Austrian Water and Waste Management Association). KPC will also participate as a member of Austria's official negotiating delegation in the 2021 **UN Climate Change Conference** in Glasgow. The 2020 UN Conference was postponed due to the COVID-19 pandemic. With regard to our investor relations activities, we are permanently in close contact with investors, analysts and business partners.

Timeliness & transparency

We are aware of our responsibility as an employer. In **internal communications**, we place great value in an open flow of information and respectful conduct within the company. In times of increased challenges and social distancing, up-to-date and transparent information increasingly helps to counteract the feeling of uncertainty. That's why we predominantly used digital and online formats, newsletters and the Intranet in 2020 to keep in regular contact with our employees. Information from the Sustainability Team and the Works Council helped actively drive discussions.

KOMMUNALE SOMMERGESPRÄCHE 2020:

Snippets

„New living arrangements, collaborative working, co-mobility and care and welfare will be more important in the future for municipalities. This is where digitalisation and artificial intelligence are needed.“

Daniel Dettling, Futurologist

„If we are spending so much money to counteract the situation, then we must at least leave behind a more liveable, climate-neutral, secure and digital future for the next generations.”

Othmar Karas, Vice President of the European Parliament, with a quotation from Commission President Ursula von der Leyen

„We must not lose sight of other future issues such as environmental investments, transport investments, restructuring, further development of the built environment and infra-structure for new technologies.“

Christoph Badelt,
Head of the economic research institute WIFO

„The essential basic services worked well, electricity and infrastructure were available. (…) However, the crisis has also shown that we are vulnerable.“
Thomas Hofer, Political consultant

„Without electricity, society ceases to move. (…) A lot still needs to be done to achieve an energy supply that is fit for the future. (…) The transmission grid is too weak.“
Gerhard Christiner,
CTO of Austrian Power Grid

„We must invest to get out of the crisis – we need climate protection. (…) It has never been so cheap for municipalities to invest in climate-friendly, energy-saving measures with the subsidies of the municipality package combined with the support of the Federal Ministry for Climate Action.“
Leonore Gewessler, Federal Minister for Climate Action, Environment, Energy, Mobility, Innovation and Technology

„Our job is to lay the foundations for the future. We must focus here on sustainable public services – whether it be high-performance communication channels for home office and distance learning, the development of technologies or sustainable investments in energy generation.“
Bernd Fislage, CEO of Kommunalkredit Austria

„Life in the countryside can be enriched with an increase in digitalisation. The countryside needs a comprehensive fibre optic network and 5G connections as new utilities and infrastructure for the future.“
Alfred Riedl, President of the Austrian Association of Municipalities

„We want to support the municipalities as best we can so that together we can bring fast internet to remote areas.”
Elisabeth Köstinger, Federal Minister for Agriculture, Regions and Tourism

„The mayors in all of our country's municipalities are reliable crisis managers for their citizens and are always trying to find quick and unbureaucratic solutions. They are the tower of strength when things get uncomfortable."

Interview

Alfred Riedl,
President of the Austrian Association of Municipalities

2020 was a challenging year. The municipal representatives had to quickly settle into a role as crisis managers. Even if the health crisis has not yet been overcome, how satisfied are you with the work of the mayors and municipal civil servants?
The mayors and the municipal civil servants have been under great strain from the first hour of the pandemic as a primary point of contact and crisis manager on the ground, and they still are today. The Austrian municipalities play an important role in combating the pandemic – we provide information on current measures, organise local mass testing, coordinate the many volunteers, and also play a key role in communicating the Federal Government's vaccination strategy. In short: The mayors have proven to be the best crisis managers during the coronavirus crisis. I am proud and thankful that the Austrian municipalities are so diversified. There's a reason why trust in the mayors has also continued to increase during the crisis – I see this as confirmation of the good work in the municipalities as well.

The focus has been increasingly on the importance of crisis-proof infrastructure. Our everyday lives have changed drastically with remote working, distance learning and increased flexibility. Hospitals and care homes have sometimes been pushed to their limits. Where should infrastructural foundations be laid as quickly as possible to be even better prepared in the future?
The coronavirus crisis has shown us more than ever with increased remote working and distance learning that we rely on powerful and fast connection in every region of our country. And we have experienced first hand that there are major deficits here. Our combined efforts must therefore be focused on a quick rise in digitalisation and network expansion – with no ifs and buts. High-speed internet is a public service in the municipalities as much as electricity, water and sewage, and it must be made available to everyone from Lake Constance to Lake Neusiedl on equal terms. Digitalisation has long since reached our everyday lives and is no longer just for work and business. This means we have to close the existing gaps in digitalisation even quicker and more extensively.

The municipalities are considered to be an engine for the economy. It stands to reason that this engine has come to a halt. What is the situation with municipal liquidity? When can we invest again?
The health crisis has not spared the municipalities, and they have been severely affected by it financially – declining revenue shares and a lack of municipal tax income are posing major challenges for municipal budgets. What is clear is that the municipalities have been important economic drivers and employers in all regions for decades. With their annual investments in schools, roads and infrastructure amounting to approximately three billion euros, they provide the municipalities with around 40,000 jobs throughout Austria. This means that the municipalities, together with the approximately 80,000 municipal civil servants, are essential partners to help us emerge from the crisis. The municipal investment package amounting to a billion euros ("municipal billion") quickly helped the municipalities in the first phase to invest in projects and to keep the local and regional economy going. As the crisis progressed, it soon became clear that the municipalities were reliant on further support from the Federal Government. A second rescue package was adopted for the municipalities before Christmas, which gave them a further 1.5 billion euros for quick and unbureaucratic support. Per inhabitant, the municipalities therefore received a total of approximately 280 euros in coronavirus aid from the Federal Government. I am convinced that the municipal packages I and II will help us to come through the next phase of the crisis unscathed. We can use both aid packages to make further investments to boost the regional economy and provide liquidity and planning security.

About the Association of Municipalities: The Austrian Association of Municipalities has represented the local interests of 2,084 out of the 2,095 Austrian municipalities and cities at a federal level since 1947 and represents approximately 70 percent of the Austrian population. **www.gemeindebund.at**

SOLUTION. READY.

Research and development

At Kommunalkredit, no research activities are conducted within the meaning of § 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.

Product development & digitalisation

The development of made-to-order products and the expansion of the digital portals are key to the intensification of our customer relationships. In the high-growth infrastructure finance market, Kommunalkredit acts as the bridge between project sponsors on the one hand (infrastructure constructors and/or 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, arranging and structuring to financing and risk hedging, we develop a broad range of tailor-made, individual solutions for our customers and partners. This also encompasses investment opportunities for municipalities, businesses, institutional and private customers as well as recognition of support instruments. Our strategic innovations were awarded second place in the ranking of direct banks by Austrian trade magazine “Der Börsianer” in 2020.

From a technical perspective, 2020 was dominated by the digitalisation of our two online investment platforms. KOMMUNALKREDIT DIREKT (for Austrian municipalities and companies) was completely redesigned both technically and visually and offers a completely digitalised registration process for new customers. And KOMMUNALKREDIT INVEST (overnight and term deposits for private customers in Austria and Germany) won the German Brand Award in the “Excellent Brand – Banking & Financial Services” category, the marketing award with the widest reach in Germany for outstanding brand management.

EXPERTISE. ENHANCEMENT.

Other material disclosures | Significant events after the reporting date

The structures of the boards and divisions were adapted in the 2020 financial year to accommodate Kommunalkredit’s rapid and forward-looking development. The broadening of the management structure resulted in an increase in responsibilities.

Broadening of senior management

Claudia Wieser was appointed Executive Vice President (Generalbevollmächtigte) with effect from 1 August 2020. She is responsible for the strategic development of the Kommunalkredit Group.

Strengthening the company’s top management

As of 1 January 2021, Sebastian Firlinger has been appointed to the Executive Board as Chief Risk Officer (CRO). With his profound industry experience, he joins the senior management body now consisting of three people. As of 1 January 2021, the Executive Board therefore consists of Bernd Fislage (CEO), Jochen Lucht (CFO, COO) and Sebastian Firlinger (CRO).

RISK. MANAGEMENT.

Internal Control System

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 guarantee the performance of effective and continuously improving internal controls for 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's procedures are organised on the assumption that the Finance division's **processes** will be **standardised** – in the Accounting, Financial Reporting & Taxation, and Reporting & Managerial Accounting teams, and in relation to the payment monitoring process in the Banking Operations division (Loan Operations and Market Processing). Visualised 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 discussed between divisions where necessary.

The Kommunalkredit ICS comprises the five components of the COSO[36] framework: control environment, risk assessment, control measures, information and communication, and 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 front- and back-office units, **transparently documenting** core processes and control steps in risk & 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 defined in internal policies and regulations. These ensure that transactions and the sale of company assets are disclosed correctly, compliantly and in sufficient detail.

Processes and control measures were evaluated as part of a regular review programme during the reporting year. When changing existing processes such as the execution of payment orders, specific work instructions and risk control matrices were revised.

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 to ensure a systematic approach for booking, cross-checking, controls and reporting as far as possible to avoid errors.

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.

36 COSO: Committee of Sponsoring Organizations of the Treadway Commission.

Risk assessment

The main risk in the accounting process is that circumstances may not be represented in accordance with applicable accounting standards 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.

Control measures

All control measures are applied to current business processes to ensure that potential errors or deviations in financial reporting are prevented or, if appropriate, identified and eliminated. Control measures relating to accounting are described in policies, guidelines and work directives for recording, booking and accounting for transactions and in processes and risk & 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 & 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 measures 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 division, Team Valuation & Modelling for the given fixed valuation date 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

Reporting to the Executive Board essentially includes financial data (statement of financial position, income statement, budget and capital planning statements, target/actual comparisons including comments on major developments), quarterly risk reports, 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

Three lines of defence have been established to ensure quality standards. The first line of defence (procedural execution of the control) encompasses the operational divisions. The second line of defence – especially ICS management – monitors the execution of and compliance with controls. The third line of defence represents the Internal Audit division with its auditing and monitoring function. The responsible parties address the identified risks and control vulnerabilities with prompt remedial and preventative measures. Internal Audit checks compliance with the requirements specified in the annual audit plan.

PREVENTION.MEASURES.

Risk management

Action without risks is not possible. Therefore, suitable methods are used to create transparency about risk positions as part of the risk management process. And the risk-return profile is optimised. Kommunalkredit relies here on risk assessments and a risk map.

Risk management strategies and procedures

Kommunalkredit uses risk assessments and a risk map to fully identify the risk drivers of the business model. 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. This contains a definition of risks, broken down by risk type, and assesses the individual risks in terms of quantity and quality. 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 material, 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 for the bank as a whole 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.

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 (BWG), 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 report 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 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[32]
- Replacement risk through rating trigger

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

32 Comprises CVA risk and DVA risk and is allocated in its entirety to the funding risk.

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

Risk policy guidelines for risk management

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

- The limitation of risks at Kommunalkredit is commensurate with the bank's earning strength and its equity base.
- Kommunalkredit supports a risk culture characterised by 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 will 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.

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 economic capital/aggregate risk cover. Both economic capital requirements and the aggregate risk cover are determined on the basis of its present value ("full fair value" approach) and are therefore not subject to measurement rules in the statement of financial position. A confidence level of 99.95% is used in determining the economic risk.

- Risk status:

Economic risks in % of the aggregate risk cover	**Risk buffer** in % of the aggregate risk cover
As of 31 December 2020 **44.2 %**	As of 31 December 2020 **55.8 %**
As of 31 December 2019 **42.1 %**	As of 31 December 2019 **57.9 %**

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 capital". Free capital is the capital which exceeds the internally defined hedging objective, expressed through a minimum T1 rate and a minimum total capital rate. The hedging objectives are preceded by corresponding early warning levels. A confidence level of 95% is used in determining the economic risk.

- Risk status T1-Ratio:

Economic risks in % of the aggregate risk cover	**Risk buffer** in % of the aggregate risk cover
As of 31 December 2020 **39.9 %**	As of 31 December 2020 **60.1 %**
As of 31 December 2019 **59.0 %**	As of 31 December 2019 **41.0 %**

- Risk status TC-Ratio:

Economic risks in % of the aggregate risk cover	**Risk buffer** in % of the aggregate risk cover
As of 31 December 2020 **51.3 %**	As of 31 December 2020 **48.7 %**

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.

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.

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 CrediRisk+ 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 2020 amounted to 9.8% (31/12/2019: 10.8%) relative to the economic aggregate risk cover.

From the **going-concern perspective**, the potential unexpected loss from credit defaults for a holding period of one year as of 31 December 2020 amounted to 15.4% (31/12/2019: 23.8%) relative to the economic aggregate risk cover (T1) and 19.9% as of 31 December 2020 relative to the economic aggregate risk cover (total capital). (Note: there are no previous year's values, as this hedging objective has only been in place since 2020.)

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 stress tests, and adequate risk buffers are maintained.

Breakdown by rating
The total exposure by rating shows that the exposure is concentrated in the top rating categories: as of 31 December 2020, 36.8% (31/12/2019: 35.6%) of the exposure was rated "AAA"/"AA"; 69.7% (31/12/2019: 76.6%) 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 31/12/2020

in EUR m or %	Exposure	Proportion	of which securities	of which guarantees	of which loans
AAA	60.5	1.7%	43.5	0.0	17.1
AA	1,261.1	35.1%	252.1	0.0	975.3
A	513.0	14.3%	152.6	0.0	260.2
BBB	669.0	18.6%	29.5	2.8	625.1
BB	930.7	25.9%	0.0	0.0	930.7
B	159.3	4.4%	0.0	0.0	159.3
CCC	0.0	0.0%	0.0	0.0	0.0
D	0.0	0.0%	0.0	0.0	0.0
nicht geratet	0.0	0.0%	0.0	0.0	0.0
Total	**3,593.6**	**100.0%**	**477.6**	**2.8**	**2,967.7**

Breakdown of credit exposure* by rating 31/12/2019

in EUR m or %	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
nicht geratet	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. For the internal exposure calculation, the book value is used for securities and the residual capital for loans, including all disbursement obligations.

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 0.4bn (31/12/2019: EUR 0.5bn) to the Austrian provinces, accounting for 37.4% (31/12/2019: 42.1%) of the total exposure. It includes broadly diversified mortgage loans in a total amount of EUR 142.6m (31/12/2019: EUR 151.9m) that are guaranteed by the Austrian provinces concerned.

Economic country risk
Credit exposures are reported for the purpose of internal risk management on the basis of the economic country risk. Kommunalkredit's country risk is reported monthly to the 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, 83.8%; 31/12/2019: 90.6%).

Breakdown of credit exposure by region 31/12/2020

in EUR m or %	Exposure	Proportion	of which securities	of which guarantees	of which loans
Austria	1,427.7	39.7%	149.2	1.4	1,226.3
EU-28 (European Union excl. Austria)	1,585.5	44.1%	227.4	1.4	1,310.1
of which EU-19 (euro area excl. Austria)	*1,211.9*	*33.7%*	*185.3*	*1.4*	*980.3*
Non-EU Europe	391.3	10.9%	14.0	0.0	329.3
Other	189.1	5.3%	87.0	0.0	102.0
Total	**3,593.6**	**100.0%**	**477.6**	**2.8**	**2,967.7**

Breakdown of credit exposure by region 31/12/2020

in EUR m or %	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**

Exposure to sovereign states and local authorities
as of 31 December 2020

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:

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

Direct exposures 31/12/2020

in EUR m	Exposure	of which sovereign states	of which local authorities	of which government-guaranteed
Austria	971.8	0.0	950.4	21.4
Germany	29.0	0.0	12.0	17.1
Ireland	25.3	25.3	0.0	0.0
Slovakia	16.5	16.5	0.0	0.0
Slovenia	25.7	25.7	0.0	0.0
France	12.7	0.0	0.0	12.7
Lithuania	21.4	21.4	0.0	0.0
Portugal	9.9	0.0	0.0	9.9
Latvia	21.6	21.6	0.0	0.0
Estonia	5.0	5.0	0.0	0.0

The comparative figures for 2019 are 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
France	0.0	0.0	0.0	0.0
Lithuania	21.5	21.5	0.0	0.0
Portugal	23.1	15.8	7.3	0.0
Latvia	14.6	14.6	0.0	0.0

Exposure to Austrian provinces
as of 31 December 2020

Of Kommunalkredit's total exposure to Austria in a volume of EUR 1,427.7m (31/12/2019: EUR 1,500.5m), the following exposures are to Austrian provinces and/or provincial entities guaranteed by provincial governments:

Total exposure Austria 31/12/2020

in EUR m or %	Direct Exposure	Exposure guaranteed by provincial government	Total exposure
Province of Upper Austria	0.0	33.1	33.1
Province of Lower Austria	0.6	81.9	82.5
Province of Carinthia	10.1	59.8	69.9
Province of Styria	0.0	8.2	8.2
Province of Burgenland	0.0	93.6	93.6
Municipality of Vienna	6.7	0.0	6.7
Total	**17.4**	**276.6**	**294.0**

The comparative figures for 2019 are as follows:

Total exposure Austria 31/12/2019

in EUR m or %	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**

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 142.6m (31/12/2019: EUR 151.9m) which are guaranteed by the provinces concerned (Upper Austria: EUR 67.2m [31/12/2019: EUR 68.4m]; Burgenland: EUR 75.4m [31/12/2019: EUR 83.5m]).

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 2020 (31/12/2019: 0.0%). Kommunalkredit had no financial assets (receivables) on its books that were more than 90 days past due, nor any substantial payment arrears of between 0 and 90 days.

Loan loss provisions
The portfolio is reviewed regularly for objective indications of impairments of customer exposures or exposures to "groups of related customers". Assessments of impairment are performed in the course of the annual rating/review process or on an ad hoc basis. Impairments to be recognised for defaulting loans are determined by Risk Management, subject to approval by the Credit Committee.

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 2020, the exposure in risk class 1 (intensive management/performing) amounted to EUR 58.7m (31/12/2019: EUR 6.1m). 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.

Investment risk
Given the nature of the participations held, the investment risk is of minor importance. As of 31 December 2020, the carrying amount of investments in associates (at equity) was EUR 0.0m (31/12/2019: EUR 0.0m). The carrying amount of investments, which are reported under assets at fair value through other comprehensive income, amounted to EUR 0.8m (31/12/2019: EUR 1.6m).

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 business is 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.

The counterparty default risk from derivatives is calculated as a credit valuation adjustment (CVA) according to IFRS 13. Kommunalkredit calculates CVA and DVA (debt valuation adjustment), aggregated as BCVA (bilateral CVA), on the basis of the potential exposure method by means of Monte Carlo simulations. The risk of BCVA fluctuations (BCVA risk) is determined by means of a VaR-based approach.

Liquidity risk management

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 projection of liquidity as well as liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) 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:

Liquidity gaps 31/12/2020

in EUR m	Expected liquidity gap	Available liquidity	Liquidity position
Up to one month	676.2	240.6	916.8
More than one month up to three months	50.8	4.8	55.6
More than three months up to one year	318.6	19.6	338.2
Total	**1,045.6**	**265.0**	**1,310.7**

The comparative figures for 2019 are as follows:

Liquidity gaps 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**

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 available liquidity, is drawn up every other day and reported weekly to the Executive Board. In addition, ALCO meetings on operational and strategic liquidity management are held monthly. The liquidity risk is monitored 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 2020. 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 as of 31/12/2020

in EUR m	Liabilities at amortised cost	Derivatives designated as hedging instruments	Trading[33]
Up to one month	324.3	2.8	40.4
More than one month up to three months	204.4	2.6	242.6
More than three months up to one year	1,157.6	15.9	387.0
More than one year up to five years	1,552.6	58.1	54.0
More than five years	1,235.1	74.9	39.5
Total	**4,473.9**	**154.2**	**763.4**

The nominal amount of interest-rate and cross-currency swaps as of 31 December 2020 came to EUR 2.6bn (31/12/2019: EUR 2.8bn). The comparative figures for 2019 are as follows:

Cash flows as of 31/12/2019

in EUR m	Liabilities at amortised cost	Derivatives designated as hedging instruments	Trading[33]
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**

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, 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.

33 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.

Market risk management

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, an internal model based on historical interest rate movements 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. Kommunalkredit uses the fully integrated SAP/SEM-IT system and the Numerix software for risk quantification.
For interest rate risk measurement by the RMC, 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).

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.

2020

- Annual net interest income effect from Kommunalkredit's repricing risk as of 31 December 2020 in EUR million in the event of a parallel rise of short-term interest by +100bp:

EUR	USD	CHF	JPY	Sonstiges	Gesamt
-1.5	0.0	-0.1	-0.1	0.0	-1.7

- Risk of interest rate changes in Kommunalkredit's banking book in EUR million as of 31 December 2020 in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Sonstiges	Gesamt	VAR
+4.5	0.0	0.0	+0.2	-0.1	+4.6	-5.5

- 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 2020 in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Sonstiges	Gesamt
+2.3	0.0	-0.3	-0.1	0.0	+1.8

- 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 2020 in the event of a +30bp parallel shift in the yield curve::

EUR	USD	CHF	JPY	Sonstiges	Gesamt
-4.5	0.0	0.0	0.0	-0.2	-4.7

The comparative figures for **2019** are as follows:

- 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	Sonstiges	Gesamt
+1.8	0.0	-1.0	0.0	0.0	+0.8

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

EUR	USD	CHF	JPY	Sonstiges	Gesamt	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	Sonstiges	Gesamt
+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	Sonstiges	Gesamt
-5.0	0.0	0.0	0.0	-0.1	-5.1

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 2020 was TEUR 16.5 (as of 31/12/2019: TEUR 0.3).

Spread widening risk
The spread widening risk is the risk of losses in value due to market-related changes in credit spreads.

+20bp credit spread risk of the **IFRS P&L position**	+20bp credit spread risk of the **IFRS OCI position**
as of 31/12/2020 **EUR -2.3m**	as of 31/12/2020 **EUR -10.6m**
as of 31/12/2019 **EUR -2.0m**	as of 31/12/2019 **EUR -11.2m**

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 2020, the basis spread risk in the event of basis spreads widening by one basis point was EUR +0.1m (as of 31/12/2019: EUR +0.1m).

Option price risk
The option price risk for Kommunalkredit is the risk of changes in the market values of open option positions. To measure the option price risk, a scenario matrix is used to determine interest rate shifts (-/+30bp), volatility shifts (-/+30%) and combined shifts.

The option price risk in the banking book calculated on the basis of the scenario matrix amounted to EUR -1.7m as of 31 December 2020 (as of 31/12/2019: EUR -1.7m based on a -/+30bp interest rate shift). The open option price risk in the banking book results exclusively from unilateral call rights of Kommunalkredit for own issues (i.e. Kommunalkredit has the right to call). As of 31 December 2020, there were no P&L-relevant option price risks.

Operational risk

Kommunalkredit defines operational risk as the possibility of losses occurring due to the inadequacy or failure of internal procedures (processes), people and systems or as a result of external events. The legal risk is part of 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 total capital held on this basis significantly exceed the actual losses suffered in the past.

Business Continuity Management

Business continuity management (BCM) ensures the adequate, comprehensive and efficient management of business continuity. It 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 remote workplaces in the event of Kommunalkredit's office premises not being available.

In the context of COVID-19 crisis management, appropriate organisational and technical measures (e.g. remote work) were implemented at an early stage. The crisis team established continuously monitors the development of the pandemic and takes appropriate measures to ensure the going concern of business processes and the protection of employees.

The annual Business Impact Analysis (BIA) was carried out and served to assess business processes and information and communication technology (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 to test the reliability of critical infrastructure components was successfully carried out.

LAYING.FOUNDATIONS.

Outlook

Even at the beginning of 2021, it is difficult to foresee how long and how severely the impact of the COVID-19 pandemic, including its different mutations, will keep affecting our lives. What we do know is that the economy will have to be revitalised. Despite a large number of monetary and fiscal policy measures already being taken, the medium- and long-term consequences can still not be estimated from our current standpoint.

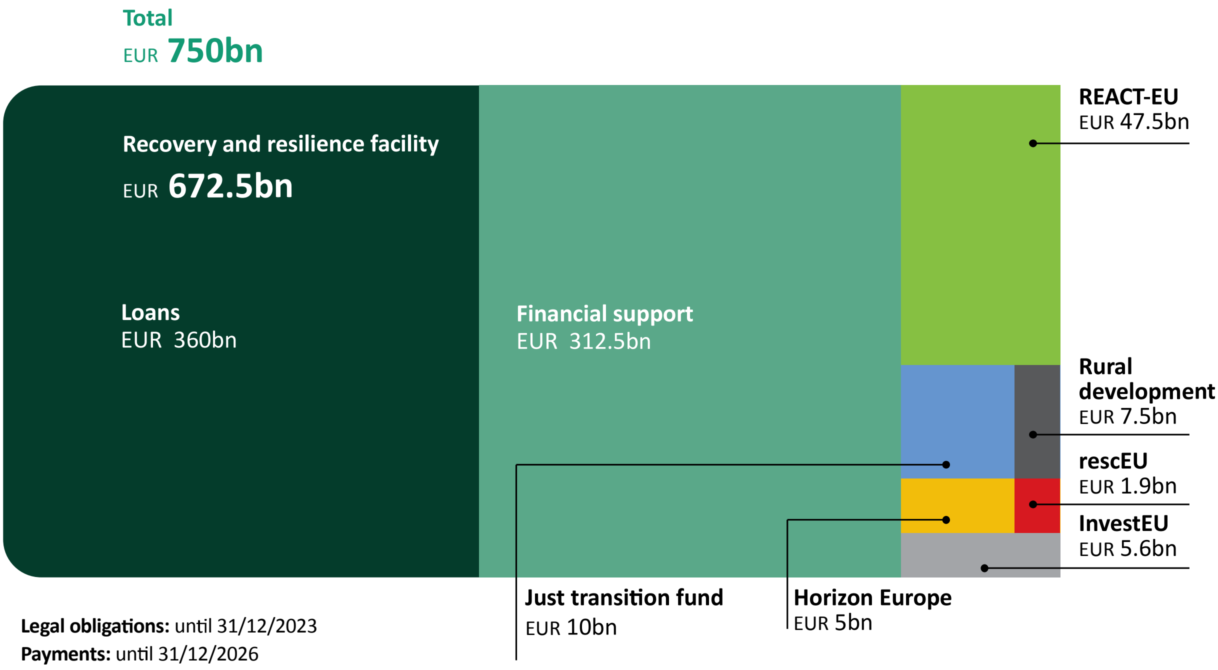
COVID-19

At the time of preparation of this report, the COVID-19 pandemic has dominated world events for over a year. Unprecedented restrictions have been imposed on freedom of movement, public life and, as a result, the economy. Economic activity has been completely suspended in certain industries (leisure, tourism, restaurants, services, etc.). Other systemically important areas – most notably healthcare and telecommunications – have been pushed to the limits of capacity. This has been associated with economic turbulence and drastic job losses. The gross domestic product (GDP) plummeted worldwide. Without the immediate introduction of effective support measures, economic performance would have declined even more.

The near future looks uncertain. The current infection rates are showing no signs of coming to an end and a rapid return to normality is doubtful. Stimuli through taxation and monetary policy from the countries must therefore be maintained in order to boost income, maintain trust and reduce uncertainty. It is also important in this context to stimulate overall economic demand directly through public investments.[37] The reconstruction plan of the European Union (EU) financed by joint bonds is an example of this kind of stimulus. This Recovery and Resilience Facility aims to help the member states to overcome the economic and social impact of the health crisis and also ensure that their economies complete the environmental and digital transformation and become more sustainable and resilient.[38]

37 OECD – Economic Outlook, September 2020.
38 European Council – A Development Plan for Europe, 18/12/2020.
39 European Council – A Development Plan for Europe, 18/12/2020.

Next Generation EU: COVID-19 development package[39]



By introducing the Pandemic Emergency Purchase Programme (PEPP) in March 2020, the **European Central Bank** (ECB) has wasted no time in putting a key element in place to boost the economy. It encompasses bond purchases totalling EUR 1,850 bn (including the increase of EUR 500bn agreed in mid-December) to counteract risks which the outbreak of the pandemic poses to the monetary policy transmission mechanism and the outlook of the eurozone.[40] The interest rate for main refinancing business and the interest rates for the marginal lending facility and the deposit facility were left unchanged at the end of December 2020 at 0.00%, 0.25% and -0.50% respectively.

The ECB has serious decisions to make in 2021. For example, the review of its monetary policy strategy – originally scheduled for the end of 2020 – has been delayed due to the pandemic. In addition to the present objectives of price and financial stability, President Lagarde also added climate protection and allocation criteria of the monetary policy to the agenda.

The **US Federal Reserve** has not taken any further action in relation to base rates since March 2020 (range of 0.00% to 0.25%). It remains to be seen to what extent new measures will be taken as a result of the change of power. US President Joe Biden announced a new economic "rescue plan" a few days before taking office.

Both institutions are currently considering making the monetary policy even more expansive in the short term than before. Further interest cuts are currently unlikely, but an increase in the PEPP is to be expected.

Macroeconomic environment in 20 I 21

After a very strong recovery in the third quarter of 2020, the growth of the global economy increasingly slowed down again towards the end of the year due to the consequences of the second wave of infections. The further development of the pandemic represents a significant **downturn risk** for the forecast economic recovery in the first half of 2021. The continuation of the expansive monetary and fiscal policy is therefore fundamental to limiting the decline in growth and consolidating the economic recovery. The launch of the vaccination system is a key factor that is expected to have a positive impact on the global economy.

The ECB[41] is expecting **growth in the global gross domestic product** (GDP) of 5.8% (excluding the eurozone) for 2021 and 2022. This is then forecast to slow down to an average of 3.8% for the subsequent years. China – which also saw growth in 2020 – will prop up the global economy in the coming years. A long-term recovery of the US economy and therefore in conjunction with the job market will set in at the middle of the year at the earliest, depending on the strained trade relations with China, the decision on another fiscal package and – as is the case everywhere in the world – how the pandemic develops. Growth is expected to slow down significantly in the fourth quarter of 2020 for the eurozone.

The ECB anticipates an increase in GDP of 3.9% for 2021 – a much lower value than was forecast in the autumn. The recovery is expected to continue into 2022 with growth of 4.2%. Inflation declined significantly over the course of 2020 and was at -0.3% in December. This development was mainly driven by the energy prices and non-energy industry goods. Unemployment is expected to continue to rise until the middle of 2021 and only then gradually drop.

The growth behaviour of business loans in the eurozone was also striking. It was at a moderate 3% by February 2020 and increasingly lost momentum. The credit growth of the corporate sector rose up to 7.4% with the outbreak of the COVID-19 pandemic and amounted to 6.8% at the end of the year. This is not least likely to have been the consequence of numerous government support measures such as credit guarantees or bridge financing.

The **outlook** for the global economy remains highly **uncertain** in the short term. Further phases of strict containment will have different impacts across different economies. The Organisation for Economic Co-operation and Development (OECD[42]) expects overall economic production to be weaker than was expected before the pandemic in the long run. There is therefore the risk that COVID-19 will cause significant long-term costs.

Infrastructure 21 I 22

The demand for a sustainable and intact infrastructure is still at a high level and is becoming more and more relevant as a result of the COVID-19 pandemic and adherence to the climate goals. Public-sector and private-sector decision makers are becoming increasingly aware of the need to maintain, modernise and expand modern infrastructure assets in the areas of supply, digitalisation, transport and social infrastructure.

Looking at the near future, the primary focus will initially continue to be on the ongoing expansion of digital infrastructure and on investments in the renewable energy sector. Based on its specialist expertise, high customer acceptance and its performance record Kommunalkredit is well-positioned here.

40 ECB – Press Release, 10 December 2020.
41 Austrian National Bank – Current economic situation, 18/1/2021.
42 OECD – Economic outlook, Issue 2/2020, 1/12/2020.

The Social Infrastructure segment has gained increased attention as a result of the health crisis, but this will temporarily be reflected in M&A activities[43] rather than in long-term Greenfield transactions[44]. The interim forecast for the adversely affected transport sector is currently looking disappointing, at least until the vaccination programmes now being launched achieve the relevant threshold values on a global basis. Some transactions – for example in the road and rail sector – will be executed, while the airport sector will need more time to recover. All in all, this sector will face a challenging and mixed year.

Long-term greenfield investments outside the digital infrastructure and a few selected renewable energy sub-divisions will also remain attractive to a limited extent in 2021. A trend towards consolidation is foreseeable in the "small developers" segment in the renewable energy sector, and this trend is also expected to catch on in the broadband sector in the medium term. The expansive expenditure policy required as a result of COVID-19 will – as already mentioned – keep interest rates at a low level for a foreseeable period, which will continue to increase the relative attractiveness of the private infrastructure sector through the recoverable illiquidity premiums compared to listed bonds.

Kommunalkredit 21 I 22

The year 2020 has confirmed how quickly the demand for crisis-resistant infrastructure can grow and how important a functioning infrastructure is to the survival of society. This means the focus is on hospitals, care homes, energy providers and telecommunications providers. The need to maintain, modernise and expand supply, social infrastructure and communications networks will continue to be on the agenda of public-sector and private-sector decision makers.

The years ahead will be impacted by the after-effects of the coronavirus that has turned our lives upside down so suddenly. We have moved our professional and private lives to our homes to protect our health and that of others. We have dedicated more time to educating our children and looking after our older generation because we care about them. And we have realised how important being together is while we have been keeping our distance.

Infrastructure will become even more relevant in future, not just as an asset class, but also as an essential factor for modernising and realising agendas such as digitalisation and the Green Deal. After everything that has happened, we must not lose sight of the fact that climate change is and will be one of the biggest global challenges. This will require extensive investment, particularly in the areas of infrastructure and energy. Essential foundations were laid with the Paris UN Climate Agreement in 2015. The financial sector, in particular, is called upon to play its part in climate protection. The aim is to redirect cash flows towards sustainable investments. The EU action plan "Financing Sustainable Growth" specifically implements guidelines for a taxonomy, for reporting and green bonds; a green finance agenda will be developed in Austria ... this subject is more topical than ever before. We cannot just talk about concepts like sustainability, ESG, SDG – we also have to put them into practice.

This will include the creation of jobs and the future focus of our service-centred society. Kommunalkredit is well-positioned as a specialist for infrastructure and energy financing in this environment and is a renowned partner in the European infrastructure market. Given our in-depth market expertise, high level of diversification and quick response capabilities, we will be resolutely continuing along our established path even in this environment, as challenging as it may be for us all. Our focus here is on our network of project sponsors and investors. Together we can generate added value for society.

The consulting and financing of the public sector also remains an integral and important part of our business model. As a long-term partner of the municipalities and cities and with the Association of Austrian Municipalities as a minority owner, we can also provide important impetus here to increase the government's economic power – especially now after the slump in revenue shares – and offer a practical investment platform. We will also encourage an active exchange of opinions in 2021 by continuing our KOMMUNALE SOMMERGESPRÄCHE platform initiated together with the Association of Austrian Municipalities – if at all possible. As the "long arm" of the government's subsidy management, we as a group are also a direct point of contact for climate and environmental protection projects, and we are tasked with appointing the advisor to the Austrian representative in the Green Climate Fund.

We succeeded in expanding our product portfolio with a key element through our first fund "Fidelio KA Infrastructure Debt Fund Europe 1". The interest shown indicates that we were right – the target volume of EUR 150m was greatly surpassed, coming in at EUR 354m. The selection of transactions from the renewable energy, digitalisation and social infrastructure sectors, quick investments and the performance have made the fund very attractive for investors in sustainable infrastructure projects. We will continue to pursue this path.

43 Mergers & Acquisitions = Debt-financed company takeovers, merger of two companies, acquisition of company entities.

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

However, we are not only of interest for institutional investors. We have an interesting offer for private investors in Austria and Germany with KOMMUNALKREDIT INVEST. The money invested there is used for major sustainable infrastructure projects in Austria and Europe, meaning that it is "working" for the community during this time.

To put it succinctly: infrastructure is our life. Infrastructure will always be relevant. It is the backbone of the world's developed markets, while also allowing emerging markets to make the leap to prosperity. The demand is high – not only in times of crisis.

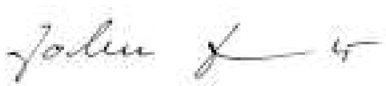
We therefore don't see Kommunalkredit as just a bank. We see ourselves as a think tank, sparring partner and arranger in the universe of sustainable infrastructure. And we consider it our responsibility to actively communicate issues of our society in order to resolutely invest in our future. More now than ever before.

Vienna, March 16th, 2021

The Executive Board of
Kommunalkredit Austria AG

Sebastian Firlinger
Member of the Executive Board

Bernd Fislage
Chief Executive Officer



Jochen Lucht
Member of the Executive Board

SEPARATE FINANCIAL STATEMENTS OF KOMMUNALKREDIT AUSTRIA AG, VIENNA, FOR THE 2020 FINANCIAL YEAR

Statement of fiancial position (under the Austrian Banking Act)

ASSETS in EUR	Note		31/12/2020	31/12/2019
1. Cash on hand and balances with central banks			**808,621.375.64**	**462,612,821.11**
2. Debt securities from public issuers that are eligible for refinancing at the central bank	4.1.		**156,650,052.44**	**160,039,035.51**
Debt securities from public issuers		156,650,052.44		160,039,035.51
3. Loans and advances to banks	4.2.		**156,748,791.52**	**113,404,393.74**
a) repayable on demand		151,118,583.69		102,961,930.53
b) other loans and advances		5,630,207.83		10,442,463.21
4. Loans and advances to customers	4.3.		**2,564,697,989.86**	**2,577,990,481.20**
5. Bonds and other fixed-income securities	4.4.		**320,807,951.46**	**322,941,388.77**
a) of public issuers		83,842,809.96		85,428,493.72
b) of other issuers		236,965,141.50		237,512,895.05
including own bonds		*0.00*		0.00
6. Shares and other non-fixed-income securities	4.5.		**0.0**	**50,024,000.00**
7. Investments	4.6.		**25,065,025.00**	**23,964,095.00**
of which in banks		*0.00*		0.00
8. Investments in affiliated companies	4.6.		**32,501,518.81**	**32,671,146.24**
of which in banks		*0.00*		0.00
9. Intangible non-current assets	4.7.		**483,579.87**	**246,594.96**
10. Property, plant and equipment	4.7.		**2,602,898.96**	**2,590,209.74**
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.		**24,240,591.79**	**40,614,680.17**
12. Prepaid expenses	4.9.		**5,111,548.95**	**5,885,450.31**
13. Deferred tax assets	4.10.		**11,196,050.69**	**9,834,794.20**
Total assets			**4,108,727,374.99**	**3,802,819,090.95**
Off-balance sheet items				
1. Foreign assets			**1,835,839,688.30**	**1,790,988,339.45**

EQUITY AND LIABILITIES in EUR	Note		31/12/2020	31/12/2019
1. Amounts owed to banks	4.11.		**523,822,361.55**	**487,373,701.73**
a) repayable on demand		54,793,576.92		80,043,621.00
b) with fixed maturity or period of call		469,028,784.63		407,330,080.73
2. Amounts owed to customers	4.12.		**2,104,558,000.31**	**1,732,320,547.53**
a) other liabilities				
aa) repayable on demand		196,886,593.50		180,790,768.03
bb) with fixed maturity or period of call		1,907,671,406.81		1,551,529,779.50
3. Securitised liabilities	4.13.		**1,001,140,415.70**	**1,137,195,519.59**
a) bonds issued		775,475,591.03		860,813,702.84
b) other securitised liabilities		225,664,824.67		276,381,816.75
4. Other liabilities	4.14.		**26,029,114.90**	**30,338,104.34**
5. Deferred income	4.15.		**9,865,457.19**	**12,501,886.21**
6. Provisions	4.16.		**28,355,332.23**	**21,696,599.57**
a) provisions for severance pay		2,928,732.22		3,188,175.36
b) provisions for pensions		1,140,097.97		1,042,608.26
a) tax provisions		42,619.59		29,701.47
b) other		24,243,882.45		17,436,114.48
6.A Fund for general banking risks (§ 57 (3) Austrian Banking Act)	4.17.		**40,000,000.00**	**40,000,000.00**
7. Tier 2 capital	4.18.		**67,527,648.04**	**67,525,194.90**
8. Subscribed capital	4.19.		**172,659,452.81**	**172,659,452.81**
9. Capital reserves			**6,831,840.55**	**6,831,840.55**
a) restricted	4.20.	6,831,840.55		6,831,840.55
b) non-restricted	4.20.	0.00		0.00
10. Retained earnings			**92,055,161.94**	**68,277,086.54**
a) statutory reserve	4.21.	8,955,161.94		7,277,086.54
b) other reserves (non-restricted reserves)	4.21.	83,100,000.00		61,000,000.00
11. Liability reserve pursuant to § 57 (5) Austrian Banking Act	4.22.		**15,511,502.36**	**15,511,502.36**
12. Net profit	4.23.		**20,371,087.41**	**10,587,654.82**
Total equity and liabilities			**4,108,727,374.99**	**3,802,819,090.95**
Off-balance sheet items				
1. Contingent liabilities	5.1.		**2,783,454.16**	**3,806,470.70**
of which: liabilities from sureties and guarantees from the assignment of collateral		*2,783,454.16*		*3,806,470.70*
2. Credit risk	5.2.		**469,197,712.62**	**397,737,060.62**
of which: liabilities from repurchase transactions		*0.00*		*0.00*
3. Liabilities from fiduciary transactions	5.3.		**324,551,228.25**	**314,066,367.94**
4. Eligible capital pursuant to Part 2 of Regulation (EU) No. 575/2013	6.1.		**392,773,593.59**	**366,510,843.54**
of which: Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013		*48,728,948.52*		*52,889,901.42*
5. Capital requirements pursuant to Art. 92 of Regulation (EU) No. 575/2013	6.1.		**1,692,204,885.10**	**1,675,668,201.46**
of which: capital requirements pursuant to Art. 92 para. 1 (a) of Regulation (EU) No 575/2013 CET 1 ratio	6.1.	*20.33%*		*18.72%*
of which: capital requirements pursuant to Art. 92 para. 1 (b) of Regulation (EU) No. 575/2013 Tier 1 capital ratio	6.1.	*20.33%*		*18.72%*
of which: capital requirements pursuant to Art. 92 para. 1 (c) of Regulation (EU) No. 575/2013 Total capital ratio	6.1.	*23.21%*		*21.87%*
6. Foreign liabilities			**1,645,419,926.27**	**1,744,703,276.58**

Income statement (under the Austrian Banking Act)

in EUR	Note			1/1 - 31/12/2020	1/1 - 31/12/2019
1. Interest and similar income				70,182,048.48	58,817,259.37
of which from fixed-income securities			*6,214,031.14*		*6,271,489.24*
2. Interest and similar expenses				-12,741,908.25	-13,206,337.02
I. NET INTEREST INCOME	7.1.1.			**57,440,140.23**	**45,610,922.35**
3. Income from securities and investments	7.1.2.			1,519,252.96	2,255,443.57
a) income from investments			54,000.00		0.00
b) income from investments in affiliated companies			1,465,252.96		2,255,443.57
4. Fee and commission income	7.1.3.			22,530,304.89	17,161,654.48
5. Fee and commission expenses	7.1.3.			-2,146,244.20	-1,678,386.90
6. Income/expenses from financial transactions				241,182.45	-6,438.93
7. Other operating income	7.1.5.			2,954,312.73	4,819,219.61
II. OPERATING INCOME				**82,538,949.06**	**68,162,414.18**
8. General administrative expenses	7.1.4.			-47,384,300.61	-44,826,236.82
a) Personnel expenses	7.1.4.1.		-29,820,951.69		-26,913,402.80
aa) salaries		-23,473,807.32			-21,260,872.13
bb) expenses for statutory social charges, salary-dependent charges and compulsory contributions		-4,949,730.47			-3,679,648.51
cc) other social expenses		-486,784.98			-574,727.25
dd) expenses for pension costs		-291,492.25			-277,530.86
ee) allocations to/cancellation of pension provisions		-97,489.71			-91,025.15
ff) expenses for severance pay and contributions to company pension plans		-521,646.96			-1,029,598.90
b) other administrative expenses (other non-personnel administrative expenses)	7.1.4.2.		-17,563,348.92		-17,912,834.02
9. Valuation allowances to assets reported under asset items 9 and 10				-363,919.95	-533,947.50
10. Other operating expenses	7.1.6.			-1,728,333.12	-1,013,210.58
III. OPERATING EXPENSES				**-49,476,553.68**	**-46,373,394.90**
IV. OPERATING RESULT				**33,062,395.38**	**21,789,019.28**
11. Income from the valuation allowance of receivables and allocations to provisions for contingent liabilities and credit risks	7.1.7.			0.00	1,433,086.95
of which change in provision under § 57 (1) Austrian Banking Act			*0.00*		*400,000.00*
12. Expenses from the valuation allowance of receivables and allocations to provisions for contingent liabilities and credit risks	7.1.7.			-2,132,148.19	0.00
of which change in provision under § 57 (1) Austrian Banking Act			*-850,000.00*		
13. Income from the valuation allowance of securities measured as financial assets and of investments and shares in affiliated companies	7.1.7.			1,441,032.69	5,521,207.88
V. PROFIT ON ORDINARY ACTIVITIES				**32,371,279.88**	**28,743,314.11**
14. Taxes on income	7.1.8.			1,229,434.13	1,624,929.76
15. Other taxes not reported under item 15	7.1.8.			-39,206.02	-65,179.49
VI. PROFIT FOR THE YEAR	7.1.9.			**33,561,507.99**	**30,303,064.38**
16. Appropriation to and release of reserves		Appropr. (-)	Release (+)	-23,778,075.40	-19,920,429.07
a) liability reserve pursuant to § 57 (5) Austrian Banking Act		0.00			-3,405,275.85
b) statutory reserve		-1,678,075.40			-1,515,153.22
c) non-statutory reserve		-22,100,000.00			-15,000,000.00
17. Profit carried forward				10,587,654.82	205,019.51
VII. NET PROFIT				**20,371,087.41**	**10,587,654.82**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF KOMMUNALKREDIT AUSTRIA AG FOR THE 2020 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 bridge between project sponsors on the one hand (infrastructure constructors and/or operators) and institutional investors such as insurers or 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 Beteiligungsverwaltung 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 consolidated group of companies, 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.

Kommunalkredit's business model has proven to be crisis-resistant, even in the face of the COVID-19 pandemic. The bank was able to continue on its growth path in 2020 and the COVID-19 pandemic did not have any material negative impact on Kommunalkredit's assets, financial position or income overall. The loan portfolio, comprising infrastructure and energy financing as well as public finance, remains solid. There were no loan defaults, nor was there was any need for write-downs to non-current assets. The impact of the COVID-19 pandemic on loan loss provisions is explained in detail in Note 3.3.

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 reporting 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 reporting date pursuant to § 58 (1) of the Austrian Banking Act. Forward transactions not yet settled are translated at the forward rate on the reporting date.

3.3. Receivables

Receivables purchased from third parties are recognised at amortised cost. All other loans and advances to banks and loans and advances to customers are recognised at their nominal value. For receivables with an intention of syndication, the carrying amount is reduced by the expected syndication expenses.

Specific valuation allowances are set up for identifiable borrower risks. In addition, statistically expected credit losses are taken into account based on a risk provisioning model with statistically calculable empirical values. The valuation allowance 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. The expected loss is determined as the product of the probability of default, the loss given default, and the exposure at default.

In order to assess if the risk of default has increased significantly (level transfer), Kommunalkredit takes quantitative and qualitative factors into account. These include, in particular:

- Absolute amount of the credit risk (“low credit risk” criterion), the expected 12-month credit loss (level 1) being generally recognised for financial assets rated investment grade.
- Relative change in credit risk on the basis of the probability of default
- Changes in 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 reporting 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 factors such as 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 (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.

The individual value adjustments as well as the general value adjustment (Level 1 and 2) are therefore subject to estimation uncertainties, particularly with regard to the amount and timing of the estimated cash flows, the probabilities of estimated cash flows, the probability of default and the loss rate.

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. At 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: Workout – resolution**
  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 (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 by several notches 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 the 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

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.

With effect from 1 January 2020, present value losses resulting from contract modifications that are not classed as material are recognised in profit or loss under the "loan impairment, valuation and sales result" and are amortised over the remaining term of the contract in net interest income in accordance with AFRAC (Austrian Financial Reporting and Auditing Committee) Opinion 14 "Accounting for non-derivative financial instruments" dated November 2019.

Impact of COVID-19 on risk provisions

Risk provisions increased by 16.7% or TEUR 912.7 to TEUR 6,368.2 in the period from 1 January to 31 December 2020.

COVID-19 prompted an evaluation of, and update to, the IFRS 9 probabilities of default (PDs) in the first and second half of 2020, which served as the basis for calculating ECLs[1] (expected credit losses). The model evaluation did not reveal any need to change the methodology used, and the definition of the macroeconomic scenarios, including their weightings, also remained unchanged.

One of the key drivers of the IFRS 9 PDs is changes in macroeconomic input parameters. The weaker macroeconomic environment in 2020 caused by COVID-19 (in particular the GDP decline and the increase in the unemployment rate) resulted in a rise in IFRS 9 PDs in the first half of 2020 and therefore in an increase in the ECL.

Taking into account the forecast economic recovery in 2021, a reduction was made to the IFRS 9 PDs in the second half of 2020 to roughly the level at the end of 2019. Despite the adjustment, the IFRS 9 PDs are still far above the long-term through-the-cycle PDs and are therefore deemed to be sufficiently conservative.

Since March 2020, Kommunalkredit has been continuously reviewing all infrastructure and energy transactions in terms of the possible impact of the COVID-19 crisis on borrowers, whether it be in the form of potential interruptions in the supply chain, delayed completion, low demand, a decline in market prices (e.g. electricity), or changes in user behaviour for projects with traffic or demand risks, etc.

Based on availability models and structural risk mitigation factors, the bank portfolio has proven to be relatively resistant to the impact of the COVID-19 pandemic. There were only isolated rating downgrades in the infrastructure portfolio, in particular in relation to financing involving market or traffic risks that have a negative impact on the ECL. A transfer was made in the second half of 2020 from level 1 (one-year ECL) to level 2 (lifetime ECL) for an exposure in the infrastructure portfolio. This meant there were three exposures at level 2 with a total exposure value of EUR 51.9m. All loans in the infrastructure portfolio were serviced in accordance with contract terms without the need for deferrals.

Isolated deferrals (credit volume of EUR 29.5m, deferred interest payments and repayments of EUR 1.5m) were granted in the Austrian municipality and municipal-related portfolios due to temporary liquidity shortages. There were no long-term financial difficulties/deteriorations in credit ratings as of 31 December 2020.

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. Securities that are neither classified as non-current assets nor assigned to the trading portfolio are classified as current assets. For the time being, Kommunalkredit has no securities classified as current assets or in the trading book.

Securities are recognised at cost, based on the less stringent variant of the lower-of-cost-or-market principle for non-current assets and the stricter variant of the lower-of-cost-or-market principle for current assets. Securities in the trading portfolio are recognised at their market value on the reporting 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.

1 ECL = Expected credit loss, risk provisions for expected credit losses.

The temporary differences pursuant to § 56 (2) and § 56 (3) of the Austrian Banking Act are as follows:

DIFFERENCES PURSUANT TO § 56 (2) + § 56 (3) AUSTRIAN BANKING ACT in EUR	31/12/2020	31/12/2019
Difference pursuant to § 56 (2) Austrian Banking Act (Difference between the higher acquisition cost and the amount repayable for the securities)	9,825,054.20	10,927,569.80
Difference pursuant to § 56 (3) Austrian Banking Act (Difference between the lower acquisition cost and the amount repayable for the securities)	1,174,472.51	1,090,462.51

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	31/12/2020	31/12/2019
Carrying amount	690,410,394.19	589,457,734.66
Fair value	757,478,085.88	636,669,734.62
Hidden reserves	**67,067,691.69**	**47,211,999.96**

CALCULATION OF HIDDEN LIABILITIES in EUR	31/12/2020	31/12/2019
Carrying amount	21,569,438.52	32,806,165.29
Fair value	20,865,666.66	32,203,261.38
Hidden liabilities	**-703,771.86**	**-602,903.91**

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, a write-down pursuant to § 204 (1) (2) of the Austrian Commercial Code (UGB) was not required, as the impairment is assumed not to be permanent.

No securities were classed as current assets as of 31 December 2020. The hidden reserves in the previous year were as follows:

CALCULATION OF HIDDEN RESERVES in EUR	31/12/2020	31/12/2019
Carrying amount	0.00	17,109,088.29
Fair value	0.00	17,997,061.02
Hidden reserves	**0.00**	**887,972.73**

Fair value measurement

In general, the methods used to measure the fair value of securities can be classified into 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 includes, in particular, prices based mainly on the estimates of experts and/or that contain non-observable data.

Broken down by the above categories, the temporary differences between the fair values and the carrying amounts of securities are as follows:

31/12/2020 in EUR	Level 1	Level 2	Level 3
Fair value	426,658,619.67	309,463,433.86	71,834,140.26
Book value	400,433,120.19	270,394,016.25	70,765,137.52
Temporary difference	**26,225,499.48**	**39,069,417.61**	**1,069,002.74**

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**

As in the previous year, no securities were reclassified in the reporting period.

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 or by comparing the carrying amount of the investment against the investment equity.

3.6. Intangible assets

Intangible assets exclusively comprise purchased software. Amortisation is based on an assumed useful life of three or five 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 either five 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 800.00 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 2020: EUR 28,456,242.81 [31/12/2019: EUR 61,108,578.98]).

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. The interest expenses from the TLTRO (Targeted Longer-Term Refinancing Operations) programme are based on the defined base interest rate; possible bonus components are taken into account at the time of realisation.

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 6.6, are reported on a net basis.

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 2018-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 0.5% (2019: 1.00%) for pension obligations, of 0.25% (2019: 0.5%) for obligations from severance pay, and 0.0% (2019: 0.25%) for obligations from jubilee bonuses;
- an unchanged rate of increase in the relevant basis for calculation during the vesting period of 3.5%;
- 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 not covered by the pension fund for eight employees, 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 1,603,641.43 (31/12/2019: EUR 1,509,911.50), of which entitlements in the amount of EUR 463,543.46 (31/12/2019: EUR 467,303.24) have been outsourced to the pension fund. The resulting provision requirement amounts to EUR 1,140,097.97 (31/12/2019: EUR 1,042,608.26). Provisions for entitlements to severance pay amount to EUR 2,928,732.21 (31/12/2019: EUR 3,188,175.36); provisions for jubilee bonuses amount to EUR 115,549.95 (31/12/2019: EUR 111,406.95).

All actuarial gains and losses are recognised directly in profit or loss. Changes in provisions for severance pay in 2020 include actuarial gains of EUR 241,174.71 (2019: losses of EUR 151,519.91). The change in pension provisions includes actuarial losses of EUR 19,177.43 (2019: losses of EUR 58,666.12). The change in plan assets includes valuation-related losses of EUR 8,000.09 (2019: valuation-related gains of EUR 52,688.63).

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 2020, the fund for general banking risks amounted to EUR 40,000,000.00, unchanged from the previous year. Changes in the 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 hedges**
  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 20)" 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 serve to allow 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. 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 the hedge will be fully or largely effective. 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). If the hedged fair value of the structure (underlying and hedging transactions) fluctuates within a range of 80% to 125%, this is an indicator that the hedge is largely effective. However, this is allowed only if there is no doubt as to the creditworthiness of the hedge provider 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) have actually fluctuated between two specified dates and whether the hedge has been fully or largely effective. Hedging transactions at Kommunalkredit are concluded for the term of the underlying transaction.

- **Macro hedges**
  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 mitigated for assets and liabilities in keeping with the risk appetite and the risk-bearing capacity of the bank as a whole, 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 for each 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 and payments made to compensate for contracts not in accordance with prevailing market terms are accrued at matching maturities. Net interest income from derivatives in hedges is shown as the net value under the item in which the net interest income for the corresponding underlying transactions is reported (deal balance). Net interest income from other derivatives is reported in gross terms under swap income/swap expenses.

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 multiple currencies (e.g. cross-currency swaps), a cross-currency basis is used in accordance with prevailing market standards, in addition to the adaptation of forwards by basis swap spreads. Cash flows from derivatives (settled over-the-counter (OTC) or via a central counterparty) are discounted using OIS curves (overnight index swaps at the overnight rate in line with the collateral rate, in EUR depending on the current collateral agreement – EONIA or ESTR). To determine the fair value of derivatives, counterparty default 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 using the potential exposure method.

The change in the collateral rate with bilateral partners as part of the IBOR project involves using a compensation payment to compensate for the resulting present value effect. This is booked immediately in profit and loss (see also table in Note 7.1.7); a provision for impending losses has been set up for reasons of prudence for expected negative compensation payments.

Swap transactions in 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 reporting 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 STATEMENT OF FINANCIAL POSITION

4.1. Public-sector debt instruments eligible as collateral for central bank funding

Securities of public bodies eligible as collateral for funding from the European Central Bank (ECB) are shown under this item. Their carrying amount as of 31 December 2020 amounted to EUR 156,650,052.44 (31/12/2019: EUR 160,039,035.51).

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 2021 (2020: 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	31/12/2020	31/12/2019
Collateral for negative market values from derivative transactions	92,150,000.00	83,240,000.00
Collateral for loan disbursement obligations	5,631,581.98	10,493,791.34
Credit balances with banks	53,241,469.29	12,677,118.36
Expected credit loss (ECL)	-1,374.15	-4,057.83
Other	5,727,114.40	6,997,541.87
Total	**156,748,791.52**	**113,404,393.74**

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 BY RESIDUAL MATURITY in EUR	31/12/2020	31/12/2019
Loans and advances repayable on demand	151,118,583.69	102,961,930.53
Other loans and advances		
a) up to 3 months	*0.00*	*0.00*
b) more than 3 months up to 1 year	*5,631,581,98*	*0.00*
c) more than 1 year up to 5 years	*0.00*	*10,446,521.04*
d) more than 5 years	*0.00*	*0.00*
	5,631,581.98	10,446,521.04
	156,750,165.67	113,408,451.57
Expected credit loss (ECL)	-1,374.15	-4,057.83
Total	**156,748,791.52**	**113,404,393.74**

4.3. Loans and advances to customers

Loans and advances to customers include the following:

LOANS AND ADVANCES TO CUSTOMERS in EUR	31/12/2020	31/12/2019
Loans	2,193,369,173.59	2,242,599,547.65
Non-listed securities	269,426,647.26	236,296,677.04
Collateral for negative market values from derivative transactions provision pursuant to § 57 (1)	111,112,791.90	106,003,537.69
Austrian Banking Act	-3,310,000.00	-2,460,000.00
Expected credit loss (ECL)	-5,900,622.89	-4,449,281.18
Total	**2,564,697,989.86**	**2,577,990,481.20**
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	*26,536,262.73*	*30,269,050.25*

On the reporting date, all securities with a nominal value of EUR 257,667,263.00 were classified as non-current assets (31/12/2019: EUR 207,116,008.68 classified as non-current assets and EUR 26,509,088.29 as current assets).

Details on the calculation of the ECL are contained in Note 3.3. Loans and advances to customers include subordinated claims with a carrying amount of EUR 133,888,971.0 (31/12/2019: EUR 82,994,374.48).

Broken down by maturity (residual maturity), loans and advances to customers are as follows:

LOANS AND ADVANCES TO CUSTOMERS BY RESIDUAL MATURITY in EUR	31/12/2020	31/12/2019
Loans and advances repayable on demand	111,590,183.64	107,002,647.95
Other loans and advances		
a) up to 3 months	*63,071,204.94*	*109,558,127.17*
b) more than 3 months up to 1 year	*223,886,291.38*	*195,864,350.92*
c) more than 1 year up to 5 years	*1,252,620,899.87*	*1,231,111,034.85*
d) more than 5 years	*922,740,032.92*	*941,363,601.49*
	2,462,318,429.11	2,477,897,114.43
Provision pursuant to § 57 (1) Austrian Banking Act and expected credit loss (ECL)	-9,210,622.89	-6,909,281.18
Total	**2,564,697,989.86**	**2,577,990,481.20**

4.4. Bonds and other fixed-income securities

BONDS in EUR	31/12/2020	31/12/2019
Securities of public issuers	83,847,295.66	85,431,973.72
Expected credit loss (ECL)	-4,485.70	-3,480.00
Total public issuers	83,842,809.96	85,428,493.72
Securities of other issuers	237,055,510.39	237,616,845.44
of which own issues	*0.00*	*0.00*
Expected credit loss (ECL)	-90,368.89	-103,950.39
Total other issuers	236,965,141.50	237,512,895.05
Total	**320,807,951.46**	**322,941,388.77**

All instruments reported under bonds and other fixed-income securities are exchange-listed. In 2021, bonds issued by other issuers with carrying amounts (incl. interest accruals/deferrals) of EUR 9,003,058.02 will fall due (2020: none).

Own bonds amounting to EUR 107,000,000.00 (31/12/2019: 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 6.6, 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 reporting date and none of the bonds or other fixed-income securities held in the portfolio are subordinated instruments.

4.5. Shares and other non-fixed-income securities

The liquidity invested in a liquid fund reported under this item in the previous year was sold in full in the financial year under review (31/12/2019: EUR 50,024,000.00). Disposal proceeds of EUR 51,500.00 were generated in the process. These are reported in item 12 of the income statement (Note 7.1.7.).

4.6. Investments and shares in affiliated companies

As of 31 December 2020, the carrying amount of participations amounted to EUR 25,065,025.00 (31/12/2019: EUR 23,964,095.00). Shares in affiliated companies amounted to EUR 32,501,518.81 (31/12/2019: EUR 32,671,146.24).

The composition of investments and shares in affiliated companies (all of them non-listed), including their financial position, is shown in Annex 1. The interest in TrendMind IT Dienstleistung GmbH was sold in the 2020 financial year.

4.7. Intangible non-current assets and property, plant and equipment

Changes in intangible assets and property, plant and equipment are shown in the Schedule of Non-current Asset Transactions (Annex 2).

4.8. Other assets

OTHER ASSETS in EUR	31/12/2020	31/12/2019
Interest accruals/deferrals from derivatives in the banking book	15,670,368.98	20,414,497.81
Foreign currency valuation of derivatives in the banking book	1,222,294.69	11,521,448.60
Receivables from deferred interest	1,572,350.12	1,785,410.75
Claims against the tax authorities	1,352,525.59	3,900,389.52
Other	4,423,052.41	2,992,933.49
Total	**24,240,591.79**	**40,614,680.17**
of which recognised as cash items after the closing date	*23,008,651.09*	*29,085,016.82*

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 reporting date. This valuation is booked against foreign currency valuations of assets and liabilities as well as positive/negative foreign currency valuations of derivatives shown under other assets/liabilities. 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	31/12/2020	31/12/2019
Deferred fees from derivative transactions	4,133,732.56	4,347,678.86
Capitalised offering discounts of bond issues	371,660.48	765,646.77
Other	606,155.91	772,124.68
Total	**5,111,548.95**	**5,885,450.31**

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 2020, this asset item amounted to EUR 11,196,050.69 (31/12/2019: EUR 9,834,794.20). For Kommunalkredit, temporary differences between corporate law and trade 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, was written up over a period of five years. The final fifth, totalling EUR 885,993.60, was written up in the 2020 financial year.

4.11. Amounts owed to banks

Amounts owed to banks include the following:

AMOUNTS OWED TO BANKS in EUR	31/12/2020	31/12/2019
TLTRO III programme (Targeted Longer Term Refinancing Operation) of the ECB (2019: TLTRO II)	373,621,445.83	309,888,970.56
Cash received as collateral for positive market values of derivatives	51,668,000.00	79,880,000.00
Collateralised loans of the European Investment Bank	55,599,783.29	57,299,315.90
Other loans	13,299,064.57	15,176,008.57
Money market trade	26,493,320.83	24,965,785.70
Other (pending monetary transactions)	3,125,576.92	163,621.00
Total	**523,822,361.55**	**487,373,701.73**

Broken down by maturity (residual maturity), amounts owed to banks are as follows:

AMOUNTS OWED TO BANKS BY RESIDUAL MATURITY in EUR	31/12/2020	31/12/2019
Liabilities repayable on demand	54,793,576.92	80,043,621.00
Other liabilities		
a) up to 3 months	*851,628.00*	*26,590,294.00*
b) more than 3 months up to 1 year	*84,256,901.00*	*315,916,183.00*
c) more than 1 year up to 5 years	*380,876,779.34*	*61,345,344.83*
d) more than 5 years	*3,043,476.29*	*3,478,258.90*
	469,028,784.63	407,330,080.73
Total	**523,822,361.55**	**487,373,701.73**

4.12. Amounts owed to customers

Amounts owed to customers include the following:

AMOUNTS OWED TO CUSTOMERS in EUR	31/12/2020	31/12/2019
Deposits by corporates, municipalities and quasi-municipal entreprises	922,079,523.98	812,925,270.57
Deposits by retail customers – KOMMUNALKREDIT INVEST	851,782,129.15	585,276,011.77
Cash received as collateral for positive market values of derivatives	57,454,816.78	58,852,751.60
Cash received as collateral for positive market values of derivatives	273,241,530.40	275,266,513.59
Total	**2,104,558,000.31**	**1,732,320,547.53**

Broken down by maturity (residual maturity), amounts owed to customers are as follows:

AMOUNTS OWED TO CUSTOMERS BY RESIDUAL MATURITY in EUR	31/12/2020	31/12/2019
Liabilities repayable on demand	196,886,593.50	180,790,768.03
Other liabilities		
a) up to 3 months	*339,378,695.99*	*240,002,023.13*
b) more than 3 months up to 1 year	*675,564,661.22*	*542,923,264.27*
c) more than 1 year up to 5 years	*560,906,265.03*	*458,041,663.56*
d) more than 5 years	*331,821,784.57*	*310,562,828.54*
	1,907,671,406.81	1,551,529,779.50
Total	**2,104,558,000.31**	**1,732,320,547.53**

4.13. Securitised liabilities

Securitised liabilities are broken down as follows:

SECURITISED LIABILITIES in EUR	31/12/2020	31/12/2019
Bonds issued	775,475,591.03	860,813,702.84
Other securitised liabilities	225,664,824.67	276,381,816.75
Total	**1,001,140,415.70**	**1,137,195,519.59**

The bonds issued are exchange-listed; the securities reported under other securitised liabilities are non-listed.

Bonds issued with carrying amounts of EUR 305,000,000.00 (2020: EUR 138,962,041.65) and other securitised liabilities in the amount of EUR 37,510,475.14 (2020: EUR 30,100,377.23) will fall due in 2021. As in the previous year, securitised liabilities do not include any subordinated liabilities.

4.14. Other liabilities

OTHER LIABILITIES in EUR	31/12/2020	31/12/2019
Interest accruals/deferrals from derivatives	13,820,965.04	15,141,334.83
Foreign currency valuation of derivatives in the banking book	9,240,997.81	7,980,299.12
Accruals/deferrals between the spot rate and forward rate of FX swaps	1,183,496.60	1,606,081.80
Other	1,783,655.45	5,610,388.59
Total	**26,029,114.90**	**30,338,104.34**
of which recognised as cash items after the closing date	*15,604,620.49*	*20,751,723.42*

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 reporting date. This valuation is booked against foreign currency valuations of assets and liabilities as well as positive/negative foreign currency valuations of derivatives shown under other assets/liabilities. 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	31/12/2020	31/12/2019
Deferred fees from derivative transactions	8,109,983.28	10,452,977.05
Issuing premiums of issued bonds	1,065,380.44	1,206,440.23
Loan fees deferred over the term	690,093.47	842,468.93
Total	**9,865,457.19**	**12,501,886.21**

4.16. Provisions

For details on personnel provisions, see Note 3.11 Provisions.

Other provisions mainly include provisions for personnel-related expenses in the amount of EUR 13,726,028.93 (31/12/2019: EUR 11,227,138.30) and provisions for auditing, and legal and consulting expenses in the amount of EUR 1,179,000.98 (31/12/2019: EUR 926,566.17). In connection with derivatives, provisions in the amount of EUR 4,746,090.33 (31/12/2019: EUR 19,258.59) 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 appropriated provisions to the fund for general banking risks; it amounts to an unchanged EUR 40,000,000.00 as of 31 December 2020.

4.18. Additional tier 1 capital under Part 2 Title I Chapter 4 of Regulation (EU) No. 575/2013

As of 31 December 2020, tier 2 capital items comprised eight (31/12/2019: eight) EUR-denominated issues in a total nominal amount of EUR 65,000,000.00 (31/12/2019: EUR 65,000,000.00) with residual maturities of up to 26 years. One issue with a nominal value of EUR 5,000,000.00 (2020: no issues) will mature in 2021.

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 31/12/2020 in %	Maturity	Currancy	Nominale in EUR	Right to call	Conversion to capital
Nachrangige Verbindlichkeiten gemäß § 23 Abs. 8 BWG a. F.			**EUR**		**Issuer in case of tax event**	**No**
Subordinated bond 2006–2021	5.4	30/10/2021	EUR	5,000,000.00	No	No
Subordinated bonded loan 2007–2022	4.67	23/02/2022	EUR	10,000,000.00	No	No
Subordinated bonded loan 2007–2022	4.67	23/02/2022	EUR	10,000,000.00	Issuer	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 2020 amounted to EUR 3,226,578.14 (2019: EUR 3,221,991.28).

4.19. Subscribed capital

The share capital as of 31 December 2020 was unchanged as against the previous year at EUR 172,659,452.81.

Gesona Beteiligungsverwaltung GmbH holds 33,498,895 no-par-value shares, i.e. 99.80% of the shares; 68,216 no-par-value shares, i.e. 0.20% 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

The capital reserves are unchanged as against the previous year at EUR 6,831,840.55.

4.21. Retained earnings

a) Statutory reserves:
The statutory reserves as of 31 December 2020 amounted to EUR 8,955,161.94 (31/12/2019: EUR 7,277,086.54).

b) Free reserves
Of the net income for the 2020 financial year of EUR 33,561,507.99 (2019: EUR 30,303,064.38), EUR 22,100,000.00 (2019: EUR 15,000,000.00) was allocated to the free revenue reserve; this reserve now has a volume of EUR 83,100,000.00 (as of 31/12/2019: EUR 61,000,000.00).

4.22. Liability reserve pursuant to § 57 (5) of the Austrian Banking Act

As of the reporting date, the liability reserve was unchanged as against the previous year at EUR 15,511,502.36, thus meeting the legal requirements.

4.23. Net profit/profit distribution

The profit for the year reported by Kommunalkredit for 2020 amounts to EUR 33,561,507.99. Taking into account the appropriation to reserves in the amount of EUR 23,778,075.40 and the profit carried forward from the previous year of EUR 10,587,654.82, the net profit comes to EUR 20,371,087.41. The Executive Board will propose to the Annual General Meeting to be held on 23 March 2021 that an amount of EUR 3,384,400.00 be distributed from the net profit and that the remaining EUR 16,986,687.41 be carried forward to new account.

5. OFF-BALANCE-SHEET ITEMS

5.1. Contingent liabilities

The off-balance sheet item of contingent liabilities in the amount of EUR 2,783,454.16 (31/12/2019: EUR 3,806,470.70) exclusively concerns guarantee lines granted, including a guarantee of EUR 1,350,000.00 (31/12/2019: EUR 1,350,000.00) for companies in which an equity investment is held.

5.2. Credit risk

Credit risks in the amount of EUR 469,197,712.62 (31/12/2019: EUR 397,737,060.62) relate, as in the previous year, in their entirety to loan commitments and unused lines from the current lending business. As of the reporting date, unused credit lines of EUR 1,265,766.07 were granted to companies in which an equity investment is held (31/12/2019: EUR 1,267,153.63).

5.3. Fiduciary transactions

Kommunalkredit assumes the fiduciary administration of loans under a framework agreement for a party related to Trinity. As of 31 December 2020, positions of EUR 324,551,228.25 (31/12/2019: EUR 314,066,367.94) are held in trust on the basis of a trust agreement; as Kommunalkredit has no rights or obligations relating to the underlying lending business, the criteria for recognition in the statement of financial position do not apply.

6. SUPPLEMENTARY DISCLOSURES

6.1. Equity capital and capital requirements

Equity capital and capital 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 changes:

ASSESSMENT BASE in EUR	31/12/2020	31/12/2019
Total risk exposure amount pursuant to Art. 92 CRR	1,692,204,885.10	1,675,668,201.46
of which credit risk	*1,547,049,304.58*	*1,545,515,561.26*
of which operational risk	*131,538,803.08*	*115,580,344.92*
of which CVA charge	*12,444,204.38*	*14,445,608.63*
of which default fund of a qualifying counterparty	*1,172,573.06*	*126,686.66*

TOTAL CAPITAL – ACTUAL in EUR	31/12/2020	31/12/2019
Common equity tier 1 after deductible items (CET 1)	344,044,645.07	313,620,942.12
Tier 2 capital after deductible items	48,728,948.52	52,889,901.42
Total capital (tier 1 and tier 2)	**392,773,593.59**	**366,510,843.54**
Total capital ratio	23.2%	21.9%
CET 1 ratio	20.3%	18.7%

The total capital reported includes the 2020 net profit of EUR 33,561,507.99 (2019: EUR 30,303,064.38), reduced by the planned dividend of EUR 3,384,400.00 (2019: retained in its entirety, thus increasing the company's total capital).

6.2. Total of assets and liabilities denominated in foreign currencies

Assets denominated in foreign currencies in the amount of EUR 350,832,536.32 (31/12/2019: EUR 241,257,954.39) were included in the statement of financial position. Liabilities denominated in foreign currencies amounted to EUR 524,879,177.86 (31/12/2019: EUR 649,847,665.14) as of 31 December 2020. Open currency positions are closed by means of 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 reporting date

To hedge currency and interest rate risks, the following derivative transactions have been made in the banking book (fair values including interest accruals/deferrals) and had not yet been settled on the reporting date:

31/12/2020 in EUR	Nominale	Beizulegender Zeitwert positiv	Beizulegender Zeitwert negativ
Interest rate swaps	2,767,409,395.54	134,690,238.87	-208,525,548.64
of which for macro hedges	*652,335,836.35*	*977,012.11*	*-111,730,041.54*
of which for micro hedges	*2,115,073,559.19*	*133,713,226.76*	*-96,795,507.10*
FX forward transactions	773,382,684.15	1,233,730.30	-10,458,099.52
Options	3,976,073.72	0.00	-3,976,073.72
Total	**3,544,768,153.41**	**135,923,969.17**	**-222,959,721.88**

31/12/2019 in EUR	Nominale	Beizulegender Zeitwert positiv	Beizulegender Zeitwert negativ
Interest rate swaps	2,824,102,396.95	173,701,458.30	-209,994,660.50
of which for macro hedges	*603,144,395.03*	*1,688,277.22*	*-116,051,408.48*
of which for micro hedges	*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**

Interest accruals/deferrals, foreign currency valuations and accrued/deferred fees from derivative transactions in the amount of EUR 22,258,336.93 (31/12/2019: EUR 36,291,840.02) are reported under other assets and prepaid expenses on the assets side, and EUR 32,355,442.73 (31/12/2019: EUR 35,180,692.80) under other liabilities and deferred income on the liabilities side of the statement of financial position. Moreover, provisions in the amount of EUR 4,746,090.33 (31/12/2019: EUR 19,258.59) 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 2020.

6.4. Trading book

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 2020.

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. A former holder of participation capital claims that this constitutes the unlawful termination of participation capital and is asserting a claim against Kommunalkredit and KA Finanz, as jointly and severally liable parties, in a legal dispute pending in the first instance or, to have commercially equivalent rights granted with effect from 26 September 2015, or to have the continuation of the participation capital established in a ruling. 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, which is wholly owned by the Republic of Austria, 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.

In December 2020, legal action was taken against Kommunalkredit for payment of a recourse claim that could arise in the event of the plaintiff losing proceedings in the future. The plaintiff is itself a defendant (since 2010) in proceedings that have not yet been completed in connection with the cancellation of a transaction by the buyer in relation to participation capital issued by the former Kommunalkredit (former KA) in 2006/2007. The plaintiff is (only) moving for a ruling resulting in the payment of the amount being claimed as an alternative, as the primary aim of the proceedings is to achieve the suspension of the decision until a final decision has been made in the proceedings with the buyer. 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, which is wholly owned by the Republic of Austria, 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.

A borrower is asserting a claim against Kommunalkredit for the repayment of excessive margins paid in connection with negative interest rates. The outcome of these proceedings is not expected to have any major negative impact on Kommunalkredit's financial position or income.

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 originating 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 originating 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 1,516,800.00 arise from rental contracts – including relating to the branch in Germany – in 2021 (of which towards affiliated companies: EUR 1,361,800.00). The corresponding obligations for the years 2021 to 2025 are expected to total EUR 7,811,500.00 (of which towards affiliated companies: EUR 7,013,300.00).

Pursuant to § 2 (3) of the Austrian Deposit Guarantee and Depositor Indemnification Act, Kommunalkredit is obliged to provide proportional contributions to the deposit guarantee regime of Einlagensicherung der Banken und Bankiers Gesellschaft mbH, Vienna.

6.7. Asset items pledged as collateral

The following asset items have been pledged as collateral for liabilities reported under amounts owed to banks:

- For refinancing funds raised through participation in the ECB tender, Kommunalkredit had pledged securities and loans with a volume of EUR 471,493,516.58 (31/12/2019: EUR 362,552,586.21) as collateral as of 31 December 2020. The collateral recipient has the right to utilise 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 62,500,000.00 (31/12/2019: EUR 69,500,000.00) as collateral for global loans and other funding from the European Investment Bank in Luxembourg. The collateral recipient has the right to utilise the collateral only in the event of the debtor's default.

Moreover, as of 31 December 2020, an amount of EUR 13,308,895.76 (31/12/2019: EUR 15,190,712.13) was furnished as collateral for amounts owed to customers.

For covered bonds issued by Kommunalkredit with a nominal value of EUR 792,992,038.51 (31/12/2019: EUR 894,071,310.13) as of 31 December 2020, which are reported under securitised liabilities, and for the covered bond referred to below, issued as collateral for KA Finanz AG, with a nominal value of EUR 107,000,000.00 (31/12/2019: EUR 107,000,000.00), loans with a nominal value of EUR 835,396,382.85 (31/12/2019: EUR 930,987,702.76) and securities with a nominal value of EUR 176,773,778.88 (31/12/2019: EUR 200,407,147.68) were appropriated to a cover pool which can only be drawn on with the approval of a government commissioner.

As collateral for the liability rising from the demerger of KA Finanz AG, which is liable jointly and severally with Kommunalkredit for the obligations originating 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 under liabilities after netting.

Credit balances with banks with a nominal value of EUR 92,150,000.00 (31/12/2019: EUR 83,240,000.00) and credit balances with customers (central counterparties and/or non-bank financial institutions) with a nominal value of EUR 111,138,257.54 (31/12/2019: EUR 106,030,966.74) were pledged as collateral for negative market values from bilateral and cleared derivative contracts. Amounts owed to banks include collateral received with a nominal value of EUR 51,668,000.00 (31/12/2019: EUR 79,880,000.00). Amounts owed to customers include collateral received with a nominal value of EUR 57,457,287.83 (31/12/2019: EUR 58,852,751.60).

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 18,320.54 in the 2020 financial year (2019: profit of EUR 131,229.23). Alongside operating income of EUR 3,228,682.69 (2019: EUR 2,670,701.06), operating expenses of EUR -3,210,362.15 (2019: EUR -2,539,471.83) were incurred. Taxes on income came to EUR -91,308.65 (2019: EUR -73,786.35).

As of 31 December 2020, the employee count was 11 (31/12/2019; 10 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	2020	2019
Lending business	100,931,019.71	89,941,551.28
Investments in banks	-2,823,923.39	-1,407,883.01
Fixed-income securities	6,214,031.14	6,271,489.24
Result from swaps in hedges	-34,139,078.98	-35,996,387.42
Result from other swaps	0.00	8,489.28
Total interest income	**70,182,048.48**	**58,817,259.37**

INTEREST AND SIMILAR EXPENSES in EUR	2020	2019
Deposit business	-14,262,848.67	-15,611,377.74
Own issues	-30,312,193.11	-40,435,266.09
Result from swaps in hedges	31,833,133.53	43,544,333.76
Result from other swaps	0.00	-704,026.95
Total interest expenses	**-12,741,908.25**	**-13,206,337.02**
Net interest income	**57,440,140.23**	**45,610,922.35**

The 2020 net interest income came to EUR 57,440,140.23 (2019: EUR 45,610,922.35), reflecting a significant year-on-year increase of EUR 15,024,616.44 in income from the infrastructure project and energy financing business to EUR 46,011,765.88 (2019: EUR 30,987,149.44). Net interest income was diminished by the costs of liquidity; in 2020, negative interest in the amount of EUR 2,511,905.32 (2019: EUR 1,537,098.18) 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 income from derivatives in hedge relationships has been shown as a net value since the financial year 2020 in those items where the net interest income for the corresponding underlying transactions is reported (deal balance). The previous year's figures have been restated accordingly in the interests of comparability.

7.1.2. Income from securities and investments

Income from shares in affiliated companies amounted to EUR 1,465,252.96 (2019: EUR 2,255,443.57), including the profit share of EUR 700,784.37 (2019: EUR 1,536,416.77) paid out by Kommunalkredit KBI Immobilien GmbH & Co KG (KBI), and the dividends of EUR 462,474.00 (2019: 502,974.00) paid out by Kommunalkredit Public Consulting (KPC) and of EUR 301,994.59 (2019: EUR 216,052.80) paid out by Trendmind IT Dienstleistung GmbH. Income from investments includes the distribution made by Kommunalnet E-Government Solutions GmbH in the amount of EUR 54,000.00 (2019: EUR 0.00).

7.1.3. Net fee and commission income

FEE AND COMMISSION INCOME in EUR	2020	2019
Lending business	17,147,555.28	15,799,886.03
Securities business	111,228.00	275,000.00
Other service business	5,271,521.61	1,086,768.45
Total fee and commission income	**22,530,304.89**	**17,161,654.48**

FEE AND COMMISSION EXPENSES in EUR	2020	2019
Lending business	-1,256,397.44	-859,443.25
Securities business	-556,545.25	-555,390.15
Money and FX trading	-273,291.51	-263,503.50
Other service business	-60,010.00	-50.00
Total fee and commission expenses	**-2,146,244.20**	**-1,678,386.90**
Net fee and commission income	**20,384,060.69**	**15,483,267.58**

Fee and commission income increased to EUR 22,530,304.89 (2019: EUR 17,161,654.48) as a result of fee income in conjunction with new business activities, but especially also as a result of the continued expansion of the consulting and services business.

Fee and commission expenses of EUR 2,146,244.20 (2019: EUR 1,678,386.90) resulted mainly from guarantee fees paid as well as transaction and payment transfer fees.

7.1.4. General administrative expenses

General administrative expenses rose by 5.7% in 2020 and include the following:

GENERAL ADMINISTRATIVE EXPENSES in EUR	2020	2019
Personnel expenses	-29,820,951.69	-26,913,402.80
Other administrative expenses	-17,563,348.92	-17,912,834.02
General administrative expenses	**-47,384,300.61**	**-44,826,236.82**

7.1.4.1. Personnel expenses

PERSONNEL EXPENSES in EUR	2020	2019
Salaries	-23,473,807.32	-21,260,872.13
Expenses for statutory social security contributions and salary-dependent charges and compulsory contributions	-4,949,730.47	-3,679,648.51
Voluntary social contributions	-486,784.98	-574,727.25
Expenses for pension costs	-291,492.25	-277,530.86
Cancellation of/allocations to pension provisions	-97,489.71	-91,025.15
Expenses for severance pay (including changes in provisions for severance pay) and contributions to company pension funds	-521,646,96	-1,029,598.90
Total personnel expenses	**-29,820,951.69**	**-26,913,402.80**

Personnel expenses increased by EUR 2,907,548.89 year on year, largely due to the selected increase in personnel capacities. Personnel expenses include expenses for contributions to company pension plans in the amount of EUR 252,299.58 (2019: EUR 218,425.00), expenses for severance pay of EUR 528,576.61 (2019: EUR 1,010,073.77) and expenses resulting from the change in the provision for jubilee bonuses in the amount of EUR 4,143.00 (2019: income of EUR 29,740.97).

7.1.4.2. Other administrative expenses

Other administrative expenses fell by EUR 349,485.10 year on year to EUR 17,563,348.92 (2019: EUR 17,912,834.02). They comprise the following:

Pursuant to § 238 (1) (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.

OTHER ADMINISTRATIVE EXPENSES in EUR	2020	2019
Third-party services	-3,527,652.68	-3,992,837.91
Data processing	-2,882,809.98	-2,481,529.06
Consulting and auditing fees	-2,831,919.79	-2,697,429.30
Occupancy costs	-2,210,280.65	-2,182,712.18
Bank Resolution Fund	-1,764,845.16	-1,614,829.40
Advertising and entertainment	-1,578,060.90	-1,655,461.47
Other non-personnel administrative expenses	-1,155,942.80	-1,251,509.08
Other non-personnel administrative expenses	-1,611,836.96	-2,036,525.62
Total of other administrative expenses	**-17,563,348.92**	**-17,912,834.02**

7.1.5. Other operating income

OTHER OPERATING INCOME in EUR	2020	2019
Income from services charged to KPC (previous year: to KF and KPC)	2,714,292.27	3,745,255.13
Other	240,020.46	1,073,964.48
Total other operating income	**2,954,312.73**	**4,819,219.61**

An amount of EUR 2,714,292.27 was charged for the services under the service level agreements with KPC in 2020 (2019: EUR 3,745,255.13 for services under the agreements with KA Finanz AG (until 31 March) and KPC. The drop in other operating income as against the previous year is due primarily to the termination of the service level agreement with KA Finanz AG with effect from 31 March 2019 and the resulting loss in service income.

7.1.6. Other operating expenses

Other operating expenses of EUR 1,728,333.12 (2019: EUR 1,013,210.58) mainly comprise the stability tax payable by Austrian banks and contributions to the Austrian deposit guarantee regime. The increase is mainly due to higher 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 to 13 of the income statement) comprises the following items:

LOAN IMPAIRMENT, VALUATION AND SALES RESULT in EUR	2020	2019
a) Income	**4,021,463.77**	**10,824,566.94**
Proceeds from the buyback of own issues	3,209,012.83	4,713,556.06
Proceeds realised from the partial reduction of derivatives	388,842.36	910,129.94
Compensation payments for derivatives due to IBOR/ESTR changeover	265,998.22	0.00
Proceeds from asset sales	157,610.36	0.00
Result from the placement of infrastructure and energy transactions	0.00	4,800,880.94
Change in provision pursuant to § 57 (1) of the Austrian Banking Act	0.00	400,000.00
b) Expenses	**-4,712,579.27**	**-3,870,272.11**
Provision for expected losses for derivatives	-1,474,614.42	0.00
Change in provision for statistically expected credit losses	-912,702.41	-3,461,926.95
Change in provision pursuant to § 57 (1) of the Austrian Banking Act	-850,000.00	0.00
Expenses due to contract modifications	-704,411.79	0.00
Result from the placement of infrastructure and energy transactions	-302,500.00	0.00
Other valuations	-468,350.65	-2,176.16
Proceeds from asset sales	0.00	-406,169.00
Total	**-691,115.50**	**6,954,294.83**

In 2020, the loan impairment, valuation and sales result includes income of EUR 4,021,463.77 (2019: EUR 10,824,566.94), with income of EUR 3,209,012.83 (2019: EUR 4,713,556.06) being generated from the repurchase of own issues. The item also includes income of EUR 654,840.58 (2019: EUR 910,129.94) from derivatives that were closed out early and from compensation payments in connection with the change in the collateral calculation to IBOR/ESTR.
The expenses include the increase in provisions for expected losses from derivatives in the amount of EUR 1,474,614.42 (2019: EUR 0.00). Expenses include an increase in the provision for expected credit losses, which was increased by EUR 912,702.41 in 2020 (2019: increase of EUR 3,461,926.95) to EUR 6,368,242.45 (31/12/2019: EUR 5,455,540.04). Kommunalkredit's loan port-folio was solid despite the impact of the COVID-19 pandemic; the non-performing loan (NPL) ratio remains constant at 0.0% and there were also no loan defaults in 2020.

Moreover, the general risk provision pursuant to § 57 (1) of the Austrian Banking Act was increased by EUR 850,000.00 (2019: reduction of EUR 400,000.00).
Contract modifications that are not classed as material resulted in present value losses of EUR 704,411.79 that were recognised for the first time in 2020. The contract modifications do not involve forbearance measures.

7.1.8. Taxes on income

Taxes on income relate exclusively to the company's ordinary business operations and comprise the following items:

TAXES ON INCOME in EUR	2020	2019
Corporate income tax/trade tax expense for the financial year	-121,745.13	-34,071.21
Corporate income tax/trade tax expense for previous years	-10,077.23	-5,660.12
Deferred tax income	1,361,256.49	1,664,661.09
Total	**1,229,434.13**	**1,624,929.76**

With effect from 2016, a tax group pursuant to § 9 of the Austrian Corporate Income Tax Act was formed, with Satere as the group parent. The group members as of 31 December 2020 include Gesona, Kommunalkredit and KPC. 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 result in a reduction in the tax contribution of the group member. Corporate income tax expenses for the current financial year amounted to EUR 76,987.13 (2019: EUR 34,071.21, resulting entirely from the branch in Germany), of which EUR 34,509.86 resulted from the branch in Germany.

Deferred tax income results from the capitalisation of temporary differences between the corporate amounts of assets and their tax base, a measure that was 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 2020 financial year with a net profit of EUR 33,561,507.99 (31/12/2019: EUR 30,303,064.38). The return on assets, a quotient calculated by dividing the profit for the year by the total assets as of the reporting date, stood at 0.82% (31/12/2019: 0.80%).

7.2. Presentation of revenues by geographic market (§ 237 Austrian Commercial Code)

INTEREST AND SIMILAR INCOME in EUR	2020	2019
Austria	22,656,211.73	23,489,238.13
Western Europe	33,507,146.56	26,520,351.47
Central and Eastern Europe	10,485,603.53	6,364,916.84
Rest of world	3,533,086.66	2,442,752.94
	70,182,048.48	**58,817,259.37**

FEE AND COMMISSION INCOME in EUR	2020	2019
Austria	238,664.70	115,195.56
Western Europe	17,661,302.00	14,743,939.19
Central and Eastern Europe	3,952,209.91	251,500.00
Rest of world	678,128.28	2,051,019.73
	22,530,304.89	**17,161,654.48**

OTHER OPERATING INCOME in EUR	2020	2019
Austria	2,890,643.45	4,765,713.41
Western Europe	63,669.28	53,506.20
Central and Eastern Europe	0.00	0.00
Rest of world	0.00	0.00
	2,954,312.73	**4,819,219.61**

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 REPORTING DATE

As of 1 January 2021, Sebastian Firlinger has been appointed to the Kommunalkredit Executive Board as Chief Risk Officer (CRO). With his profound industry experience, he joins the senior management body now consisting of three people. As of 1 January 2021, the Executive Board therefore consists of Bernd Fislage (CEO), Jochen Lucht (CFO, COO) and Sebastian Firlinger (CRO).

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 2020, Kommunalkredit had a weighted workforce of 168 employees (31/12/2019; 161 employees), including the branch in Germany.

The average number of employees during the year under review was 167 (2019: 162), including two (2019: two) 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	2020	2019
Active Executive Board members	1,926,531.47	1,434,174.42
Active Supervisory Board members	276,399.71	119,170.53
	2,202,931.18	**1,553,344.95**

As of 31 December 2020, 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 2020, the outstanding volume of loans to employees of the company amounted to EUR 332,799.61 (31/12/2019: EUR 385,877.68).

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	2020	2019
Executive Board members and senior employees	262,335.86	550,317.11
Other employees	648,293.06	847,837.80
	910,628.92	**1,398,154.91**

10.4. Related party disclosures

Tax group
With effect from 2016, a tax group pursuant to § 9 of the Austrian Corporate Income Tax Act was formed, with Satere as the group parent. The group members as of 31 December 2020 include Gesona, Kommunalkredit and KPC (see 7.1.8 for details).

Transactions 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.

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

Sebastian Firlinger
Member of the Executive Board
Since 1 January 2021

Members of the Supervisory Board

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

Christopher Guth
Deputy Chairman; appointed by Gesona Beteiligungsverwaltung GmbH

Friedrich Andreae
Managing Director of Gesona Beteiligungsverwaltung GmbH and Satere Beteiligungsverwaltungs GmbH

Alois Steinbichler
Managing Director AST Beratungs- und Beteiligung GmbH

Jürgen Meisch
Managing Director Achalm Capital GmbH

Martin Rey
Managing Director Maroban GmbH

Patrick Höller
Nominated by the Works Council
Until 9 October 2020

Alexander Somer
Nominated by the Works Council
Since 4 March 2020

Renate Schneider
Nominated by the Works Council

10.6. State Representative

Philip Schweizer
State Representative,
Federal Ministry of Finance

Markus Kroiher
Deputy State Commissioner,
Federal Ministry of Finance

10.7. Government Commissioner

Appointed to serve as Government Commissioner of the cover pool for covered bonds in 2020:

Karin Fischer
Government Commissioner,
Federal Ministry of Finance

Anna Staudigl
Deputy Government Commissioner,
Federal Ministry of Finance
Since 1 October 2020

Sandra Kaiser
Deputy Government Commissioner,
Federal Ministry of Finance
Until 30 September 2020

Vienna, 16 March 2021

The Executive Board of
Kommunalkredit Austria AG

Sebastian Firlinger	**Bernd Fislage**	**Jochen Lucht**
Member of the Executive Board	Chief Executive Officer	Member of the Executive Board

Schedule of Participations and Investments in Affiliated Companies as of 31 December 2020 (Annex 1)

Pursuant to § 238 (2) of the Austrian Company Code, the Schedule of Participations shows all direct participations

NAME AND REGISTERED OFFICE in EUR	Investment in % 2020	Investment in % 2019	Total capital	Acquisition cost
I. Participations				
Kommunalnet E-Government Solutions GmbH, Vienna	45.00%	45.00%	1,160,164.44	344,025.00
Kommunalleasing GmbH, Vienna	50.00%	50.00%	-14,254,950.25	750,000.00
Fidelio KA Infrastructure Opportunities Fund SICAV-RAIF SCA	8.49%	14.29%	291,285,000.00	24,720,000.00
Einlagensicherung der Banken und Bankiers Gesellschaft mbH, Vienna	n.a.	n.a.	n.a.	0.00
Einlagensicherung AUSTRIA Ges.m.b.H., Vienna	n.a.	n.a.	n.a.	1,000.00
II. Investments in affiliated companies				
Kommunalkredit Public Consulting GmbH, Vienna	90.00%	90.00%	1,655,279.21	346,500.00
Kommunalkredit KBI Immobilien GmbH, Vienna	100.00%	100.00%	61,691.49	35,000.00
Kommunalkredit KBI Immmobilien GmbH & Co KG, Vienna	100.00%	100.00%	32,782,149.13	32,081,365.00
Fidelio KA Beteiligung GmbH, Frankfurt am Main	75.00%	85.00%	72,153.71	72,490.02
Trendmind IT Dienstleistung GmbH, Vienna[2]	0.00%	100.00%	0.00	0.00

1 Preliminary unaudited figures.
2 Sold in the 2020 financial year.

Schedule of Non-Current Asset Transactions pursuant to § 226 (1) of the Austrian Commercial Code as of 31 December 2020 (Annex 2)

NON-CURRENT ASSETS in EUR	Acquisition costs				
	as of 1/1/2020	Currency translation	as of 1/1/2020	Additions	Disposals
Debt securities from public issuers	159,679,170.00	0.00	159,679,170.00	19,915,990.00	23,095,870.00
Loans and advances to customers	207,116,008.68	0.00	207,116,008.68	89,825,075.02	30,342,229.80
Bonds and other fixed-income securities	321,837,938.40	0.00	321,837,938.40	0.00	1,566,645.60
Investments	24,714,095.00	0.00	24,714,095.00	1,101,000.00	70.00
Investments in affiliated companies	32,671,146.24	0.00	32,671,146.24	14,208.78	150,000.00
Non-current intangible assets	4,668,182.05	0.00	4,668,182.05	346,919.71	0.00
Land and buildings, incl. buildings on third-party land	927,484.19	0.00	927,484.19	30,120.09	0.00
Office furniture and equipment	7,897,372.80	0.00	7,897,372.80	238,819.10	621,886.97
Total	**759,511,397.36**	**0.00**	**759,511,397.36**	**111,472,132.70**	**55,776,702.37**
of which low-value assets as defined by § 226 (3) of the Austrian Commercial Code (UGB)	*551,090.35*	0.00	*551,090.35*	*33,184.63*	*0.00*

Carrying amount 31/12/2020	Carrying amount 31/12/2019	Cumulative amortisation	Profit for the period after tax	Latest annual financial statements
344,025.00	344,025.00	0.00	141,693.28	31/12/2020
0.00	0.00	750,000.00	-1,246,603.34	31/12/2020[1]
24,720,000.00	23,619,000.00	0.00	5,330,108.61	31/12/2020[1]
0.00	70.00	0.00	n.a.	n.a.
1,000.00	1,000.00	0.00	n.a.	n.a.
346,500.00	346,500.00	0.00	610,056.23	31/12/2020
35,000.00	35,000.00	0.00	7,378.55	31/12/2020
32,081,365.00	32,081,365.00	0.00	700,784.37	31/12/2020
38,653.81	58,281.24	33,836.21	-6,462.61	31/12/2020
0.00	150,000.00	0.00	n.a.	n.a.

	Cumulative depreciation and amortisation				Residual carrying amounts			
as of 31/12/2020	as of 1/1/2020	Additions	Disposals	as of 31/12/2020	Carrying amount 31/12/2020	Carrying amount 31/12/2019	Amortisation, depreciation and write-downs 2020	Reversals of write-downs 2020
156,499,290.00	789,012.49	282,335.31	-302,710.21	768,637.59	155,730,652.67	158,890,157.77	282,335.31	0.00
266,598,853.90	-7,850.07	0.00	7,850.07	0.00	266,598,853.90	207,123,858.75	-0.00	0.00
320,271,292.80	436,088.73	699,191.69	-126,754.67	1,008,525.75	319,262,767.21	321,401,849.83	699,191.69	0.00
25,815,025.00	750,000.00	0.00	0.00	750,000.00	25,065,025.00	23,964,095.00	0.00	0.00
32,535,355.02	0.00	33,836.21	0.00	33,836.21	32,501,518.81	32,671,146.24	0.00	0.00
5,015,101.76	4,421,587.09	109,934.80	0.00	4,531,521.89	483,579.87	246,594.96	0.00	0.00
957,604.28	420,095.63	53,327.55	0.00	473,423.18	484,181.10	507,388.56	53,327.55	0.00
7,514,304.93	5,814,551.62	200,657.60	-619,622.15	5,395,587.07	2,118,717.86	2,082,821.18	200,657.60	0.00
815,206,827.69	**12,623,485.49**	**1,379,283.16**	**-1,041,236.96**	**12,961,531.69**	**802,245,296.42**	**746,887,912.29**	**1,235,512.15**	**0.00**
584,274.98	*551,090.35*	*33,184.63*	*0.00*	*584,274.98*	*0.00*	*0.00*	*33.184.63*	

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 31 December 2020, the Income Statement for the year then ended, and the Notes.
In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2020, and its financial performance for the year then ended in accordance with the Austrian commercial and banking law.

Basis for our Opinion
We conducted our audit in accordance with Regulation (EU) 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited company, in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained up to the date of the auditor's report is sufficient and appropriate to provide a basis for our audit opinion on this date.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon.

Valuation of loans and advances to customers
The Management Board explains the procedure for recognizing loan loss provisions in the notes to the financial statements section 3. "Accounting and Measurement Rules" and in the management report section „Assets, financial position and income".

Risk to the Financial Statements
The loans and advances to customers amount to EUR 2,6 bn and are mainly comprised of the segments "Project Finance", "Utilities", "Corporate" and "Public Finance".
The bank evaluates in the context of credit risk management whether default events exist, and specific loan loss provisions (Stage 3) need to be recognized. This includes an assessment whether customers are able to fully meet their contractual liabilities.
The calculation of the loan loss provisions for defaulted individually significant customers is based on an analysis of the estimated future recoveries. This analysis reflects the assessment of the economic situation and development of the individual customer and the valuation of collateral.
For all non-defaulted loans and advances to customers a loan loss provision for expected credit losses ("ECL") in accordance with IFRS 9 is recognized. The loan loss provision is generally based on the 12-month-ECL (Stage 1). In case of a significant increase in the credit risk (Stage 2), the ECL is calculated on a lifetime basis.
The calculation of ECLs is dependent on assumptions and estimates, which include rating-based probabilities of default and loss given default that are derived from current and forward-looking information.
The risk to the financial statements arises from the fact that the stage transfers and the determination of the loan loss provisions are based on assumptions and estimates. This may lead to a margin of discretion and estimation uncertainties regarding to the amount of the loan loss provisions.

Our Audit Approach

We have performed the following audit procedures with the involvement of our valuation and IT specialists in respect to the valuation of loans and advances to customers:

- We have analyzed the existing documentation of the processes of monitoring and risk provisioning for loans and advances to customers and assessed whether these processes are suitable to identify impairment triggers and to adequately reflect the valuation of loans and advances to customers. Moreover, we have ascertained the process flows, identified the relevant key controls, assessed their design and implementation and tested their effectiveness in samples.
- We have examined whether there were any indicators of default on a sample basis of different loan portfolios. The selection of the sample was performed risk-oriented with special regard to ratings, regionality and customer segment.
- For all other loans, for which the loan loss provision was calculated based on ECL (Stage 1 and 2), we analyzed the Bank's documentation of methodology for consistency with the requirements of IFRS 9. Furthermore, based on the bank´s model validations, we have checked the models and the parameters used to determine whether they are suitable for calculating the loan loss provisions in an appropriate amount. In addition, we analyzed the selection and assessment of forward-looking information and scenarios and their consideration in the used parameters. For these audit procedures we have involved our financial risk management specialists.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the financial statements, the management report and the auditor's report.

Our opinion on the financial statements does not cover other information and we do not provide any kind of assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the financial statements or any apparent material misstatement of fact.

If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements 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.

Management is also 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

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 audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in 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 AP Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements in the financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements 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.
- We 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 entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We 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 audit report to the respective note in the financial statements. If such disclosures are not appropriate, we will modify our audit 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.
- We evaluate the overall presentation, structure and content of the financial statements, including the notes, 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, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

REPORT ON OTHER LEGAL REQUIREMENTS

Management Report
In accordance with Austrian company law, the management report is to be audited as to whether it is consistent with the financial statements and prepared in accordance with legal requirements.
Management is responsible for the preparation of the management report in accordance with Austrian company law.
We have conducted our audit in accordance with generally accepted standards on the audit of management reports as applied in Austria.

Opinion
In our opinion, the management report is consistent with the financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB are appropriate.

Statement
Based on our knowledge gained in the course of the audit of the financial statements and our understanding of the Company and its environment, we did not note any material misstatements in the management report.

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on 27 June 2019 and were appointed by the supervisory board on 7 August 2019 to audit the financial statements of Company for the financial year ending 31 December 2020.

In addition, during the Annual General Meeting on 31 March 2020, we have been elected as auditors for the financial year ending 31 December 2021 and appointed by the supervisory board on 23 April 2020.

We have been auditors of the Company since the financial statements at 31 December 2020.

We declare that our opinion expressed in the "Report on the Financial Statements" section of our report is consistent with our additional report to the audit committee, in accordance with Article 11 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Company.

Engagement Partner

The engagement partner is Mr Bernhard Mechtler.

Vienna, 16. March 2021

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Bernhard Mechtler
(Austrian Chartered Accountant)

This English language audit report is a translation provided for information purposes only. The original German text shall prevail in the event of any discrepancies between the English translation and the German original. We do not accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

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 company, 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, 16 March 2021

The Executive Board of
Kommunalkredit Austria AG

Bernd Fislage
Chief Executive Officer

Sebastian Firlinger
Member of the Executive Board

Jochen Lucht
Member of the Executive Board

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