ANNUAL FINANCIAL REPORT 2020

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LETTER FROM THE EXECUTIVE BOARD

Ladies and Gentlemen:

All over the world, 2020 was dominated by a single issue: the Covid-19 pandemic and its impact on society, public finances and the economic environment. In the end, KA Finanz AG (KF) was affected only to a limited extent, due to its corporate purpose as a wind-down unit without any new business. The negative effects on valuations and hidden burdens in the portfolio in the first half of the year were therefore largely reversed in the second half of 2020. KF continued to successfully implement its wind-down programme without delays. In operational terms, KF was subject to restrictions based on extensive measures taken by ourselves to protect our employees and in accordance with the rules imposed by government authorities. Taking a forward-looking approach, KF introduced an adequate regime of shift work and working from home in the middle of the first quarter, which enabled a smooth conduct of all business processes.

In the reporting year, KF's asset wind-down activities remained focused on the reduction of exposures outside the so-called DACH region (Austria, Germany, Switzerland). The exposure to Italy was fully wound-up through asset sales and redemptions of the remaining positions, and the US risk was further reduced. Since the beginning of the wind-down of KF's assets, the Austrian exposure has increased from 10.7% (2009) to 56% (31/12/2020) of the total exposure. At the end of the year, exposures to the DACH region accounted for roughly 69.6%.

A major part of KF's activities in 2020 served to reduce the level of complexity in its portfolio. On the one hand, the comprehensive derivative portfolio was streamlined through a reduction in the number of transactions and counterparties; on the other hand, KF began to terminate syndicate arrangements managed by itself or by third parties or to adjust their documentation so as to permit the smooth disposal of KF's shares in accordance with the wind-down plan.

As at 31 December 2020, KF's portfolio of risk positions amounted to EUR 4.0 billion, having been reduced by EUR 0.6 billion through active wind-down measures and redemptions in the course of the year. Since its transformation into a wind-down unit in September 2017, KF has wound down risk positions in a total amount of EUR 3.9 billion. Thus, as at 31 December 2020, KF had surpassed the target of its wind-down plan by EUR 1.6 billion. In the years to come, KF will continue to take advantage of market opportunities in order to advance its wind-down efforts.

Hidden burdens in the portfolio, which originally resulted from the widening of credit spreads since the financial crisis and which particularly impact the valuation of hedge derivatives, were further reduced and amounted to roughly EUR 257.9 million as at 31 December 2020.

The non-performing-loan (NPL) ratio remains at 0.0%.

Liquidity generated through portfolio wind-down activities was used to redeem KF's EUR 1.0 billion government-guaranteed bond in August 2020.

KF's total assets were reduced in 2020 by another 19.5% to EUR 5.3 billion.

For 2020, KF reports a balanced after-tax result pursuant to the Austrian Company Code / Austrian Banking Act (*Unternehmensgesetzbuch/Bankwesengesetz UGB/BWG*). A loss resulting primarily from portfolio wind-down measures was offset through a reduction of KF's obligation to repay funding provided by ABBAG in the amount of EUR 79.6 million.

On behalf of the Executive Board, I wish to thank the shareholder representatives and the Supervisory Board for their support in the attainment of our wind-down targets. My special thanks are due to all our employees for their dedicated efforts and their flexibility in coping with the changes and complications due to the pandemic, as well as their excellent work that makes the successful wind-down of the portfolio possible. Our objective for 2021 is to continue the efficient and successful portfolio wind-down process and to further reduce the level of complexity and the remaining risk positions in the portfolio.

Helmut Urban
Chairman of Executive Board

MANAGEMENT REPORT ON THE BUSINESS YEAR 2020

ECONOMIC FRAMEWORK

The steep decline of the global economy triggered by the Covid-19 pandemic in 2020 led to an estimated drop in economic output by 3.5%. The measures taken to contain the pandemic, resulting in a drastic contraction of added value, consumption and employment, initiated the worst recession since the Great Depression some 90 years ago.

The fact that the slump was not as bad as originally feared – the OECD originally forecast a 7.5% drop in global economic output in the event of a “double hit” (a second wave of infections in the autumn) – was largely attributable to the determined action taken by central banks and governments, which have been fighting against the crisis with low interest rates and massive rescue programmes. The total volume of fiscal measures intended to stimulate demand corresponded to 12% of the global gross domestic product (GDP), credit and guarantee lines were granted in a volume of up to 35% of the respective national GDP, and monetary policy measures to preserve liquidity were taken in the amount of approximately 20% of global GDP.

While the USA came through 2020 with a rather moderate 3.4% drop in GDP, the euro area saw its economy decline far more significantly at a rate of 7.4%. From today’s perspective, the differences in economic strength between the Member States of the euro area are expected to widen further as a result of the corona pandemic.

During the summer months, the Austrian economy recovered from the deep recession of the first half of the year more quickly than expected, but the second wave of infections in the autumn resulted in yet another economic slump in the fourth quarter. According to preliminary calculations by Statistics Austria, real GDP dropped by 6.6% in 2020 as a whole.

The rate of unemployment, as defined in Austria, increased to 10.2%, a steeper rise having been prevented by the introduction of short-time work programmes. The inflation rate, as reflected by the Harmonized Index of Consumer Prices (HICP), increased by a moderate 1.3%. On account of the comprehensive fiscal-policy measures taken and the impact of the automatic stabilizers, government debt (as defined in the Maastricht Treaty) grew to 9.2% of GDP.

SIGNIFICANT EVENTS OF THE BUSINESS YEAR

Purpose of the company

KA Finanz AG (KF) was established on 28 November 2009 through the demerger of the former Kommunalkredit[1] and is the legal successor of the latter. As provided for in the restructuring plan approved by the European Commission / Directorate General for Competition on 31 March 2011, KF is responsible for the structured wind-down of the non-strategic portfolio.

Effective as of 6 September 2017, date of the administrative notice issued by the Financial Market Authority (FMA), KF is operated as a wind-down unit pursuant to § 162 of the Austrian Bank Recovery and Resolution Act and continues to be supervised by FMA.

KF's business purpose is to pursue targeted de-risking, while utilising any potential for the reversal of impairments and securing an adequate level of liquidity. KF is not engaged in any new asset-related business. KF's funding structure is designed to meet the objectives of a wind-down unit. Funding is provided by ABBAG, a company wholly owned by the Republic of Austria and responsible for the management of wind-down facilities. KF no longer raises new funding in the money and capital markets.

Portfolio wind-down measures and risk structure[2]

In the course of 2020, KF's total exposure was reduced by EUR 647.1 million, EUR 273.9 million of which through active wind-down measures (almost exclusively securities sales) and EUR 270.5 million through scheduled and early redemptions, including CDS/guarantees. The elimination of derivative positions and foreign exchange effects also contributed to the reduction.

The nominal volume of the securities portfolio was reduced by EUR 264.0 million, resulting from the sale of the remaining public exposures to Italy (EUR 135.0 million in sovereign risk and EUR 65.4 million in sub-sovereign risks). Redemptions in the course of 2020 led to the complete elimination of the exposure to Italy. Moreover, USD-denominated securities from the emerging markets segment were sold: On the one hand, the exposure to the State of Qatar (EUR 51.3 million) was substantially reduced; on the other hand, a bond issued by a Mexican company (EUR 12.3 million) was sold.

Over 85% of redemptions of securities and loan positions (EUR 242.5 million) were accounted for by debtors based in Austria (62.5%), Switzerland (8.8%), Italy (8.5%) and the USA (5.3%).

The following tables show the reduction of exposures and the development of exposure-related ratios since the end of 2008. The figures are broken down by sale and redemption and by product category.

[1] In these financial statements the following names are used for the entities involved:
- Kommunalkredit Austria AG, prior to the 2009 demerger (until 28/11/2009): former Kommunalkredit
- Kommunalkredit Austria AG, from 2009 demerger until 2015 demerger for new incorporation (until 26/09/2015): Kommunalkredit Old
- Kommunalkredit Austria AG, after the 2015 demerger for new incorporation (from 26/09/2015): Kommunalkredit
- KA Finanz AG: KF

[2] The reporting currency is the euro. Assets and liabilities in foreign currencies are translated at the rates notified by the European Central Bank (ECB) on the balance sheet date pursuant to § 58 (1) of the Austrian Banking Act. Forward transactions not yet settled are translated at the forward rate on the balance sheet date.

Table: Wind-down of exposures since November 2008, in EUR million

Wind-down of exposures since November 2008 in EUR million*	Total 2008-2018	2019	01/01/2020 – 31/12/2020	Total 2008-2020
Securities sold	7,869.3	708.3	264.0	8,841.6
Loans sold	1,455.0	266.6	9.9	1,731.5
CDS sold	10,799.4	6.2	0.0	10,805.6
Total sold	**20,123.7**	**981.0**	**273.9**	**21,378.7**
Securities redeemed	3,712.3	117.4	46.2	3,875.9
Loans redeemed	3,566.9	248.8	196.3	4,012.0
CDS/guarantees – matured	1,365.0	1.2	28.1	1,394.3
Total redeemed	**8,645.3**	**367.4**	**270.5**	**9,282.2**
Total sold/redeemed	**28,769.0**	**1,348.5**	**544.4**	**30,660.9**

* Nominal values from 2017 onwards, book values for earlier years

Altogether, since the beginning of the restructuring process in November 2008, KA Finanz AG (KF) has wound down risk positions in a total amount of EUR 30.7 billion, the better part thereof, EUR 21.4 billion, through the active wind-down of securities, loans and CDS positions.

Table: Development of exposures since November 2008, in EUR million

Development of exposures since November 2008 in EUR million	28/11/2008 - 31/12/2009	31/12/2019	31/12/2020
Total exposure	**30,000 / 27,299**	**4,661.1**	**4,014.0**
of which securities/loans	15,200 / 13,630	4,261.5	3,744.0
of which CDS and guarantees	12,200 / 10,737	32.2	4.2
of which other (money market/derivatives)	2,600 / 2,932	367.4	265.8
Total assets (Austrian GAAP)	- / 17,657	6,565.3	5,288.2
Reduction of total exposure (wind-down, redemption, FX effects)		**-1,355.1**	**-647.1**

As at 31 December 2020, KF's total exposure amounted to EUR 4.0 billion, down by EUR 0.6 billion from the previous year, including loans in the amount of EUR 2.6 billion or 64.4% of the total exposure (31/12/2019: EUR 2.8 billion or 59.0%), which constitute the biggest product group in the KF portfolio. The securities portfolio comprised EUR 1.2 billion in notionals or 28.9% of the total exposure (31/12/2019: EUR 1.5 billion or 32.4%). The CDS and guarantee exposure amounted to EUR 4.2 million (31/12/2019: EUR 32.2 million). Other exposures (money market, derivatives) amounted to EUR 0.3 billion (31/12/2019: EUR 0.4 billion).

The majority of KF's debtors are Austrian and foreign territorial authorities (sovereigns, municipalities, local authorities), public-sector entities (PSEs) and quasi-municipal enterprises. Overall, KF has a portfolio of very high asset quality that is concentrated in the upper rating categories.

Hidden burdens in the portfolio, i.e. the difference between book values and market values and/or model valuations as at the balance sheet date, amounted to EUR 257.9 million. Hidden burdens were primarily due to the increase in credit spreads since closing the transactions, resulting in the market value of the portfolio dropping below its book value, with hedge transactions taken into account. Hidden burdens do not represent a permanent impairment.

For further details on the portfolio and risk structure, please refer to the Risk Report, starting on page 14.

Capital measures taken by the Republic of Austria since nationalisation

Through the payment of guarantee fees by KA Finanz AG (KF), the total volume of capital support measures by the Republic of Austria was reduced from a net amount of EUR 2,035.6 million as at 31 December 2019 to a net amount of EUR 2,027.2 million as at 31 December 2020. Direct capitalisation support received by KF since its nationalisation can be broken down as follows:

Table: Overview of capital measures taken by the Republic of Austria (cumulative), in EUR million

Overview of capital measures by the Republic of Austria in EUR million	31/12/2017	31/12/2018	31/12/2019	31/12/2020
Capitalisation agreement of 17/11/2009 with debtor warrant	1,140.1	1,140.1	1,140.1	1,140.1
Shareholder contributions / Government surety	1,138.0	1,134.7	1,134.7	1,134.7
Capital increase 2011	389.0	389.0	389.0	389.0
Total gross	**2,667.1**	**2,663.8**	**2,663.8**	**2,663.8**
Guarantee fees paid by KF 2008 – 12/2019	-772.1	-785.9	-799.7	-808.1
Return cash flows from guarantee fees 2008 – 12/2011	210.0	210.0	210.0	210.0
Guarantee fees paid by Kommunalkredit under debtor warrant structure 2009 – 7/2013	-38.5	-38.5	-38.5	-38.5
Total net	**2,066.6**	**2,049.4**	**2,035.6**	**2,027.2**

As at 31 December 2020, the Republic of Austria, having recapitalised KF via a debtor warrant structure within the framework of the restructuring of the former Kommunalkredit in 2009, is entitled to receive future annual profits (senior to profit participation rights and equity instruments) and/or future liquidation proceeds (senior to equity instruments) in the amount of EUR 1,605.5 million, until its claim under the debtor warrant is completely satisfied.

Guarantee fees paid to the Republic of Austria

By 31 December 2020, guarantee fees paid by KA Finanz AG (KF) since its takeover by the Republic of Austria amounted to a gross total of EUR 808.1 million. After deduction of the restructuring contributions in the amount of EUR 210.0 million made by the Republic of Austria until the end of 2011, net guarantee fees paid amount to a total of EUR 598.1 million. In 2020, KF paid guarantee fees in a total amount of EUR 8.4 million for the last remaining issue guarantee under the Financial Markets Stability Act in place until August 2020. No more guarantee fees are payable in 2021.

Table: Guarantee fees paid by KF 2008 to 2020, in EUR million

Guarantee fees paid by KF in EUR million	Total 2008-2019	2020	Total 2008-2020
Sureties (incl. original asset-side surety and debtor warrant surety	355.4	0.0	355.4
Issue guarantees	309.0	8.4	317.4
Commercial paper guarantees	109.5	0.0	109.5
Fees for clearing bank line[1)]	15.1	0.0	15.1
ELA guarantee	10.8	0.0	10.8
Total KF	**799.7**	**8.4**	**808.1**
Restructuring contributions of the Republic of Austria	210.0	0.0	210.0
Total net KF	**589.7**	**8.4**	**598.1**

[1)] no longer drawn on after 28/02/2011

Liquidity guarantees of the Republic of Austria

Owing to the contractually agreed redemption of the government-guaranteed bond in a nominal amount of EUR 1.0 billion as at 11 August 2020, no more liquidity guarantees of the Republic of Austria granted under the Financial Markets Stability Act were outstanding as at 31 December 2020 (31/12/2019: EUR 1.0 billion).

Rating

KA Finanz AG’s rating by Standard & Poor’s (S&P) remains unchanged at AA+/A-1+ (long-term/short-term). The rating outlook is stable.

For covered bonds S&P assigned a rating of AA+.

OTHER MATERIAL DISCLOSURES

Service Agreement between KA Finanz AG and Ithuba Capital AG

Since 1 April 2019, KA Finanz AG has sourced most of the operational services required via a service agreement (SA) from a consortium with Ithuba as the general contractor.

ASSETS, FINANCIAL POSITION AND INCOME

Financial performance indicators of KA Finanz AG (KF) pursuant to the Austrian Company Code/Austrian Banking Act

Table: Selected financial indicators, in EUR million

Selected Balance Sheet / Income Statement figures in EUR million	2020	2019
Total assets	5,288.2	6,565.3
Public-sector debt instruments and bonds	392.8	686.1
Loans and advances to banks	903.0	1,012.7
Loans and advances to customers	3,365.9	3,867.9
Amounts owed to banks	96.5	169.5
Amounts owed to customers	4,373.9	4,509.6
Securitised liabilities	594.8	1,627.7
Contingent liabilities (off-balance-sheet)	13.1	40.5
Net interest income	15.7	12.3
Guarantee fees for sureties and issue guarantees	-8.4	-13.8
General administrative expenses (excl. Bank Resolution Fund)	-15.6	-19.7
Operating result	-15.3	-20.0
Net result from valuations and realised gains and losses	-54.6	-30.2
Profit on ordinary activities	-69.9	-50.2
Extraordinary result	69.9	49.9
Result for the year after tax	0.0	0.0

Balance sheet structure

As at 31 December 2020, KA Finanz AG (KF) reported total assets in the amount of EUR 5.3 billion, down by 19.5% from the previous year (31/12/2019: EUR 6.6 billion). The reduction is due to active portfolio wind-down measures, scheduled and early redemptions, as well as changes in the volume of collateral held.

The most important asset items on the balance sheet are EUR 3.4 billion in loans and advances to customers (31/12/2019: EUR 3.9 billion), EUR 0.9 billion in loans and advances to banks (31/12/2019: EUR 1.0 billion) and EUR 0.4 billion in public-sector debt instruments and bonds (31/12/2019: EUR 0.7 billion). Loans and advances to banks primarily comprise collateral for negative market values from derivative transactions.

Contingent liabilities, reported as an off-balance-sheet item, in the amount of EUR 13.1 million (31/12/2019: EUR 40.5 million) exclusively comprise other guarantees, as in the previous year.

Funding structure

As at 31 December 2020, KF's funding volume was reduced by approximately 20% to EUR 5.1 billion.

Owing to the contractually agreed redemption of the EUR 1.0 billion government-guaranteed bond as at 11 August 2020, the share of funding raised in the capital market before de-banking (legacy funding) continued to decline. Within legacy funding, the covered bond in the amount of EUR 500 million, due for redemption as at 19 February 2021, now represents the biggest single funding position. As of that point in time, KF's funding primarily consists of funds provided by ABBAG, the government-owned company responsible for the management of wind-down facilities.

As at 31 December 2020, funding by ABBAG amounted to EUR 4.2 billion, reported under "Amounts owed to customers".

KF's funding structure is as follows:

Table: Funding structure at book values, in EUR billion

Funding structure in EUR billion	31/12/2020	31/12/2019
Securitised liabilities	0.6	1.6
of which government-guaranteed	*0.0*	*1.0*
Amounts owed to banks	0.1	0.2
of which money-market funding, incl. repo transactions	*0.1*	*0.1*
Amounts owed to customers	4.4	4.5

Earnings

KF's operating result improved by EUR 4.8 million to EUR -15.3 million, as compared to the previous year (2019: EUR -20.0 million). The improvement reflects, in particular, a reduction in general administrative expenses. For the business year 2020, KF again reported an after-tax result of EUR 0.00 million (2019: EUR 0.0 million), comprising the result from the wind-down and the valuation of securities, loans and derivative positions of EUR -54.6 million (2019: EUR -30.2 million), extraordinary income of EUR 79.6 million (2019: EUR 77.8 million) and extraordinary expenses of EUR 9.6 million (2019: EUR 27.9 million).

As in the previous year, KF's equity as at 31 December 2020 stands at EUR 0.00.

The essential factors contributing to the 2020 result were as follows:

Net interest income
The 2020 net interest income was positive at EUR 15.7 million, i.e. EUR 3.4 million above the previous year's net interest income of EUR 12.3 million, despite the lower business volume resulting from wind-down measures. The increase (EUR 3.6 million) is primarily due to changes in the distribution of discounts on subsidised housing loans, which now adequately reflects the sequence of redemptions.

Net fee and commission result
KF's net fee and commission result in 2020 came to EUR -9.4 million (2019: EUR -15.2 million), resulting primarily from guarantee fees paid to the Republic of Austria for a government-guaranteed bond with a nominal value of EUR 1.0 billion, which matured in August 2020.

Other operating result (other operating income and expenses)
The category "other operating result" comprises, in particular, the net result of the valuation of derivatives not to be classified as micro hedges. In 2020, the other operating result came to EUR -3.0 million (2019: EUR 2.6 million). The effect of valuation changes of derivative instruments represented an aggregate net amount of EUR -3.6 million in 2020. The total also includes the results of macro hedge positions released in the amount of EUR -2.5 million and other expenses and income of EUR 3.1 million.

General administrative expenses
In 2020, KF's general administrative expenses improved by EUR 4.2 million or 21% to EUR 15.6 million (2019: EUR 19.7 million). General administrative expenses include EUR 4.1 million in personnel expenses (2019: EUR 3.9 million) and EUR 11.5 million in non-personnel expenses (2019: EUR 15.9 million).

Non-personnel expenses comprise, in particular, services provided by Ithuba Capital AG as general contractor in the amount of EUR 8.0 million (2019: EUR 9.4 million, including services provided by Kommunalkredit Austria AG).

Net result of valuations and realised gains and losses
The net result of valuations and realised gains and losses of EUR -54.6 million (2019: EUR -30.2 million) is primarily attributable to the continued wind-down of the portfolio. As in the previous year, no loan losses were incurred in 2020. The material items are as follows:

- EUR -13.7 million (2019: 19.1 million) resulting from the wind-down of securities, loans and derivative positions.
- EUR -38.6 million (2019: EUR -49.9 million) in non-realised losses from the fair value measurement of positions to be wound down in the short term in accordance with the annual wind-down plan. The actual expense will be known only after the underlying positions have been wound down.

Extraordinary result
In 2020, extraordinary income of EUR 79.6 million (2019: EUR 77.8 million) resulted from the reduction of KF's repayment obligation to ABBAG within the refinancing agreement.

Extraordinary expenses include additional provisions of EUR 9.6 million in connection with legal proceedings.

NON-FINANCIAL PERFORMANCE INDICATORS

Employees

As at 31 December 2020, a total of 19 employees (excl. the Executive Board), ten women and nine men, were working for KF, the headcount being unchanged compared to the previous year.

BRANCH OFFICES

KA Finanz AG (KF) has no branch offices.

RESEARCH AND DEVELOPMENT

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

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

No significant events occurred at KA Finanz AG (KF) after the balance sheet date.

PARTICIPATIONS

KA Finanz AG (KF) does not hold any participations in other companies.

RISK REPORTING

Organisation

The Executive Board of KA Finanz AG (KF) is responsible for the company's risk strategy, while responsibility for risk management lies with KF's Chief Risk Officer. Risk Management is in charge of the independent monitoring and communication of risks and supports the Executive Board in all risk-policy matters, especially in the elaboration and implementation of the risk strategy and the design of a system for the adequate measurement, management and limitation of risks.

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

In operational and administrative terms, KF's risk management function is supported by services provided by Ithuba Capital AG (Ithuba) under the service agreement (SLA), in particular through the provision of limit and risk reports and the performance of additional portfolio analytics.

Specific risks of KF

The following risks are specifically monitored at KF:

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

KF's position in respect of these types of risk and its strategies for their measurement, monitoring and management are described in the following.

Credit risk

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

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

- Active credit risk monitoring is one of the core tasks of KF, especially against the background of its wind-down strategy.
- The development of existing credit risks is continuously monitored.
- The portfolio is being wound down through redemptions upon maturity, disposals in accordance with the wind-down plan, and disposals on an opportunistic basis when market prices recover or to avoid a foreseeable deterioration of risk in the case of expected rating downgrades.

Rating procedure

Ratings by external rating agencies (Moody’s, Standard & Poor’s, Fitch) are available for the majority of exposures (EUR 3.6 billion); they are continuously monitored and updated. All customers without external ratings (EUR 0.4 billion: a total of 92 counterparties, 50 of them in Austria) are rated internally at least once a year on the basis of their most recent balance sheet figures. Thus, all credit exposures can be fully classified on the basis of their probability of default and the type of collateral provided.

Credit exposure

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

Financial and other forms of collateral (sureties and guarantees) are considered in assessing credit exposures. Financial collateral taken into account primarily includes netting and cash collateral arrangements to reduce the counterparty risk. Financial collateral received reduces the existing exposure. If other forms of collateral or guarantee are available, the exposure can be counted towards the collateral / guarantee provider (substitution of guarantor). Depending on the assessment of the risk, the exposure is attributed to the collateral / guarantee provider and included in the portfolio model and the limit system.

As at 31 December 2020, KF’s credit exposure from risk positions totalled EUR 4.0 billion (31/12/2019: EUR 4.7 billion), distributed over 170 counterparties (31/12/2019: 200). EUR 1.2 billion (31/12/2019: EUR 1.5 billion) was accounted for by securities (bonds), EUR 2.6 billion by loans (31/12/2019: EUR 2.8 billion), EUR 4.2 million by guarantees (31/12/2019: EUR 32.2 billion), and EUR 0.3 billion by derivatives and other instruments (31/12/2019: EUR 0.4 billion).

In 2020, KF’s risk positions were reduced by EUR 0.6 billion or 13.9%. Some risk positions increased on account of counteractive foreign exchange effects.

Breakdown by rating

The breakdown of credit exposures by rating shows that in 2020 the portfolio continued to be concentrated in the top rating classes. As at 31 December 2020, 97.6% of the exposure was rated investment grade (BBB- or higher, 31/12/2019: 97.0%), and 80.0% was rated AAA/AA (31/12/2019: 73.6%). The weighted average rating of the total exposure is AA- (according to Standard & Poor’s/Fitch’s scale; 31/12/2019: AA-).

Table: Breakdown of exposure by rating as at 31/12/2020, in EUR 1,000

Rating	31/12/2019		31/12/2020	
	in EUR 1,000	Proportion	in EUR 1,000	Proportion
AAA/AA	3.430.343	73,6%	3,211,240	80,0%
A	679,008	14,6%	589,889	14,7%
BBB	412,261	8,8%	115,544	2,9%
Total	**4,521,612**	**97,0%**	**3,916,674**	**97,6%**
Non Investmentgrade	**139,539**	**3,0%**	**97,288**	**2,4%**

Breakdown by sector

Broken down by sector, 80.7% of the exposure is accounted for by the public sector (31/12/2019: 78.7%), 5.4% by financial institutions (31/12/2019: 6.9%) and 13.9% by public-sector entities (PSE), quasi-public enterprises and securitisations (31/12/2019: 14.4%).

Table: Breakdown of exposure by sector as at 31/12/2020, in EUR 1,000

Sector	31/12/2019			31/12/2020		
	in EUR 1,000	Proportion	Number of counterparties	in EUR 1,000	Proportion	Number of counterparties
Public sector	3,667,603	78,7%	114	3,239,932	80,7%	94
Financial institutions	323,522	6,9%	35	218,388	5,4%	32
Other	670,026	14,4%	51	555,642	13,8%	44
Total	**4,661,151**	**100,0%**	**200**	**4,013,961**	**100,0%**	**170**

Concentration risk

Risk concentrations are reported to the Risk Management Committee (RMC) on a monthly basis. The total portfolio is broken down by different parameters (breakdown by country, region, top-30 borrowers, rating, sector). In addition, risk concentrations in individual sub-portfolios are identified through portfolio analyses and monitored accordingly. Portfolio analytics comprise correlating regional and/or sector risks or risk concentrations and permit the early detection, limitation and management of risks under current and possible future conditions.

As at 31 December 2020, the exposure pertaining to the top-20 customers or groups of customers accounted for EUR 3.4 billion or 84.0% of the total exposure (31/12/2019: EUR 3.7 billion or 79.2%). Country concentrations outside the DACH region (Germany, Austria, Switzerland) were successfully reduced through active wind-down measures (above all USA, Italy). Apart from the exposures to the Province of Upper Austria (approx. EUR 1.0 billion, direct and guaranteed exposure), KF had no single-name risks in excess of EUR 300 million on its books as at 31 December 2020.

Country risk

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

Geographically, the major part of the exposure as at 31 December 2020 was accounted for by the euro area (EU-19, incl. Austria, 76.1%; 31/12/2019: 75.4%), with Austria alone accounting for 56.1% (31/12/2019: 51.1%). The exposure to other states accounted for 12.2% (31/12/2019: 12.6%), of which 9.7% to the USA and Canada.

Table: Breakdown of exposure by region as at 31/12/2020, in EUR 1,000

region	31/12/2019		31/12/2020	
	in EUR 1,000	Proportion	in EUR 1,000	Proportion
Austria	2,380,456	51,1%	2,253,440	56,1%
EU-19 (euro area exkl. Austria)	1,133,274	24,3%	801,530	20,0%
non-euro EU	412,405	8,8%	188,669	4,7%
non-EU-Europe	147,635	3,2%	279,104	7,0%
Others (esp. USA)	587,381	12,6%	491,217	12,2%
Total	**4,661,151**	**100,0%**	**4,013,961**	**100,0%**

As at 31 December 2020, the ten biggest risks from exposure to the public sector (sovereigns, territorial authorities and government-guaranteed positions) amounted to EUR 3.2 billion or 80.1% of the total portfolio (31/12/2019: EUR 3.6 billion or 77.7%), broken down as follows:

The ten biggest risks from exposure to sovereigns, territorial authorities and government-guaranteed positions, in EUR 1,000

#	Counterparty in EUR 1,000	Exposure as at 31/12/2020	Proportion	of which sovereigns	of which territorial authoroties	of which goverment guaranteed
1	Austria	2,121,095	52,8%	88,488	1,930,276	102,330
2	Germany	547,968	13,7%	0	547,968	0
3	Poland	183,105	4,6%	183,105	0	0
4	Switzerland	123,123	3,1%	0	123,123	0
5	Canada	64,029	1,6%	0	64,029	0
6	Qatar	61,341	1,5%	61,341	0	0
7	USA	49,094	1,2%	4,824	44,270	0
8	Mexico	29,495	0,7%	29,495	0	0
9	Netherlands	24,988	0,6%	0	0	24,988
10	Malta	11,885	0,3%	0	0	11,885
	Total top 10	**3,216,122**	**80,1%**	**367,253**	**2,709,667**	**139,202**
	Total portfolio	**4,013,961**	**100,0%**	**504,085**	**2,721,641**	**139,202**

Of the ten biggest risks from exposure to the public sector in a total amount of EUR 3.2 billion, EUR 2.7 billion or 67.4% (31/12/2019: EUR 3.1 billion or 65.5%) was accounted for by the euro area, including an exposure of EUR 2.1 billion to Austria (31/12/2019: EUR 2.2 billion).

The exposure to Austrian territorial authorities (EUR 2.1 billion) includes an exposure of EUR 1.8 billion to Austrian provinces (31/12/2019: EUR 1.8 billion). The major part of this exposure (EUR 1.1 billion) is accounted for by subsidised housing loans originated by the Austrian federal provinces and bought by the former Kommunalkredit. These subsidised retail housing loans are secured by mortgages and guaranteed by the federal provinces concerned.

Table: Exposure to Austrian provinces as at 31/12/2020, in EUR 1,000

Counterparty (in EUR 1,000)	Exposure as at 31/12/2020	Proportion	of which direct exposure	of which guaranteed exposure excl. Housing loans	of which housing loans
Upper Austria	944,391	23,5%	0	420,424	523,967
Styria	286,110	7,1%	0	-	286,110
Carinthia	258,779	6,4%	0	-	258,779
Burgenland	222,024	5,5%	0	222,024	-
Vienna	486	0,0%	486	-	-
Lower Austria	42,514	1,1%	9,861	-	32,653
Total	**1,754,304**	**43,7%**	**10,347**	**642,448**	**1,101,509**
Toal portfolio	**4,013,961**	**100,0%**			

Guarantee exposure

As at 31 December 2020, the risk-relevant guarantee exposure amounted to EUR 4.2 million (31/12/2019: EUR 32.2 million).

Loan loss provisioning

Provisioning for risks in the lending business comprises impairments and provisions for all identifiable rating and country risks.

The portfolio is reviewed regularly for objective indications of impairments of customer exposures. Impairment tests are performed either in the course of the annual rating updates or on an event-triggered basis. Loan loss provisions are determined by Risk Management (back office); they are subject to approval by the Executive Board and are reported to the Supervisory Board.

As at 31 December 2020, no specific loan loss provisions were set up (31/12/2019: EUR 0.3 million). Following adjustments to the calculation method applies, portfolio loan loss provisions increased to EUR 2.3 million (31/12/2019: EUR 0.2 million).

The non-performing-loan ratio stands at 0.0% (31/12/2019: 0.0%).

At the end of the reporting period, KF had no financial assets that were past due more than 90 days but not impaired.

Counterparties with increased credit risk (watch list)

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

Level 0: Standard risk category for all counterparties not belonging to any of the following risk classes
Level 1: Counterparties with slightly increased credit risk and/or a negative trend and therefore subject to close monitoring
Level 2: Distressed exposures (payment arrears, credit impairment), except for distressed loans for which default according to Basel III has been identified
Level 3: Default according to Basel III (receivables past due > 90 days or unlikely to be repaid in full – “unlikeliness to pay”)

All counterparties within levels 1 to 3 are entered into the watch list of counterparties with increased credit risk, which is continuously updated and reported quarterly to the Credit Committee (CC) and the Supervisory Board of KF. The watch list primarily serves the purpose of providing qualitative information on the exposure at risk. Measures to be taken are decided in consultation with the Executive Board within the framework of the Credit Committee. Counterparties for which loan loss provisions exist are classified as level 3. As described above, the credit risk exposures in the watch list classes are shown less existing loan loss provisions.

As at 31 December 2020, KF's total exposure amounted to EUR 4.0 billion (31/12/2019: EUR 4.7 billion). The exposure to counterparties with increased credit risk totalled EUR 125.3 million or 3.1% (31/12/2019: EUR 404.2 million or 8.7%), of which EUR 22.3 million or 0.6% (31/12/2019: EUR 298 million or 6.4%) were on the watch list within risk level 1. EUR 103 million or 2.6% (31/12/2019: EUR 106 million or 2.3%) were under intensive management (level 2); EUR 0.0 million or 0.0% (31/12/2019: EUR 0.0 million or 0.0%) had defaulted or were at immediate risk of default (level 3). This resulted in a non-performing-loan (NPL) ratio of 0.0% (31/12/2019: 0.0%).

Unexpected loss – Portfolio credit risk model

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

As at 31 December 2020, the unexpected loss from credit defaults within one year, calculated as described above, totalled EUR 104.2 million at a confidence level of 99.9% (31/12/2019: EUR 130.6 million).

Liquidity risk

While KA Finanz AG (KF) primarily relied on short-term funding raised in the capital market until mid-2017, KF as a wind-down unit is now being funded by ABBAG (a company wholly owned by the Republic of Austria and responsible for the management of wind-down facilities) at matching maturities and/or depending on the requirements of the wind-down plan. As a result of this change in funding structure and the associated prolongation of maturities, the independence from the capital market and the foreseeability of funding terms, KF's liquidity risk has been significantly reduced in all its dimensions.

Liquidity risk management

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

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

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

Short-term liquidity risk (< 1 year)

The following table shows the expected liquidity gaps, the additional liquidity to be raised through measures planned, and the liquidity position after such measures, as of 31 December 2020 for the next twelve months.

Table: Liquidity position as at 31/12/2020, in EUR million

as at 31/12/2020	Expected liquidity gap	Additionally available liquidity	Liquidity position after measures
Up to one month	554	2.017	2.571
More than one month up to three months	-460	42	-418
More than three months up to one year	196	-193	3
Total (cumulative up to one year)	**290**	**1.866**	**2.156**

Table: Liquidity position as at 31/12/2019, in EUR million

as at 31/12/2019	Expected liquidity gap	Additionally available liquidity	Liquidity position after measures
Up to one month	957	2.001	2.958
More than one month up to three months	-20	191	171
More than three months up to one year	-787	-7	-794
Total (cumulative up to one year)	**150**	**2.185**	**2.335**

Long-term liquidity risk (≥ 1 year)

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

Organisation and reporting

The structural liquidity risk is discussed within the framework of the monthly RMC meetings. At the weekly meetings of the Asset Liability Committee (ALCO), the operational liquidity risk is monitored on the basis of the dynamic liquidity forecast under different scenario assumptions and managed accordingly. Compliance with liquidity risk limits is also monitored within the framework of ALCO.

Market risk

Market risks arise from potential changes of risk factors, which may lead to a decline in the market value of financial positions dependent on these risk factors. For the valuation of the KA Finanz AG (KF) portfolio, the most important market risk factors by far are credit spreads, followed by interest rates.

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

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

Credit spread risk

KF defines the credit spread risk as the risk of fair value losses due to credit spread changes. Widening credit spreads result in fair value losses of securities, loans and CDS. The credit spread sensitivity represents the fair value loss for a scenario of all credit spreads widening by one basis point.

As at 31 December 2020, the negative credit spread sensitivity was EUR 2.8 million (31/12/2019: EUR -3.0 million) for the loan portfolio, EUR 1.6 million (31/12/2019: EUR -2.0 million) for the securities portfolio, and almost zero (31/12/2019: TEUR -3) for the guarantee portfolio.

Interest rate risk

As at 31 December 2020, KF's interest rate risks were low, as its position continued to be largely neutral with regard to interest rate changes. For the measurement, management and limitation of interest rate risks, KF basically distinguishes between the period-oriented, short-term repricing risk and the present-value-oriented, long-term risk of changing interest rates. The former is the risk of a reduction in net interest income, while the latter is the risk of losses in present value due to interest rate changes.

To ensure the efficient monitoring and limitation of the interest rate risk, KF uses analytical tools for the targeted management of the net-present-value risk of interest rate changes and the net-interest-income risk of the period. In particular, interest gap structures (expiry of fixed interest periods) and net-present-value sensitivities are analysed by currency and maturity range and different interest rate scenarios are simulated.

The following table shows the NPV interest rate risk of KF for the main currencies as at 31 December 2020 in TEUR, assuming a parallel shift of the yield curve by 1 basis point (DV01). As a basis for the calculation of the present values, rating- and term-dependent mean default rates have been assumed.

Table: Interest rate sensitivities as at 31/12/2020, in EUR 1,000

in EUR 1,000	EUR	USD	GBP	CHF	Other	Total
DV01	-156	-9	3	-7	3	**-166**

Table: Interest rate sensitivities as at 31/12/2019, in EUR 1,000

in EUR 1,000	EUR	USD	GBP	CHF	Other	Total
DV01	-130	12	7	-16	4	**-123**

The interest rate risk is monitored and managed at least monthly within the framework of the Risk Management Committee (RMC).

Operational decisions on interest-rate-risk management are taken at the weekly meetings of the Asset Liability Committee (ALCO).

Currency risk

Given the fact that the end of the wind-down horizon precedes the maturity dates of a substantial number of assets, the USD FX risk remaining after the 2018 asset disposals has been steered in accordance with the base case wind-down plan (economic hedge) since 2018. In balance sheet terms, the base case hedge means an open USD position in the amount of USD losses expected beyond the wind-down horizon; in economic terms, the expected wind-down results are hedged and the P&L losses due to USD fluctuations are neutralised. As at 31 December 2020, the target for the resultant USD FX position was USD 36.5 million (+/- USD 1.5 million).

For the other currencies, the FX risk strategy of a closed FX position remains unchanged, as the relevant nominal values as well as the potential absolute deviations are much lower.

For the operational management of any open FX positions, not only outflows and redemptions, but also interest, commission and premium accruals, as well as cash-outs from the derivatives business are taken into account. The currency risk is monitored and managed daily. Exponentially weighted historical volatilities and correlations of exchange rates over a past observation period of 400 days are used to calculate the FX VaR (holding period 1 trading day, confidence interval 99%). As at 31 December 2020, the cumulative open FX position across all foreign currencies stood at EUR 30.6 million (of which EUR 30.7 million USD position) and the diversified FX VaR at TEUR 10.3 (31/12/2019: TEUR 7.9).

The following table shows the net currency swap position as at 31 December 2020.

Table: Net currency swap position as at 31/12/2020, in EUR million

in EUR million	USD	CHF	JPY	GBP	Other	Total
Net position	-314	-112	5	-28	-2	**-451**

Table: Net currency swap position as at 31/12/2019, in EUR million

in EUR million	USD	CHF	JPY	GBP	Other	Total
Net position	-417	-134	1	-30	-3	**-583**

Basis risk

The basis risk for KF consists in the risk of net present value losses or net interest income losses due to changing basis swap spreads. Basis swap contracts are being entered into in order to balance the two variable legs of a short-term interest rate swap (basis swap) with different indices, e.g. 3-month LIBOR against 6-month LIBOR. Changes in basis swap spreads have an impact on the valuation of all financial instruments linked to interest rate indicators (e.g. floating-rate securities, interest rate swaps). To measure the basis risks, the net present value sensitivity, i.e. the impact of the corresponding basis swap spread widening by one basis point on the market valuation, is calculated.

As at 31 December 2020, the total net present value sensitivity to LIBOR basis spread changes amounted to EUR -1.2 million (31/12/2019: EUR -1.7 million).

Operational risk & business continuity management

KA Finanz AG (KF) defines operational risk as the possibility of losses occurring due to the inadequacy or failure of internal processes, people and systems or as a result of external events. Legal risks are also part of operational risk (see Note 4.13). External events classified as pure credit risk, market risk, liquidity risk or other types of risk with no operational background are not covered by this definition. The purpose of operational risk management (ORM) is to generate added value for KF through the ORM process.

Responsibility for the ORM process lies with KF’s Operational Risk Officer (= Head of Risk Management). Operational Risk Correspondents (ORCs) in the various units, appointed by the Executive Board after consultation with the Operational Risk Officer, act as points of contact and interfaces to Operational Risk Management and support the ORM process.

The Executive Board is informed about developments relating to operational risks within the framework of the monthly Risk Management Committee (RMC) meetings and twice a year at the Executive Board meetings.

Business continuity management (BCM) ensures adequate, comprehensive and efficient operational continuity management. This includes the elaboration and management of continuity and recovery plans as well as the implementation of measures designed to minimise interruptions of critical business processes, including the provision of an external emergency computer centre and alternative workplaces in the event of KF's office premises being not available, as well as an emergency scenario in the event of a pandemic.

The resource assessment and the business impact analysis (BIA) for 2020 were performed. The business processes and IT services were assessed for their criticality and to verify the time to full restoration of services in the event of a crisis. Based on a risk analysis, a concrete measure designed to ensure safe working from home was implemented. As at the balance sheet date, the scope of the BCM activities covered the IT services and the local resources provided by Ithuba Capital AG (Ithuba) as the general contractor (Ivellio-Vellin as a sub-contractor).

INTERNAL CONTROL SYSTEM (ICS)

Introduction

The objective of the internal control system (ICS) is to support the Management in the implementation of effective internal controls regarding compliance with the relevant legal provisions, the regularity of accounting practices, the reliability of operational reporting and the effectiveness and efficiency of operational processes. The ICS is intended, on the one hand, to ensure compliance with guidelines and regulations and, on the other hand, to create the necessary prerequisites for specific control measures to be applied in key accounting and financial reporting processes. Its primary goals include the correct and transparent disclosure of the assets, the financial position and the income of the company and the verification of compliance with regulatory requirements. The ICS of KA Finanz AG (KF) consists of five interrelated components: control environment, risk assessment, control measures, information / communication, and supervision.

Control environment

The corporate culture as the overall framework for management and staff activities represents the fundamental aspect of the control environment. The company actively communicates its own set of fundamental values. The highest possible level of ethics and integrity within the company and in its relations with others is aimed at. Key organisational principles concern the avoidance of conflicts of interest through the separation of front-office and back-office operations, the transparent documentation of core processes and control steps, as well as the consistent implementation of the four-eye principle.

Based on a service agreement (SA), KF outsourced essential components of its processes to Ithuba Capital AG (Ithuba). This applies, in particular, to accounting and reporting and the associated processes, including the related controls. However, the ultimate responsibility for all the activities outsourced under the SA, the results of such activities and the key controls to be performed by the ICS remains with the respective division heads of KF. An essential additional control function regarding the acceptance of services provided under the SA is performed within the framework of service provider management by the Operating Office, which is responsible for centralised monitoring of the completeness, punctuality and adequacy/quality of the services provided.

KF’s internal audit function independently verifies compliance with all internal and external rules on a regular basis and reports directly to the Executive Board and the Supervisory Board.

Risk assessment

KF’s risk management is aimed at discovering all essential identifiable and/or measurable risks and, if necessary, initiating defensive and preventive measures. This also includes the risks of material misstatements of transactions. The risk management system comprises all processes serving to identify, analyse and assess risks. Risks are assessed and monitored by the units in charge within the framework of the Internal Control System (ICS). Special attention is paid to risk categories regarded as material. The internal control measures taken by the units in charge are evaluated on a regular basis and reported continuously to the governing bodies.

Control measures

KA Finanz AG (KF) has a regulatory system in place which defines the structures, processes, functions and responsibilities as well as the related control activities within the company. It is based on guidelines, standard operating procedures and rules of procedure. This also applies to information processing, the documentation of information sent and received, as well as the elimination of process risks involved in transactions. In addition to the Executive Board and the Supervisory Board, the general control environment at KF also comprises the senior management level (Risk Management, Portfolio Management & Treasury, Operating Office), the anti-fraud process under the responsibility of the Compliance Officer / ALM, and Internal Audit.

All control measures are implemented with a view to ensuring that potential errors or non-compliances are prevented and/or discovered and corrected as early as possible.

IT security control measures are an essential component of the Internal Control System (ICS). The separation of sensitive activities is supported by a restrictive policy of granting IT user access rights and strict compliance with the four-eye principle.

Organisation and reporting to the governing bodies

KF's division heads report to the Executive Board, which in turn reports regularly to the Supervisory Board. The Head of Internal Audit and the Compliance Officer also submit regular reports to the Supervisory Board.

The Supervisory Board regularly receives comprehensive reports, comprising information on the financial statements (balance sheet and income statement, including comments on significant developments, budgeting) of the company as well as reports relating to the development of risks, sub-portfolios and the progress of portfolio wind-down. Regular information for the owner, the investors and market partners of the company as well as the public at large is provided through the Interim Financial Report and the Annual Financial Report. Moreover, the legal requirements regarding ad-hoc notifications are met.

Supervision

The financial reports to be published are subjected to a final review by senior employees of the outsourced accounting function and the Operating Office. After their release, they are officially adopted by the Executive Board of KA Finanz AG (KF) prior to their submission to the Audit Committee of the Supervisory Board.

By monitoring compliance with all rules, a maximum level of security for all operational procedures and processes and conformity with all guidelines applicable within KF as well as the rules on process documentation are to be ensured. If risks and weaknesses in the control system are detected, remedial and defensive measures are immediately analysed and their implementation is monitored consistently.

To ensure compliance with the rules and guidelines in place, regular audits are performed in accordance with the annual audit plan drawn up by Internal Audit.

COMPLIANCE AND MONEY LAUNDERING

Compliance risks, such as sanctions imposed by the regulator, financial losses or damage to the company's reputation, can arise when companies violate laws, sector-specific regulations, internal guidelines or obligatory best practices.

To contain the compliance risk, KA Finanz AG (KF) has set up an internal compliance organization (2nd line of defence), which reports to the Executive Board (both board members / Gesamtvorstand) of KF, acts independently and is not bound by instructions. The primary task of the compliance organisation is to ensure compliance with the legal provisions, detect potential violations of legal requirements or internal rules and thus prevent potential occurrences that might jeopardise the reputation of the company. The Compliance (and AML) Policy, which must be observed by the Supervisory Board, the Executive Board and all employees, covers the prevention of money laundering and the financing of terrorism, the prevention of fraud and corruption, the avoidance of conflicts of interest, insider trading and market abuse, and complaints management. The guidelines implemented provide orientation for KF's employees in the performance of their activities. The internal Compliance Policy ensures that all legal provisions regarding the prevention of insider trading and market manipulation as well as the code of conduct are fully complied with. In his/her additional function as anti-money-laundering officer, the Compliance Officer is also responsible for ensuring compliance with the special duty of diligence required by the Financial Market Anti-Money Laundering Act. Moreover, KF has an anonymous whistle-blower system, which is centrally managed by the Compliance Officer. The implementation of a regulatory compliance function by means of a central inventory guarantees additional transparency of the legal framework so as to ensure compliance with all legal and regulatory requirements. The Compliance Officer reports regularly to the Executive Board of KF and once a year to the Supervisory Board.

Public Corporate Governance Code of the Republic of Austria

At the end of October 2012, the Austrian federal government adopted the Public Corporate Governance Code (B-PCGK), which was amended in the summer of 2017. The Code, which applies to enterprises in which the Republic of Austria holds a majority share, either directly or indirectly, is relevant for KA Finanz AG (KF). KF endorses the principles of the Code and implemented it by resolution of the Annual Shareholders' Meeting of 28 May 2013; the provisions amended in 2017 have also been implemented. A corporate governance report based on the requirements of the Code has to be prepared by the Executive Board and the Supervisory Board once a year and published on the company's website. The report is available on the KF website under "Investor Relations".

Pursuant to Rule K-15.5 of the Code, compliance with the provisions of the Code is to be evaluated by an external institution on a regular basis, at least every five years. The result of the evaluation is to be disclosed in the corporate governance report. The most recent evaluation was performed by Deloitte Audit Wirtschaftsprüfungs GmbH for the business year 2019; the next evaluation is due in 2024.

OUTLOOK

In an update of its outlook for the world economy published in January 2021, the International Monetary Fund (IMF) increased its forecast for the rate of global economic growth in the coming year to 5.5%. Besides the positive impact of the coronavirus vaccination campaigns, the IMF also expects that some of the major industrialized countries will implement further economic stimulus packages. As regards the euro area, the IMF revised its 2021 forecast downward to 4.2%. For the USA, the world's biggest economic power, a growth rate of 5.1% is anticipated, while China is expected to grow at a significantly higher rate of 8.1%. The extent to which these forecasts are actually fulfilled will depend on whether the pandemic can be brought under control through vaccination programmes, lockdowns and hygiene measures, despite the appearance of virus mutations. In Austria, too, the central bank (*Oesterreichische Nationalbank – OeNB*) expects to see a strong economic recovery in 2021, provided the country is not hit by another wave of infections in the spring, health-policy measures can be moderated in the first half of the year, and a sufficient degree of immunization of the population is successfully achieved by the end of the year.

In 2021, KA Finanz AG (KF) will continue to actively wind down its risk positions and reduce complexity in the portfolio, especially regarding derivatives and syndicated financing transactions. This is to ensure the flexibility required for KF's wind-down activities in the coming years. The optimisation of structures and outsourced services will be another priority of KF's strategic positioning against the background of its reduced portfolio.

In the first quarter, the last outstanding publicly placed covered bond (volume EUR 500 million) is being redeemed. So-called legacy funding (i.e. funding from the time before the de-banking in 2017) will thus be reduced to less than 5% of the total funding volume. Liquidity gained through asset sales and redemptions will be used, above all, to redeem funding received from ABBAG.

As in previous years, the main emphasis will again be on winding down positions outside the DACH region (Austria, Germany, Switzerland). Alongside scheduled redemptions and maturities of positions, KF will focus on eliminating individual securities or credit exposures. Upon a ceteris-paribus assumption – i.e. change of market parameters aside - the scheduled wind-down measures will result in a further reduction of hidden burdens and the remaining risk positions in the portfolio.

Vienna, 10 March 2021

The Executive Board of
KA Finanz AG

Helmut Urban
Chairman of Executive Board

Gabriele Müller
Member of the Executive Board

SEPARATE FINANCIAL STATEMENTS OF KA FINANZ AG, VIENNA, FOR THE BUSINESS YEAR 2020

BALANCE SHEET OF KA FINANZ AG (pursuant to the Austrian Banking Act)

Assets in EUR		Note		31/12/2020	31/12/2019
1.	**Cash and balances with central banks**			**534,400,597.68**	**931,828,414.83**
2.	**Public-sector debt instruments eligible as collateral for central bank funding**	4.1.		**13,901,189.51**	**156,951,004.01**
	a) Public-sector debt instruments and similar securities		13,901,189.51		156,951,004.01
3.	**Loans and advances to banks**	4.2.		**903,010,919.02**	**1,012,738,984.73**
	a) repayable on demand		888,444,038.49		997,224,757.10
	b) other loans and advances		14,566,880.53		15,514,227.63
4.	**Loans and advances to customers**	4.3.		**3,365,909,955.06**	**3,867,885,000.66**
5.	**Bonds and other fixed-income securities**	4.4.		**378,947,908.38**	**529,172,160.70**
	a) of public issuers		308,576,120.41		432,609,913.68
	b) of other issuers		70,371,787.97		96,562,247.02
6.	**Property, plant and equipment**	4.5.		**113,251.90**	**104,941.13**
7.	**Other assets**	4.6.		**77,840,456.30**	**40,605,820.85**
8.	**Accruals/deferrals**	4.7.		**14,098,839.03**	**26,044,782.24**
	Total assets			**5,288,223,116.88**	**6,565,331,109.15**

	Off-balance-sheet items		
1.	Foreign assets	2,591,566,189.48	3,348,487,668.28

	Liabilities in EUR	Note	31/12/2020		31/12/2019
1.	**Amounts owed to banks**	4.8.		**96,483,190.82**	**169,500,316.13**
	a) repayable on demand		94,437,623.70		*131,082,848.20*
	b) with agreed maturity or period of call		2,045,567.12		*38,417,467.93*
.2.	**Amounts owed to customers**	4.9.		**4,373,908,756.16**	**4,509,649,049.93**
	a) other amounts owed				
	of which:				
	aa) repayable on demand		154,027,009.10		208,102,373.46
	bb) with agreed maturity or period of call		4,219,881,747.06		4,301,546,676.47
3.	**Securitised liabilities**	4.10.		**594,750,518.36**	**1,627,724,564.88**
	a) bonds issued		594,750,518.36		1,627,724,564.88
4.	b) other securitised liabilities	4.11.		**96,609,540.93**	**107,259,990.99**
5.	**Accruals/deferrals**	4.12.		**10,037,449.73**	**17,603,218.81**
6.	**Provisions**	4.13.		**71,204,762.04**	**87,418,293.48**
	a) Provisions for severance pay		165,180.08		140,284.34
	b) Pension provisions		3,255,667.47		3,410,025.57
	c) Provision for taxes		6,619,360.62		6,638,955.66
	d) other provisions		61,164,553.87		77,229,027.91
7.	**Supplementary capital**	4.14.		**45,228,898.84**	**46,175,674.93**
8.	**Subscribed capital**	4.15.		**389,000,000.00**	**389,000,000.00**
9.	**Capital reserves**	4.16.		**74,819,429.23**	**74,819,429.23**
	a) additional paid-in capital		65,845,802.70		65,845,802.70
	b) unappropriated reserves		8,973,626.53		8,973,626.53
10.	**Statutory reserve pursuant to § 57 (5) of the Austrian Banking Act**	4.17.		**93,388,106.42**	**93,388,106.42**
11.	**Net loss**			**-557,207,535.65**	**-557,207,535.65**
	Total liabilities			**5,288,223,116.88**	**6,565,331,109.15**

	Off-balance-sheet items				
1.	Contingent liabilities	5.1.		13,093,799.91	40,484,513.52
	of which:				
	a) Liabilities from sureties and guarantees and liabilities from the assignment of collateral		13,093,799.91		40,484,513.52
2.	Foreign liabilities			899,151,004.66	1,693,785,986.09

INCOME STATEMENT OF KA FINANZ AG
(pursuant to the Austrian Banking Act)

	in EUR	Note		2020	2019
1.	Interest and similar income			132,275,036.39	196,663,892.35
	of which:				
	from fixed-income securities		26,023,677.70		40,160,087.95
2.	Interest and similar expenses			-116,555,975.11	-184,328,355.90
I.	**Net interest income**	7.1.1.		**15,719,061.28**	**12,335,536.45**
3.	Fee and commission income	7.1.2.		294,600.03	706,406.26
4.	Fee and commission expenses	7.1.2.		-9,709,135.44	-15,871,059.38
5.	Income/expenses from financial transactions	7.1.3.		-3,051,057.80	-37,753.00
6.	Other operating income			112,762,816.79	6,675,842.59
II.	**Operating income**			**116,016,284.86**	**3,808,972.92**
7.	General administrative expenses	7.1.4.		-15,550,629.36	-19,724,962.75
	a) Personnel expenses		-4,054,846.22		-3,864,996.83
	of which:				
	aa) Salaries		-2,940,277.17		-2,868,217.49
	bb) Expenses for statutory social-security charges and salary-dependent charges		-495,376.84		-467,979.44
	cc) Other social expenses		-25,999.68		-41,134.60
	dd) Expenses for pensions		-676,391.48		-673,394.77
	ee) Appropriations to pension provisions		154,358.10		276,368.46
	ff) Expenses for severance pay and contributions to pension funds		-71,159.15		-90,638.99
	b) Other administrative expenses (non-personnel)		-11,495,783.14		-15,859,965.92
8.	Valuation adjustments of assets reported under asset item 7			-25,836.31	-29,948.76
9.	Other operating expenses			-115,723,792.45	-4,088,279.16
III.	**Operating expenses**			**-131,300,258.12**	**-23,843,190.67**
IV.	**Operating result**			**-15,283,973.26**	**-20,034,217.75**
10.	Expenses from valuation adjustments of receivables and appropriations to provisions for contingent liabilities and credit risk	7.1.5.		-54,566,197.84	-28,258,822.32
11.	Income from valuation adjustments of receivables and appropriations to provisions for contingent liabilities and credit risks	7.1.5.		0.00	0.00
12.	Expenses from valuation adjustments of securities treated as non-current financial assets and of participations and investments in affiliated companies	7.1.5.		0.00	-1,914,987.81
13.	Income from valuation adjustments of securities treated as non-current financial assets and of participations and investments in affiliated companies	7.1.5.		0.00	0.00
V.	**Profit on ordinary activities**			**-69,850,171.10**	**-50,208,027.88**
14.	Extraordinary income			79,552,102.30	77,839,355.39
	of which: drawings on the fund for general banking risks		0.00		0.00
15.	Extraordinary expenses			-9,638,074.24	-27,928,932.61
	of which: appropriations to the fund for general banking risks		0.00		0.00
16.	**Extraordinary result**	7.1.6.		**69,914,028.06**	**49,910,422.78**
17.	Taxes on income	7.1.7.		-63,856.96	309,429.47
18.	Other taxes not to be reported under item 17			**0.00**	-11,824.37
VI.	**Loss for the year**	7.1.8.		0.00	**0.00**
19.	Loss carryforward			-557,207,535.65	-557,207,535.65
VII.	**Net loss**			**-557,207,535.65**	**-557,207,535.65**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF KA FINANZ AG, VIENNA, FOR THE BUSINESS YEAR 2020

1. General information

KA Finanz AG (hereinafter called KF), with its registered office in 1020 Vienna, Taborstrasse 1-3, is a wind-down unit mandated to wind down the non-strategic business of the former Kommunalkredit Austria AG (hereinafter called the former Kommunalkredit)[3]. It is registered with the Commercial Court of Vienna under Companies Register number 128283b.

KF was established on 28 November 2009 through the demerger of the former Kommunalkredit and is the legal successor of the latter. As provided for in the restructuring plan approved by the European Commission (EC) on 31 March 2011, KF is responsible for the structured wind-down of the non-strategic portfolio.

On 6 September 2017, the Financial Market Authority (FMA) approved the operation of KF as a wind-down unit pursuant to § 162 of the Austrian Bank Recovery and Resolution Act (*Bundesgesetz über die Sanierung und Abwicklung von Banken – BaSAG*). KF's banking license expired as of that date. As a wind-down unit, KF continues to be supervised by FMA.

KF's business purpose is to pursue targeted de-risking, to use any potential for the reversal of impairments to the greatest possible extent, and to secure an adequate level of liquidity. The bank does not engage in any new asset-side business. KF's funding structure has been adjusted to the objectives of a wind-down unit. Funding for KF is provided by ABBAG, a company wholly owned by the Republic of Austria and responsible for the management of wind-down facilities. KF no longer raises new funding in the money and capital markets.

The Republic of Austria holds 100% of the shares in KF.

2. Accounting rules applied

Pursuant to § 84 (2) of the Bank Recovery and Resolution Act, the accounting provisions of the Austrian Banking Act (*Bankwesengesetz – BWG*) in conjunction with the provisions of the Austrian Company Code (*Unternehmensgesetzbuch – UGB*) apply to KF.

[1] In these financial statements the following names are used for the entities involved:
- Kommunalkredit Austria AG prior to the 2009 demerger (until 28/11/2009): former Kommunalkredit
- Kommunalkredit Austria AG since the 2009 demerger until the 2015 demerger for new incorporation (until 26/09/2015): Kommunalkredit Old
- Kommunalkredit Austria AG, after the 2015 demerger for new incorporation (from 26/09/2015): Kommunalkredit
- KA Finanz AG: KF

3. Accounting and measurement rules

3.1. General remarks

These 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 these 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 by 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 recognised in profit or loss in the period to which they are economically attributable. Interest is recognised as it accrues in net interest income, considering all contractual arrangements made in connection with the financial assets or liabilities. Commissions for services provided over a certain period of time are recognised over the period of service provision. Fees related to the completion of service provision are booked as income at the time of completion.

The figures are presented partly in EUR million or EUR billion. Therefore, rounding differences may occur in the sum totals of rounded amounts and percentages.

3.2. Changes in accounting and measurement methods

The accounting and measurement methods applied in the preparation of these annual financial statements, as compared to 2019, were changed in respect of the distribution of discounts on subsidised housing loans.

On account of the method previously applied in the distribution of discounts on subsidised housing loans, especially in the case of partial redemptions, net interest income fluctuated substantially in the course of the year.

As if 1 January 2020, these fluctuations were eliminated through conversion to the effective interest method, with partial redemptions taken into account. The positive effect of the conversion on net interest income amounts to EUR 3.6 million. Interest income will therefore be lower in the future. As at 31 December 2020, discounts on housing loans amounted to EUR 215.9 million.

In the past, portfolio loan loss provisions were determined as the expected value of losses incurred but not detected by balance sheet date. As of 2020, provisions are set up for the entire expected loss of one year. As a result, an amount of EUR 2.1 million was appropriated to portfolio loan loss provisions.

3.3. Accounting treatment of compensation payments owing to the conversion of interest on cash collateral from EONIA to €STR

Compensation payments owing to the conversion of interest on cash collateral from EONIA to €STR immediately carry through profit or loss at KF. Overall, income from compensation payments amounted to EUR 0.7 million.

3.4. Currency translation

The reporting currency is the euro. Assets and liabilities in foreign currencies are translated at the rates notified by the European Central Bank (ECB) on the balance sheet date pursuant to § 58 (1) of the Austrian Banking Act. Forward transactions not yet settled are translated at the forward rate on the balance sheet date.

3.5. Receivables

Receivables to be wound down within the coming twelve months in accordance with the wind-down plan are recognised at the current market value, taking the upper acquisition cost limit into account. Receivables purchased from third parties to be wound down within a period of more than twelve months 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 hedge accounting, see Note 3.12. Differences between the issue price and the amount repayable (discount/premium) are distributed over the term of the instrument as an interest component and recognised on a linear basis in net interest income, with redemptions taken into account. Discounts on subsidised housing loans are distributed as an interest component in accordance with the effective interest method.

Specific loan loss provisions are set up for identifiable credit risks. Specific loan loss provisions are quantified on the basis of the expected losses, taking the recovery rates (cash flow models including collateral) into account. If appropriate, the values determined on the basis of the notional recovery rates are matched against existing secondary market prices.

Portfolio loan loss provisions are set up in the amount of the expected loss of one year.

3.6. Securities

Securities to be held permanently for the company's business operations are classified as non-current assets. Securities that are not allocated to non-current assets are classified as current assets.

Securities classified as non-current assets are recognised at cost on the basis of the mitigated lower-of-cost-or-market principle. If securities classified as non-current assets were impaired in past financial periods and the reasons for impairment have ceased to exist, they are written up to their amortised cost. The company elects to write down pro-rata temporis the acquisition cost exceeding the amount repayable. The option of writing up the amount exceeding the amount repayable on a pro-rata temporis basis is used as well.

Securities classified as current assets are recognised at fair value, provided the fair value is below cost.

Fair value measurement:

In general, the methods used to measure the fair value of securities can be classified in three categories. The first step in determining the fair value is to calculate a mid-market price. To obtain a bid price, a liquidity premium is deducted.

If prices are quoted in an active market (minimum bid size EUR 1 million) – usually quotes from Bloomberg – these are used for fair value measurement.

If prices for securities are not quoted in an active market, but prices are available for financial instruments of the same issuer, spreads and prices are derived from the prices of those financial instruments.

For all other securities, prices are determined on the basis of benchmark spreads derived from the market.

For micro hedge accounting, see Note 3.12.

All securities are regularly analysed and measured; securities that have been downgraded by more than two notches and/or the price of which has fallen by more than 20% are subject to special monitoring. Based on these analyses, no additional extraordinary write-offs pursuant to § 204 (1.2) of the Austrian Company Code were required, as the impairments are expected to be of short duration.

At book values, the securities portfolio developed as follows:

Securities portfolio at book values (*) in EUR	31/12/2020	31/12/2019	Change
Securities classified as non-current assets	675,855,162.32	1,044,439,649.32	-368,584,487.00
Securities classified as current assets	466,646,780.36	444,561,155.54	22,085,624.82
Total	**1,142,501,942.68**	**1,489,000,804.86**	**-346,498,862.18**

(*) associated interest rate swaps not taken into account

The drop in book values of the securities portfolio, as compared to the previous year, is primarily due to active wind-down measures, scheduled redemptions, foreign exchange effects and the valuation of positions to be wound down in accordance with the wind-down plan within the coming twelve months. In 2020, securities with a nominal value of EUR 291,238,032.21 (2019: EUR 135,000,000.00) were reclassified from non-current assets to current assets.

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

Differential amounts pursuant to § 56 (2) and § 56 (3) Austrian Banking Act in EUR	**31/12/2020**	**31/12/2019**
Differential amount pursuant to § 56 (2) of the Austrian Banking Act (Difference between the higher acquisition cost of the securities and the amount repayable)	178,335.63	4,450,102.86
Differential amount pursuant to § 56 (3) of the Austrian Banking Act (Difference between the lower acquisition cost of the securities and the amount repayable)	115,655.03	162,357.77

For securities classified as non-current assets, the following hidden reserves and/or hidden burdens (associated interest rate swaps not taken into account) are recognised:

Determination of hidden burdens in EUR	31/12/2020	31/12/2019
Book value	47,366,448.19	161,357,912.70
Fair value	40,344,935.13	146,776,167.48
Hidden burdens	**-7,021,513.06**	**-14,581,745.22**

Determination of hidden reserves in EUR	31/12/2020	31/12/2019
Book value	628,488,714.13	883,081,736.62
Fair value	864,003,895.54	1,174,645,154.47
Hidden reserves	**235,515,181.41**	**291,563,417.85**

Hidden reserves mainly result from fixed-income securities, the high market value of which is due to the low level of interest. Hidden reserves and hidden burdens are booked against the fair values of interest rate derivatives concluded for hedging purposes.

As at 31 December 2020, hidden burdens of securities classified as non-current assets, recognised at their fair value (§ 238 (1.2.a) of the Austrian Company Code), are accounted for entirely by bonds and other fixed-income securities.

In 2019, hidden burdens were distributed over the following balance sheet items:

Distribution of hidden burdens in EUR	Book value	Market value	Hidden burdens
Public-sector debt instruments	3,003,882.19	2,834,176.12	-169,706.07
Loans and advances to customers	77,762,863.05	74,902,534.03	-2,860,329.02
Bonds and other fixed-income securities	80,591,167.46	69,039,457.33	-11,551,710.13

3.7. Property, plant and equipment

Property, plant and equipment include office furniture and equipment. Office furniture and equipment are measured at acquisition cost less straight-line depreciation and depreciated over periods of between three and five years.

3.8. Liabilities

Liabilities are recognised at the amount repayable. Differences between the issue price and the amount repayable (discount/premium) are recognised as accruals/deferrals and distributed as an interest component over the term of the instrument on a linear basis.

3.9. Securitised liabilities

Securitised liabilities are booked as liabilities at the amount repayable. Costs incurred through the issue that are directly related to the raising of money are directly recognised in fee and commission expenses. The remaining difference between the proceeds of the issue and the amount repayable (discount/premium) is booked under accrued income or accrued expenses and recognised in net interest income as an interest component on a linear basis, distributed over the term of the instrument.

KF's own covered bonds collateralised by a cover pool, which are not placed externally but put up as collateral for ABBAG funding facilities, are reported on a net basis (§ 51 (5) of the Austrian Banking Act).

3.10. Provisions

3.10.1. Personnel provisions

Provisions for pensions cover entitlements of former employees in accordance with the collective bargaining agreement (1961 pension reform, as amended on 1 January 1997), as well as entitlements from defined-benefit obligations resulting from direct commitments made within the framework of the 1961 pension reform prior to the transfer to the pension fund or from individual contracts. All of these commitments date from the time before the nationalisation of the former Kommunalkredit.

Provisions for pensions, severance pay and anniversary bonuses are calculated annually by an independent actuary according to the projected-unit-credit method pursuant to § 211 (1) of the Austrian Company Code. The “AVÖ 2018-P calculation bases for pension insurance”, in their version for salaried employees, are used as a biometric calculation basis. The actuarial discount rate was determined on the basis of the yields of prime fixed-income corporate bonds, with due consideration given to the terms of the obligations to be met.

The most important parameters underlying the calculation are:

- an actuarial discount rate of -0.02% (2019: 0.31%) for pension obligations, 0.35% (2019: 0.79%) for severance pay obligations and -0.06% (2019: 0.31%) for obligations from anniversary bonus commitments;
- an incremental rate of active salaries and pension payments of 2.0%;
- a career trend of 1.5%;
- assumed pensionable ages of 60 for women and 65 for men, taking into account the transitional provisions of the 2003 Budget Framework Act and the provisions on age limits for women of the Act on Occupational Old-Age Provision;
- a fluctuation discount for severance pay obligations based on statistically derived, length-of-service-dependent rates for early termination of employment with and/or without severance pay.

The full actuarial pension obligation amounted to EUR 3,879,922.19 (31/12/2019: EUR 4,086,067.87), of which pension entitlements of EUR 624,254.72 (31/12/2019: 676,042.30) have been transferred to a pension fund. Thus, provisions amount to EUR 3,255,667.47 (31/12/2019: EUR 3,410,025.57). Provisions of EUR 165,180.08 (31/12/2019: EUR 140,284.34) have been set up for entitlements to severance pay and EUR 57,244.35 (31/12/2019: EUR 55,532.56) for anniversary bonuses. All actuarial gains and losses carry through profit or loss. The appropriation to provisions for severance pay in 2020 includes actuarial losses of EUR 12,306.78 (31/12/2019: EUR 36,723.32), of which an amount of EUR -13,177.55 (31/12/2019: EUR 3,796.34) results from changes in the biometric calculation bases ("mortality tables").

3.10.2. Provisions for deferred taxes

Provisions for deferred taxes are calculated on the basis of current tax forecasts, taking into account that tax loss carryforwards can be credited up to 75% of the positive tax assessment base. At KF, temporary differences between book values and their tax base are primarily attributable to the merger with Kommunalkredit International Bank (Cyprus) in 2010 and the resultant transfer of economic assets from Cyprus to Austria. As at 31/12/2020, the book values of these assets/liabilities under tax law are EUR 13,524,271.61 (31/12/2019: EUR 83,855,577.66) below the book values under commercial law. Further temporary differences result from personnel provisions and the differences in discount rates applied for discounting long-term provisions under tax law and commercial law.

3.10.3. Other provisions

Other provisions were set up in the amount of their expected use in accordance with the principle of prudence, based on all identifiable risks and on liabilities not yet quantifiable. Provisions set up for periods of more than one year are discounted pursuant to the provisions of the 2014 Accounting Reform Act.

3.11. Credit default swaps

KF has two CDS contracts which are accounted for as micro hedges for issues floated by KF. On the accounting treatment of micro hedges, see Note 3.12.

3.12. Derivatives

Swap transactions on the banking book are made by KF primarily to hedge interest-rate and/or currency risks, the hedges being accounted for either on a single transaction basis (recognition as micro hedges) or on aggregate bank basis (recognition as macro hedges). For derivatives that are neither micro hedges nor macro hedges, the principle of single-item measurement applies, with a provision for impending losses set up in the event of a negative fair value on the day of closing and recognised under other provisions. FX swaps concluded for the management of foreign exchange risks are measured at market value.

Interest rate swaps and cross currency swaps are used to hedge the risk of interest rate changes arising, in particular, from fixed-income securities and loans, fixed-income amounts owed to customers, and securitized liabilities. Currency risks are managed through currency swaps and cross currency swaps. Currency risks primarily arise from loans and advances to customers, bonds and other fixed-income securities as well as amounts owed to banks.

The market value of derivatives is determined by means of various measurement methods, including the use of mathematical models. As far as possible, the input parameters for these models are derived from observable market data. If this is not possible, the market value has to be determined on the basis of estimates. For derivatives that are not collateralised within the framework of collateral annexes, a credit valuation adjustment (CVA) is determined and recognised in other provisions.

The fair values of the derivatives, including the provisions set up and the negative market values, are shown in Note 6.3. No provisions are set up if the derivatives are hedged in the same micro hedge as an underlying transaction.

- Micro hedges

In principle, micro hedges are accounted for according to the so-called net hedge presentation method, with provisions for impending losses from ineffective hedges being taken into account, i.e. the hedged value changes are not recognised on the balance sheet. Asset-side micro hedges, which are to be wound down within the coming twelve months in accordance with the wind-down plan, are recognised at the market value of the micro hedge. Market value changes are recognised in the net valuation result (lines 10 to 13 of the income statement).

Micro hedges primarily serve the purpose of hedging the risk of interest rate changes through interest rate swaps; to a certain extent they are also used to hedge interest and currency risks through cross currency swaps. Micro hedges remain active until the underlying transaction matures or reaches the end of the fixed-interest phase.

For micro hedges, the effectiveness of hedge accounting is determined by the match of the essential features of the underlying transaction and the hedging transaction (critical term matches). If all parameters of the underlying transaction and the hedging transaction, which determine the extent of the hedged change in value, are identical but mutually offsetting, this is an indicator of a completely effective hedging relationship (simplified determination of effectiveness). However, any doubt about the creditworthiness of the protection seller and the value of the underlying transaction – apart from the hedged risk – must be ruled out.

- Macro hedge

Interest rate derivatives serving to manage the interest rate risk of the banking book and/or a clearly defined sub-portfolio (macro hedge) are accounted for according to the “Circular Letter of the FMA on accounting issues relating to interest rate derivatives and valuation adjustments of derivatives pursuant to § 57 of the Austrian Banking Act (version of December 2012)”. As an exception to the principle of individual measurement, mutually offsetting interest-rate-induced earning effects or value increases from the hedged underlying transactions are taken into account in the assessment of provisioning requirements. If negative swap market values are not fully offset by the compensatory interest-rate-induced earning effects of the underlying transactions, a provision for impending losses is set up for the remaining negative value.

Risk management and limitation decisions concerning the risk of interest rate changes are based on the present-value sensitivities of all interest-bearing positions to interest rate changes. Based on analyses of interest sensitivities, the risk of interest rate changes is managed and limited at aggregate bank level and the designation of a steering instrument is decided.

KF uses macro hedges if there is a need for hedging in view of fixed-interest gaps, if a hedging strategy exists, if proof of compliance with this strategy is given, and if the derivative is suited as a hedging instruments in qualitative terms.

If fixed-interest gaps are closed through derivatives at macro level, prospective interest sensitivity analyses are performed to determine the hedging effect and the effectiveness of the derivative and, thus, its suitability for allocation to the macro position. On account of the present-value approach, the hedging period extends over the entire term of the underlying transaction.

The effectiveness of macro hedges is measured on the basis of interest sensitivities to a parallel shift of the yield curve in the respective currency.

The interest claims associated with the swap contracts are accrued at matching maturities and recognised as net amounts in the income statement. Payments made to compensate for contractual terms that are not in conformity with market practice are deferred at matching maturities.

In the event of early closure of macro swaps, losses are immediately recognised as expenses in accordance with the FMA Circular. Setting up a provision for impending losses is not required if it can be shown and documented that closure was decided because the derivative was no longer effective as a hedge and/or because the corresponding mutually offsetting, interest-induced expense effects have already been realised.

KF has no derivative transactions on the trading book.

4. Notes to the Balance Sheet

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

As at 31/12/2020, the book value of public-sector debt instruments eligible as collateral for European Central Bank (ECB) funding amounted to EUR 13,901,189.51 (31/12/2019: EUR 156,951,004.01).

On the balance sheet date, no securities were classified as non-current assets (31/12/2019: EUR 31,354,661.74). Securities with a nominal value of EUR 50,000,000.00 (31/12/2019: EUR 185,000,000.00) were classified as current assets.

In 2020, all public-sector debt instruments were reclassified from non-current assets to current assets. Securities in a nominal value of EUR 29,279,421.05 (2019: EUR 135,000,000.00) were reclassified from non-current assets to current assets.[4]

This item does not contain any subordinated liabilities. No public-sector debt instruments will fall due in 2021. USD 2,000,000.00 in public-sector debt instruments fell due in 2020.

[4] see Note 7.1.6. Net result from valuations and realised gains and losses

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 and CDS transitions (*)	885,326,000.00	992,796,000.00
Non-listed securities	11,078,118.83	11,583,013.28
Credit balances with banks	3,118,794.86	4,428,757.10
Loans	3,491,540.08	3,931,689.87
Portfolio loan loss provisions	-3,534.75	-475.52
Total	**903,010,919.02**	**1,012,738,984.73**
of which:		
Loans and advances to companies in which an equity investment is held	*0.00*	*0.00*
Bills receivable	*0.00*	*0.00*
Subordinated receivables	*0.00*	*0.00*

(*) Values including open positions and interest accruals

As in the previous year, no securities were classified as non-current assets on the balance sheet date. Securities in a book value of EUR 10,583,938.22 (31/12/2019: EUR 11,062,414.79) were recognised in current assets.

As at 31/12/2020, no loans and advances to banks were allocated to the wind-down portfolio. As in the previous year, loans and advances to banks did not comprise any subordinated receivables.

Broken down by (residual) maturity, loans and advances to banks included the following:

Loans and advances to banks in EUR	31/12/2020	31/12/2019
Repayable on demand	**888,444,038.49**	**997,224,757.10**
Other loans and radvances		
a) Up to 3 months	7,445,660.11	403,951.87
b) More than 3 months up to 1 year	501,948.96	535,095.25
c) More than 1 year up to 5 years	1,771,940.38	8,954,480.31
d) More than 5 years	4,850,865.83	5,621,175.72
	14,570,415.28	**15,514,703.15**
Portfolio loan loss provision	-3,534.75	-475.52
Total	**903,010,919.02**	**1,012,738,984.73**

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	2,542,237,924.00	2,715,933,180.14
Non-listed securities	592,410,599.41	662,209,730.29
Collateral for negative market values from derivative and CDS transactions (*)	231,648,800.43	489,886,644.21
Portfolio loan loss provision	-387,368.78	-144,553.98
Specific loan loss provisions	0.00	0.00
Total	**3,365,909,955.06**	**3,867,885,000.66**

(*) Values including open positions and interest accruals

As at 31 December 2020, loans with a book value of EUR 47,226,063.95 (31.12.2019: EUR 51,569,907.61) were allocated to the wind-down portfolio.

On the balance sheet date, securities with a book value of EUR 448,179,855.24 (31/12/2019: EUR 603,737,415.20) were classified as non-current assets; a volume of EUR 137,637,250.63 (31/12/2019: EUR 51,345,944.60) was classified as current assets.

As in the previous year, this position did not comprise any subordinated receivables.

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

Loans and advances to customers in EUR	31/12/2020	31/12/2019
Repayable on demand	**231,648,800.43**	**489,889,333.29**
Other receivables		
a) Up to 3 months	126,741,338.00	76,685,005.53
b) More than 3 months up to 1 year	122,398,690.01	123,824,446.96
c) More than 1 year up to 5 years	777,407,826.85	855,296,475.60
d) More than 5 years	2,108,100,668.56	2,322,334,293.26
	3,134,648,523.41	**3,378,140,221.35**
Portfolio loan loss provision	-387,368.78	-144,553.98
Total	**3,365,909,955.06**	**3,867,885,000.66**

4.4. Bonds and other fixed-income securities

Bonds and other fixed-income securities comprise the following exchange-listed securities:

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Bonds in EUR	31/12/2020	31/122019
Securities of public issuers	310,391,909.75	432,609,913.68
Portfolio loan loss provision	-1,815,789.34	0.00
	308,576,120.41	**432,609,913.68**
Securities of other issuers	70,380,276.99	96,567,184.49
Portfolio loan loss provision	-8,489.02	-4,937.47
	70,371,787.97	**96,562,247.02**
Total	**378,947,908.38**	**529,172,160.70**

On the balance sheet date, securities with a book value of EUR 227,675,307.08 (31/12/2019: EUR 409,324,469.90) were classified as non-current assets; securities with a book value of EUR 144,133,485.71 (31/12/2019: EUR 110,238,296.95) were classified as current assets.

No bonds and other fixed-income securities will fall due in 2021. In the previous year, bonds of other issuers in a nominal value of EUR 15,000,000.00 fell due.

4.5. Property, plant and equipment

The development of property, plant and equipment is shown in the Schedule of Non-current Asset Transactions (Annex 1).

4.6. Other assets

Other assets comprise the following items:

Other assets in EUR	31/12/2020	31/12/2019
Interest accruals from derivatives in the banking book	23,131,201.10	30,657,856.21
Foreign currency valuation of derivatives in the banking book	54,345,712.60	9,607,886.08
Accruals between spot rate and forward rate in FX swaps (*)	266,031.76	149,349.92
Other	156,814.09	190,728.64
Portfolio loan loss provision	-59,303.25	0.00
Total	**77,840,456.30**	**40,605,820.85**
of which recognised as cash items after the balance sheet date	*77,476,913.70*	*40,265,742.29*

(*) Recognised in other liabilities in the prior year

The foreign currency valuation of derivatives in the banking book results from exchange rate fluctuations between the transaction dates of currency swaps and the balance sheet date. This valuation is booked against foreign currency valuations of assets and liabilities as well as negative foreign currency valuations of derivatives recognised under other liabilities. KF's open foreign currency position is being continuously monitored and managed in accordance with the wind-down plan. Wind-down losses expected over the entire wind-down horizon should be independent of exchange rates, as far as possible.

4.7. Accrued income

Accrued income comprises the following items:

Accrued income in EUR	31/12/2020	31/12/2019
Accrued fees from derivative transactions	4,578,503.70	14,160,112.16
Capitalised offering discounts of liabilities	9,009,365.65	11,574,498.51
Other	510,969.68	310,171.57
Total	**14,098,839.03**	**26,044,782.24**

4.8. Amounts owed to banks

Amounts owed to banks comprise the following items:

Amounts owed to banks in EUR	31/12/2020	31/12/2019
Collateralised loans of the European Investment Bank	0.00	36,372,025.31
Money trading	81,547,623.70	89,292,848.20
Cash collateral received for positive market values of derivatives according to ISDA/CSA arrangements	12,890,000.00	41,790,000.00
Other	2,045,567.12	2,045,442.62
Total	**96,483,190.82**	**169,500,316.13**

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

Amounts owed to banks in EUR	31/12/2020	31/12/2019
Repayable on demand	**94,437,623.70**	**131,082,848.20**
Other amounts owed		
a) Up to 3 months	22,783.56	105,654.03
b) More than 3 months up to 1 year	22,783.56	36,311,813.90
c) More than 1 year up to 5 years	2,000,000.00	2,000,000.00
d) More than 5 years	0.00	0.00
	2,045,567.12	**38,417,467.93**
Total	**96,483,190.82**	**169,500,316.13**

As in the previous year, this position does not contain any subordinated liabilities.

4.9. Amounts owed to customers

Amounts owed to customers comprise the following items:

Amounts owed to customers in EUR	31/12/2020	31/12/2019
ABBAG funding	4,207,966,212.81	4,289,631,184.67
Cash collateral received for positive market values of derivatives according to ISDA/CSA arrangements	154,027,009.10	208,102,373.46
Other amounts owed to customers	11,915,534.25	11,915,491.80
Total	**4,373,908,756.16**	**4,509,649,049.93**

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

Amounts owed to customers in EUR	31/12/2020	31/12/2019
Repayable on demand	**154,027,009.10**	**208,102,373.46**
Other liabilities		
a) Up to 3 months	1,608,950.22	1,604,554.18
b) More than 3 months up to 1 year	1,608,950.22	1,604,554.18
c) More than 1 year up to 5 years	521,186,844.93	140,300,000.00
d) More than 5 years	3,695,477,001.70	4,158,037,568.11
	4,219,881,747.06	**4,301,546,676.47**
Total	**4,373,908,756.16**	**4,509,649,049.93**

Amounts owed to customers comprise EUR 3,126,462,170.61 (31/12/2019: EUR 3,206,014,272.91) in subordinated liabilities.

4.10. Securitised liabilities

Securitised liabilities comprise the following:

Securitised liabilities in EUR	31/12/2020	31/12/2019
Bonds issued	594,750,518.36	1.627.724.564,88
Other securitised liabilities	0.00	0,00
Total	594,750,518.36	1,627,724,564.88

A government-guaranteed own issue in a total nominal value of EUR 1,000,000,000.00 matured in August and was redeemed.

In 2020, guarantee fees paid amounted to EUR 8,416,142.08 (2019: EUR 13,782,903.77).

Bonds issued in a nominal value of EUR 510,000,000.00 (nominal value of bonds matured in 2020: EUR 1,000,000,000.00) will mature in 2021.

Securitised liabilities comprise EUR 2,500,000.00 (31/12/2019: EUR 33,836,477.24) in subordinated liabilities.

4.11. Other liabilities

Other liabilities comprise the following items:

Other liabilities in EUR	31/12/2020	31/12/2019
Accrued interest on derivatives	69,799,553.75	80,593,965.08
Foreign currency valuations of derivatives in the banking book	24,123,809.77	22,337,858.64
Accruals between spot rate and forward rate in FX swaps	2,472,349.41	615,187.18
Accrued guarantee fees payable to the Republic of Austria	0.00	3,466,100.00
Other	213,828.00	246,880.09
Total	**96,609,540.93**	**107,259,990.99**
of which recognised as cash items after the balance sheet date	*93,923,363.52*	*106,644,803.81*

The foreign currency valuation of derivatives in the banking book results from exchange rate fluctuations between the transaction dates of currency swaps and the balance sheet date. This valuation is booked against foreign currency valuations of assets and liabilities as well as negative foreign currency valuations of derivatives recognised under other liabilities. KF's open foreign currency position is being continuously monitored and managed in accordance with the wind-down plan. Wind-down losses expected over the entire wind-down horizon should be independent of exchange rates, as far as possible.

This way of managing the foreign currency position, taking expected wind-down losses into account, economically results in a closed position and isolates the wind-down result from foreign exchange fluctuations.

4.12. Accrued expenses

Accrued expenses comprise the following:

Accrued expenses in EUR	31/12/2020	31/12/2019
Accrued fees from derivative transactions	7,413,380.06	13,695,972.55
Other	2,624,069.67	3,907,246.26
Total	**10,037,449.73**	**17,603,218.81**

4.13. Provisions

Schedule of provisions in EUR	as at 31/12/2019	Addition	Use/ release	as at 31/12/2020
1. Provisions for severance pay	**140,284.34**	**24,895.74**	**0.00**	**165,180.08**
2. Provisions for pensions	**3,410,025.57**	**368,623.96**	**522,982.06**	**3,255,667.47**
3. Tax provisions	**6,638,955.66**	**4,000,273.84**	**4,019,868.88**	**6,619,360.62**
4. Other provisions	**77,229,027.91**	**17,254,422.23**	**33,318,896.26**	**61,164,553.87**
Provisions for legal risks	37,362,392.89	10,635,196.53	17,196,883.90	30,800,705.51
Provisions for interest rate derivatives	15,118,758.57	4,544,029.53	9,627,316.77	10,035,471.33
Provisions for the banking business	13,306,309.77	0.00	0.00	13,306,309.77
Provisions for impending losses from macro positions	2,981,061.45	0.00	2,619,841.47	361,219.98
Personnel provisions	489,699.08	76,183.60	70,708.00	495,174.68
Provisions for impending losses from CVA	403,916.00	319,142.00	312,801.00	410,257.00
Other provisions	7,566,890.15	1,679,870.57	3,491,345.12	5,755,415.60
Total	**87,418,293.48**	**21,648,215.77**	**37,861,747.20**	**71,204,762.04**

For details on personnel provisions, see Note 3.10.1. Personnel provisions.

As at 31 December 2020, tax provisions amounted to EUR 6,619,360.62 (31/12/2019: EUR 6,638,955.66). The total comprises provisions for deferred taxes of EUR 525,331.60 (31/12/2019: EUR 4,928,651.94) and for current taxes of EUR 6,094,029.02 (31/12/2019: EUR 1,710,303.72). For details on the calculation of provisions for deferred taxes, see Note 3.10.2. Provisions for deferred taxes.

As at 31 December 2020, other provisions came to a total of EUR 61,164,553.87 (31/12/2019: EUR 77,229,027.91), including, in particular, provisions for legal risks in the amount of EUR 30,800,705.51 (31/12/2019: EUR 37,362,392.89) and provisions in connection with interest rate derivatives in the amount of EUR 10,396,691.31(31/12/2019: EUR 18,099,820.02).

The calculation of provisions for legal risks, which were set up for ongoing and impending law suits and for warranty risks arising from wind-down measures, are based on assumptions and expert estimates regarding the probability of occurrence of such risks, the amount in dispute, the potential length of proceedings and the chances of success. Depending on these specific factors, the assumption may change over time.

4.14. Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013

As at 31 December 2020, tier 2 capital comprised the following:

ISIN	*Interest rate at balance sheet date in %*	*Maturity*	*Currency*	*Nominal in EUR*	*Right to call*	*Conversion to capital*
Subordinated liabilities pursuant to § 23 (8) of the Austrian Banking Act, old version						
XS0185015541	*5.43*	*13/02/2024*	*EUR*	4,200,000.00	*no*	*no*
XS0257275098	*4.9*	*23/06/2031*	*EUR*	3,500,000.00	*no*	*no*
XS0279423775	*4.44*	*20/12/2030*	*EUR*	35,000,000.00	*Issuer in case of tax event*	*no*
XS0255270380	*7.71*	*07/06/2021*	*EUR*	2,100,000.00	*no*	*no*
Total				44,800,000.00		

As at 31 December 2019, tier 2 capital comprised the following:

ISIN	Interest rate at balance sheet date in %	Maturity	Currency	Nominal in EUR	Right to call	Conversion to capital
Subordinated liabilities pursuant to § 23 (8) of the Austrian Banking Act, old version						
XS0185015541	*5.43*	*13/02/2024*	*EUR*	*5,100,000.00*	*no*	*no*
XS0257275098	*4.9*	*23/06/2031*	*EUR*	*3,500,000.00*	*no*	*no*
XS0279423775	*4.44*	*20/12/2030*	*EUR*	*35,000,000.00*	*Issuer in case of tax event*	*no*
XS0255270380	*7.71*	*07/06/2021*	*EUR*	*2,100,000.00*	*no*	*no*
Total				45,700,000.00		

KF's tier 2 capital meets the conditions of Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013. Claims of creditors for repayment of these liabilities are subordinate to those of other creditors and must not be repaid in the event of bankruptcy or liquidation before all non-subordinated creditors have been satisfied.

4.15. Subscribed capital

As at 31 December 2020, the subscribed capital was unchanged from the previous year, amounting to EUR 389,000,000.00, divided into 3,890,000 no-par-value shares. The shares are bearer shares; each share represents a share in the subscribed capital of EUR 100.00. The Republic of Austria holds 100% of the shares in KF. There are no shares that have been issued and not fully paid in, and there are no authorised shares. As at 31 December 2020 and during the business year, KF had no treasury shares in its portfolio.

4.16. Capital reserve

a) Additional paid-in capital

As at 31 December 2020, additional paid-in capital amounted to EUR 65,845,802.70, unchanged from the previous year.

b) Unappropriated reserves

As at 31 December 2020, unappropriated reserves amounted to EUR 8,973,626.53, unchanged from the previous year.

4.17. Statutory reserve pursuant to § 57 (5) of the Austrian Banking Act

As at 31 December 2020, the statutory reserve amounted to EUR 93,388,106.42, unchanged from the previous year.

5. Off-balance-sheet items

5.1. Contingent liabilities

Contingent liabilities amounted to EUR 13,093,799.91 (31/12/2019: EUR 40,484,513.52), including a CDS-sell position in a nominal amount of EUR 8,900,000.00, unchanged from the previous year, and guarantees in the amount of EUR 4,193,799.91 (31/12/2019: EUR 31,584,513.52).

The CDS-sell position concerns a hedging position for an own issue in the amount of EUR 8,900,000.00 (31/12/2019: EUR 8,900,000.00) and has a market value of EUR -10,754.97 (31/12/2019: EUR -15,371.54).

The guarantee position was concluded under an ISDA contract. Moreover, credit support annex agreements (CSA agreements) have been made with the counterparties, according to which the contracts are measured daily and secured by collateral payments.

6. Supplementary disclosures

6.1. Own funds and own funds requirements

After the expiry of KF's banking license, the own funds requirements of CRR no longer apply.

6.2. Total amount of assets and liabilities denominated in foreign currencies

As at 31 December 2020, assets denominated in foreign currencies in the amount of EUR 671,087,659.02 (31/12/2019: EUR 847,329,754.48) were shown on the balance sheet. Liabilities denominated in foreign currencies amounted to EUR 118,607,919.89 (31/12/2019: EUR 172,580,877.07). Open foreign currency positions are closed through corresponding swap contracts. KF's open foreign currency position is being continuously monitored and managed in accordance with the wind-down plan. Wind-down losses expected over the entire wind-down horizon should be independent of exchange rates, as far as possible.

6.3. Derivative transactions not yet settled on the balance sheet date

To hedge currency and interest rate risks, the following derivative transactions, not yet settled on the balance sheet date, were carried on the banking book (fair values including interest accruals):

31/12/2020 In EUR	Nominal	Positive fair value	Negative fair value
Interest swaps	10,393,018,116.07	615,999,814.58	-1,465,235,466.92
of which in macro hedge	*4,645,822,941.38*	*209,424,049.49*	*-596,699,121.99*
of which in micro hedge	*5,747,195,174.69*	*406,575,765.09*	*-868,536,344.93*
Cross-currency / interest rate swaps	175,418,442.43	2,830,990.80	-39,823,595.51
of which in macro hedge	*0.00*	*0.00*	*0.00*
of which in micro hedge	*175,418,442.43*	*2,830,990.80*	*-39,823,595.51*
Currency swaps	498,303,800.68	49,421,329.63	-4,555,902.51
Options bought	0.00	0.00	0.00
Options sold	0.00	0.00	0.00
Total	**11,066,740,359.18**	**668,252,135.01**	**-1,509,614,964.94**

31/12/2019 In EUR	Nominal	Positive fair value	Negative fair value
Interest swaps	12,888,509,072.17	630,309,173.22	-1,662,970,544.80
of which in macro hedge	*5,801,047,684.06*	*291,637,239.53*	*-716,919,156.74*
of which in micro hedge	*7,087,461,388.11*	*338,671,933.69*	*-946,051,388.06*
Cross-currency / interest rate swaps	181,404,428.11	4,559,543.13	-45,994,002.62
of which in macro hedge	*0.00*	*0.00*	*0.00*
of which in micro hedge	*181,404,428.11*	*4,559,543.13*	*-45,994,002.62*
Currency swaps	588,416,622.17	5,211,237.54	-520,338.94
Options bought	999,997,436.20	27,746,549.74	0.00
Options sold	-999,997,436.20	0.00	-28,006,377.78
Total	**13,658,330,122.45**	**667,826,503.63**	**-1,737,491,264.14**

The decrease in the volume of open derivative transactions, as compared to the previous year, is primarily due to the wind-down of the portfolio and redemptions as well as risk management measures.

Interest accruals, foreign currency valuations and accrued fees from derivative transactions in the amount of EUR 82,321,449.16 (31/12/2019: EUR 54,575,204.37) are booked on the asset side of the balance sheet under “Other assets” and “Accruals/deferrals”, against EUR 103,809,092.99 (31/12/2019: EUR 117,242,983.45) booked on the liabilities side under “Other liabilities” and “Accruals/deferrals”. Moreover, provisions in the amount of EUR 10,396,691.32 (31/12/2019: EUR 18,099,820.02) are recognised for derivatives, of which EUR 361,219.98 (31/12/2019: EUR 2,981,061.46) are provisions for impending losses from macro swaps:

31/12/2020 in EUR	Fair value of macro swaps	Interest NPV of underlying transactions	Provision
USD	-361,219.98	0.00	-361,219.98

As at 31 December 2019, provisions for impending losses for macro swaps were as follows:

31/12/2019 in EUR	Fair value of macro swaps	Interest NPV of underlying transactions	Provision
USD	-3,011,307.85	30,246.39	-2,981,061.46

6.4. Expenses for subordinated liabilities

In the reporting year, expenses for all subordinated liabilities (reported under “Amounts owed to customers”, “Securitised liabilities” and “Supplementary capital”) amounted to a total of EUR 20,804,489.26 (2019: EUR 45,491,983.89).

6.5. Other obligations

6.5.1. Debtor warrant

Within the framework of the capitalisation agreement concluded with the Republic of Austria and the former Kommunalkredit on 17 November 2009, Kommunalkredit Old waived its claims against KF for repayment of money-market deposits in the amount of EUR 1.0 billion against issue of a debtor warrant. This debtor warrant was transferred by Kommunalkredit Old to the Republic of Austria on 30 December 2011 and guarantees the Republic of Austria payments from future annual surpluses and/or future proceeds from the liquidation of KF in the amount of the original claim waived, i.e. EUR 1,000,000,000.00, plus accrued interest (total as at 31/12/2020: EUR 1,605,522,134.96).

6.5.2. Demerger 2009

Based on the joint and several liability stipulated by the Demerger Act, KF is liable for obligations that arose prior to the entry of the demerger in the Companies Register and were spun off to Kommunalkredit Old, up to the amount of the net assets allocated to KF within the framework of the demerger. KF’s liability remains valid in its external relations to the extent to which such liabilities were allocated to Kommunalkredit within the framework of the 2015 demerger. Should claims be raised by third parties against KF on the basis of this liability arising from the demerger, KF would have the right to take recourse against Kommunalkredit on the basis of a provision of the 2015 demerger plan holding KF harmless against such claims.

6.5.3. Demerger 2015

Pursuant to the Demerger Act, KF is liable jointly and severally to Kommunalkredit Old and/or its creditors for liabilities that arose prior to the effective date of the 2015 demerger and were transferred to KF by way of the 2015 merger. This liability does not concern obligations that arose after the effective date of the demerger. The liability arising from the demerger is limited to the net assets of KF as at the time of the demerger. According to a pledge agreement concluded between Kommunalkredit Old and KF, Kommunalkredit Old pledged an own covered bond with a nominal value of EUR 107,000,000.00 to KF as collateral for KF’s claims against Kommunalkredit arising from the demerger. The pledge agreement and the corresponding covered bond were transferred to Kommunalkredit within the framework of the 2015 demerger in accordance with the demerger plan.

6.5.4. Other obligations

Obligations in the amount of EUR 204,193.60 arose from rental contracts in 2020. The corresponding obligations for the period from 2021 to 2025 are expected to total EUR 1,020,968.00.

6.6. Assets assigned as collateral

Credit balances with banks in a nominal value of EUR 885,326,000.00 (31/12/2019: EUR 992,796,000.00) were assigned as collateral for negative market values under ISDA/CSA arrangements. Loans and advances to customers (non-bank financial institutions) include cash collateral provided for negative market values under ISDA/CSA arrangements in a nominal amount of EUR 231,648,800.43 (31/12/2019: EUR 489,886,644.21). Amounts owed to banks include cash collateral received for positive market values in a nominal amount of EUR 12,890,000.00 (31/12/2019: 41,790,000.00). Amounts owed to customers include cash collateral received for positive market values in a nominal amount of EUR 154,027,009.10 (31/12/2019: EUR 208,102,373.46).

As at 31 December 2020, as in the previous year, no securities and loans with a blocked collateral and/or book value were deposited as collateral within the framework of repo and securities lending transactions.

For covered bonds issued by KF as at 31 December 2020 in a nominal value of EUR 575,000,000.00 (31/12/2019: EUR 575,000,000.00), loans in a nominal amount of EUR 781,538,212.43 (31/12/2019: EUR 851,435,348.17) were allocated to a cover pool, which can only be drawn on with the approval of a government commissioner.

The global loan from the European Investment Bank, Luxembourg, was redeemed on schedule in July 2020. In the previous year, assets in the form of securities in a nominal amount of EUR 43,122,935.37 were assigned as collateral for this loan.

As at 31 December 2020, KF pledged assets in a nominal amount of EUR 2,774,080,991.43 (31/12/2019: EUR 3,154,418,158.22) to ABBAG as collateral for ABBAG funding facilities; the assets pledged mainly comprise securities and loans.

6.7. Tax loss carryforward

As at the balance sheet date, the tax loss carryforward amounted to EUR 2,981,486,483.50 (31/12/2019: EUR 3,001,102,807.17).

7. Notes to the Income Statement

7.1. Presentation of material P&L items

7.1.1. Net interest income

The 2020 net interest income came to EUR 15,719,061.28 (2019: EUR 12,335,536.45). The positive effect of the conversion of the distribution of discounts to the effective interest method as of 1 January 2020 amounts to EUR 3.6 million. In the previous year, net interest income was depressed by provisions and repayments of negative interest in the wake of a court judgment by approximately EUR 3.7 million.

7.1.2. Net fee and commission income

Net fee and commission income primarily comprises guarantee fees paid to the Republic of Austria. Guarantee fees of EUR 8,416,142.08 (2019: EUR 13,782,903.77) were paid to the Republic of Austria.

7.1.3. Income/expenses from financial transactions

Income/expenses from financial transactions in the amount of EUR -3,051,057.80 (2019: EUR -37,753.00) result from KF's open foreign currency positions and were largely due to fluctuations of the USD exchange rate. KF's open foreign currency position is being continuously monitored and managed in accordance with the wind-down plan. Wind-down losses expected over the entire wind-down horizon should be independent of exchange rates, as far as possible.

7.1.4. Other operating income / Other operating expenses

In order to reduce the complexity of the derivative portfolio within the framework of the planned wind-down, offsetting derivative positions within the macro hedge were closed in 2020. Other operating income in 2020 includes income from the wind-down of such derivatives in the amount of EUR 106,757,122.36. Other operating expenses from the wind-down of the offsetting derivatives within the macro hedge amounted to EUR -109,226,720.05.

As in the previous year, further income and expense items recognised under "Other operating income" and "Other operating expenses" primarily include income and expenses from the valuation of derivatives not classified as micro hedges as well as changes in the provision for macro hedges (USD).

7.1.5. General administrative expenses

General administrative expenses in EUR	2020	2019
General administrative expenses	15,550,629.36	19,724,962.75
Personnel expenses	4,054,846.22	3,864,996.83
Other administrative expenses	11,495,783.14	15,859,965.92

Personnel expenses comprise expenses for the Executive Board members and the employees of KF as well as for pension obligations to former Executive Board members and former senior employees of the former Kommunalkredit.

Personnel expenses include expenses for contributions to pension funds in the amount of EUR 46,263.41 (2019: EUR 44,023.91). Other administrative expenses declined by EUR 4,364,182.78 to EUR 11,495,783.14 and include the following:

O in EUR	2020	2019
Third-party services	8,231,509.92	10,942,308.15
Contributions to the Bank Resolution Fund	1,325,454.59	2,493,043.68
Legal, consulting and auditing costs	628,532.20	536,598.42
Communication	48,214.68	90,548.52
Data processing	193,506.45	174,258.55
Occupancy costs	1,068,565.30	1,623,208.60
Total other administrative expenses	**11,495,783.14**	**15,859,965.92**

Third-party services primarily include expenses for other consultancy services and the outsourcing of services to Ithuba for the operation of KF's business in the amount of EUR 8,043,360.53 (2019: EUR 8,084,135.35)

As in the previous year, legal, consulting and auditing costs primarily comprise current expenses.

Expenses for the external auditor for the reporting year are broken down as follows:

Expenses for the external auditor in EUR	2020	2019*
Audit of the annual financial statements	70,000.00	102,000.00
Other audit services	68,955.00	66,000.00
Non-audit services	5,600.00	4,770.00
Total	**144,555.00**	**172,770.00**

* in 2019 including expenses for audit services provided by the external auditor relating to the business year 2018.

7.1.6. Net result from valuations and realised gains and losses

The net result from valuations and realised gains and losses (lines 10 to 13 of the Income Statement) comprises the following:

Valuation result in EUR	2020	2019
Result from realised wind-down measures (securities, loan and derivative positions)	-13,748,778.38	19,096,895.64
Result from the valuation of portfolios not yet wound down (non-realised valuation loss)	-38,593,857.15	-49,895,262.03
Net credit risk provisions	0.00	0.00
Buyback of equity instruments	41,768.20	655,783.21
Other	-2,265,330.51	-31,226.95
Total of valuations and realised gains and losses	**-54,566,197.84**	**-30,173,810.13**

Losses realised from wind-down activities in 2020 came to a total of EUR -13,748,778.38 (2019: gains of EUR 19,096,895.64).

In 2020, all positions to be sold by the end of 2021 were reclassified as current assets and measured at market values. The resulting expense[5] of EUR 48,079,351.54 (2019: EUR 41,317,461.47) comprises a valuation loss of EUR 32,142,471.81 (2019: EUR 41,317,461.47) not yet realised; the actual expense will be known after the wind-down of the underlying positions.

As in the previous year, no credit defaults were booked in 2020.

7.1.7. Extraordinary result

In 2020, the reduction of KF's repayment obligation under the ABBAG funding regime resulted in extraordinary income of EUR 79,552,102.30 (2019: EUR 77,839,355.39).

Extraordinary expenses include a provision of EUR 9,638,074.24 set up in connection with legal proceedings. The extraordinary expenses of EUR 27,928,932.61 in the previous year were largely due to the impact of a court judgment.

7.1.8. Taxes on income

In 2020, the income tax expense amounted to EUR 63,856.96 (2019: tax assets of EUR 309,429.47). The current tax expense for 2020 in the amount of EUR 4,570,047.27 (2019: EUR 1,734,837.72) concerns KF's ordinary business operations. At the same time, the provision for deferred taxes was reduced by EUR 4,403,320.33 (2019: reduction by EUR 2,181,961.19). Income of EUR 102,869.97 (2019: 0.00) resulted from taxes for prior periods.

7.1.9. Result for the year

Owing to the reduction of KF's repayment obligation under the ABBAG funding regime, KF closed the year with a result of EUR 0.00 (2019: EUR 0.00).

[5] Shown in the table under 7.1.5. under "Result from the valuation of portfolios not yet wound down".

8. Appropriation of the net result

The net loss shown on the balance sheet as at 31 December 2020 in the amount of EUR 557,207,535.65 (31/12/2019: EUR 557,207,535.65) is carried forward to new account.

9. Significant events after the balance sheet date

No significant events occurred after the balance sheet date.

10. Disclosures regarding governing bodies and employees

10.1. Average number of employees during the business year

In 2020, KF on average had 19 (2020: 19) employees.

10.2. Remuneration of and loans and advances to members of the Executive Board and the Supervisory Board; guarantees assumed for Board members

The total remuneration of the Executive Board and the Supervisory Board comprised the following amounts:

Total Executive Board and Supervisory Board remuneration in EUR	2020	2019
Active Executive Board members	728,558.78	739,761.36
Active Supervisory Board members	75,000.00	75,000.00
Total	**803,558.78**	**814,761.36**

As at 31 December 2020 and unchanged from the prior year, no loans to members of the Executive Board or members of the Supervisory Board were outstanding. No guarantees were issued by KF for Board members.

10.3. Expenses for severance pay and pensions

Expenses for severance pay and pensions comprise pension payments to former Executive Board members and former senior executives (period of service 1966 to 2004), changes in pension and severance pay provisions, statutory contributions to an employee pension plan and payments to a pension fund.

Expenses for severance pay and pensions in EUR	2020	2019
Executive Board members and senior employees	467,021.21	483,141.32
Other employees	18,300.16	31,675.68
Total	**485,321.37**	**514,817.00**

10.4. Members of the Executive Board

Helmut Urban
Chairman of Executive Board
since 2 December 2015 (since 1 September 2013 Member of the Executive Board)

Gabriele Müller
Member of the Executive Board
since 16 July 2018

10.5. Members of the Supervisory Board

Stephan Koren
Chairman of the Supervisory Board; Chairman of the Board of Wüstenrot Wohnungswirtschaft reg.Gen.mbH
since 18 May 2016

Bruno Ettenauer
Deputy Chairman; Managing Director of Ettera Real Estate GmbH
since 18 May 2016

Marion Khüny
Member of the Supervisory Board of Erste Group Bank AG
since 29. September 2017

Werner Muhm
Former Director of the Vienna Chamber of Labour and the Federal Chamber of Labour
since 8 January 2009

Bernhard Perner
Federal Ministry of Finance, Managing Director of ABBAG – Abbaumanagementgesellschaft des Bundes
since 14 March 2018

Gregor Schinko
Chairman of the Supervisory Board of Neuroth AG
since 25 September 2019

10.6. State Commissioner

Ben-Benedict Hruby
State Commissioner, Federal Ministry of Finance
since 01 August 2019

Wolfgang Nitsche
Deputy State Commissioner, Federal Ministry of Finance
since 1 November 1994

10.7. Government Commissioner for the cover pool for covered bonds

Andrea Delfauro-Bischof
Government Commissioner, Federal Ministry of Finance
since August 2013

Wolfgang Nitsche
Deputy Government Commissioner, Federal Ministry of Finance
from 1 January 2011 to 31 December 2020

At the time of reporting, covered bank bonds issued by KF were outstanding.

Vienna, 10 March 2021

The Executive Board of
KA Finanz AG

Helmut Urban
Chairman of Executive Board

Gabriele Müller
Member of the Executive Board

Schedule of Non-current Asset Transactions pursuant to § 226 (1) of the Austrian Company Code as at 31 December 2020 (Annex 1)

Non-current assets	Acquisition costs					Book values				
	as at 01/01/2020	Currency translation	Additions	Disposals (*)	as at 31/12/2020	Cumulative depreciation, amortisation and write-ups 2020 (**)	Book value 31/12/2020	Book value 01/01/2020	Write-downs 2020	Write-ups 2020
1. Public-sector debt instruments	31,398,059.04	61,310.85	0.00	31,459,369.89	0.00	0.00	0.00	31,377,764.23	783.00	57.26
2. Loans and advances to banks	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Loans and advances to customers	604,800,065.80	-24,856,282.40	0.00	130,937,640.48	449,006,142.92	826,287.67	448,179,855.25	603,737,415.19	71,141.11	0.00
4. Bonds and other fixed-income securities	414,231,025.80	-9,544,236.89	0.00	177,002,914.68	227,683,874.24	8,567.16	227,675,307.08	409,324,469.90	279,793.39	25,962.00
5. Property, plant and equipment Office furniture and equipment	371,486.55	0.00	53,342.60	67,276.49	357,552.66	244,330.76	113,251.90	104,941.13	25,673.11	0.00
	1,050,800,637.19	**-34,339,208.44**	**53,342.60**	**339,467,201.54**	**677,047,569.82**	**1,079,185.59**	**675,968,414.23**	**1,044,544,590.45**	**377,390.61**	**26,019.26**

(*) includes assets reclassified in the reporting year from non-current assets to current assets within the framework of de-banking

(**) the total shown for investment securities in this column includes the difference pursuant to § 56 (3) of the Austrian Banking Act

Development of Depreciation and Amortisation

Non-current assets	Development of depreciation amortisation and write-ups 2020						
	Cumulative depreciation, amortisation and write-ups 2020 (**)	Currency translation	Write-downs for the year	Write-ups for the year	Disposals	Reclassification	Cumulative depreciation, amortisation and write-ups 2020 2020 (**)
1. Public-sector debt instruments	20,294.81	0.00	783.00	57.26	21,020.55	0.00	0.00
2. Loans and advances to banks	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Loans and advances to customers	1,062,650.61	-195,193.34	71,141.11	0.00	112,310.71	0.00	826,287.67
4. Bonds and other fixed-income securities	4,906,555.90	0.00	279,793.39	25,962.00	5,151,820.13	0.00	8,567.16
5. Property, plant and equipment Office furniture and equipment	266,545.42	0.00	25,673.11	0.00	47,917.77	0.00	244,300.76
	6,256,046.74	**-195,193.34**	**377,390.61**	**26,019.26**	**5,333,069.16**	**0.00**	**1,079,155.59**

AUDITOR’S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KA Finanz AG, Vienna, comprising the balance sheet as at 31 December 2020, the income statement for the fiscal year then ended, and the notes.

In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the financial position of KA Finanz AG as at 31 December 2020, and its financial performance for the year then ended in accordance with the Austrian Commercial Code and the Austrian Bank Recovery and Resolution Act (Bundesgesetz über die Sanierung und Abwicklung von Banken).

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No 537/2014 and the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the section “Auditors’ Responsibilities for the Audit of the Financial Statements” of our report. We are independent of KA Finanz AG in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained up to the date of our report is sufficient and appropriate to provide a basis for our opinion as of that date.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following matters were of most significance to our audit:

1. Estimation of loan loss provisions
2. Valuation of provisions for legal risks

1. Estimation of loan loss provisions

(see Notes, 3.5. „Receivables“ and 3.6. „Securities“ and Management Report, Risk Reporting)

Description and Issue

KA Finanz AG reports loans to customers and securities in the balance sheet as of 31 December 2020 in the amount of EUR 3.8bn. These are subject to credit risk.

To determine expected credit losses, KA Finanz AG has implemented processes to identify loss events and estimate cash shortfalls.

The assessment and valuation of loan loss provisions is subject to considerable uncertainties and significant management judgement. These especially relate to the identification of loss events and the estimation of expected cash flows. Hence, we considered the estimation of loan loss provisions as a key audit matter.

Our Response

In order to assess the adequacy of loan loss provisions, we evaluated KA Finanz AG's methodology for the identification of loss events and the determination of loan loss provisions.

We reviewed the key processes in credit risk management, evaluated the control activities and the rating process and tested the related key control.

We examined the adequacy of individual loan loss provisions based on a sample basis. In addition to testing the compliance with internal regulations regarding rating, we examined whether material loss events were identified. For this purpose, we examined receivables that had not been identified by management as defaulted to assess as whether events had occurred, which may have a material impact on the repayment capability of the borrower.

We critically assessed the results of backtesting and model validation for rating models.

2. Valuation of provisions for legal risks

(see Notes, 4.13. "Provisions" and Management Report, Risk Reporting „Operational risk & business continuity management“)

Description and Issue

KA Finanz AG is exposed to uncertainties and legal risks arising from ongoing and imminent legal proceedings, which pertain from Kommunalkredit Austria AG (universal succession). The provisions for legal risks as of December 31, 2020 amount to EUR 30.8m.

In determining the provisions for legal risks, Management has to make assumptions and estimates. These relate in particular to the probability of the risk occurring, the amounts of claims, the duration of proceedings and negotiations, the prospects of success and the resulting expenses.

As legal risks can have a material impact on the annual financial statements and their valuation is uncertain and relies to a high degree on management judgements and estimates, which are discretionary in nature, we have identified the valuation of provisions for legal risks as a key audit matter.

Our Response

We assessed the processes related to the identification and evaluation of legal risks and the recognition of provisions.

We requested external confirmations from lawyers for open legal cases and, based on these, we critically assessed the Management Board´s judgements.

We discussed the underlying assumptions and estimations for material provisions with management and have critically assessed them.

We have verified the mathematical accuracy of the provisions for legal risks calculated on the basis of assumptions and estimates on a sample basis.

We critically assessed the Notes to the Financial Statements to determine whether they present the risks of KA Finanz AG with sufficient clarity and if they contain information about all material legal risks that were identified.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual financial report, but does not include the financial statements, the management report and our auditor’s report thereon. The annual financial report is expected to be made available to us after the date of the auditor’s report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance thereon. With respect to the information in the management report we refer to the section “Report on the Audit of the Management Report”.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibility of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Austrian Commercial Code and the Austrian Bank Recovery and Resolution Act (Bundesgesetz über die Sanierung und Abwicklung von Banken). Management is also responsible for internal controls that are determined as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing KA Finanz AG'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 KA Finanz AG or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing KA Finanz AG's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Regulation (EU) No 537/2014 and Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Regulation (EU) No 537/2014 and in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KA Finanz AG’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors’ 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 KA Finanz AG’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause KA Finanz AG to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the management report in accordance with the Austrian Commercial Code and the Austrian Bank Recovery and Resolution Act (Bundesgesetz über die Sanierung und Abwicklung von Banken).

We conducted our audit in accordance with laws and regulations applicable with respect to the management report.

Opinion

In our opinion, the management report is prepared in accordance with the applicable legal requirements, the disclosures pursuant to section 243a UGB (Austrian Commercial Code) are appropriate, and it is consistent with the financial statements.

Statement

In the light of the knowledge and understanding of KA Finanz AG and its environment obtained in the course of our audit of the financial statements, we have not identified material misstatements in the management report.

Other Matters which we are required to address according to Article 10 of Regulation (EU) No 537/2014

We were appointed by the annual general meeting on 8 May 2019 and commissioned by the Supervisory Board on 8 May 2019 to audit the financial statements for the financial year ending on 31 December 2020.

We have been auditing the Company uninterrupted since the financial year ending 31 December 2019.

We confirm that the audit opinion in the section "Report on the Audit of the Financial Statements" is consistent with the additional report to the audit committee referred to in article 11 of Regulation (EU) No 537/2014.

We declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 and that we remained independent of the Company in conducting the audit.

Vienna

10 March 2021

Deloitte Audit Wirtschaftsprüfungs GmbH

(signed by:)
Dr. Peter Bitzyk
Certified Public Accountant

This report is a translation of the auditors' report according to section 274 of the Austrian Commercial Code (UGB). The translation is presented for the convenience of the reader only. The German wording of the auditors' report is solely valid and is the only legally binding version. Section 281(2) UGB applies.

REPORT OF THE SUPERVISORY BOARD TO THE SHAREHOLDERS' MEETING

Since the demerger of the former Kommunalkredit Austria AG, effective 28 November 2009, KA Finanz AG (KF) has been responsible for winding down the non-strategic securities and credit default portfolio held at the time of nationalisation in 2008. KF is a company wholly owned by the Republic of Austria.

On 6 September 2017, the Financial Market Authority (FMA) approved the operation of KF as a wind-down unit pursuant to § 162 of the Austrian Bank Recovery and Resolution Act. KF's banking license expired as of that date. As a wind-down unit, KF will continue to be supervised by FMA.

In accordance with the wind-down plan, KF's business purpose is to pursue targeted de-risking, realise any potential for the reversal of impairments, and secure an adequate liquidity position. KF does not engage in any new asset-side business. KF's funding structure has been adjusted to the objectives of a wind-down unit. Funding for KF is provided by ABBAG, a company wholly owned by the Republic of Austria and responsible for the management of wind-down facilities. KF no longer raises funding in the money and capital markets. Upon maturity, KF's capital market issues are replaced by funding made available by ABBAG. In the course of 2020, the risk portfolio was reduced by a total of EUR 647.1 million through active wind-down measures in accordance with the approved wind-down plan as well as scheduled and early redemptions.

The Supervisory Board of KF consists of six capital representatives. The membership of the Supervisory Board, which is chaired by Stephan Koren (CEO of Wüstenrot Wohnungswirtschaft reg.Gen.mbH), remained unchanged: Bruno Ettenauer as Deputy Chairman (Managing Director of ETTERRA Real Estate GmbH), Marion Khüny (Member of the Supervisory Board of Erste Group Bank AG), Werner Muhm (former Director of the Vienna Chamber of Labour and the Federal Chamber of Labour), Bernhard Perner (Managing Director of ABBAG – Abbaumanagementgesellschaft des Bundes) and Gregor Schinko (Chairman of the Supervisory Board of Neuroth AG).

In accordance with the Articles of Association of the company and the Rules of Procedure, the Supervisory Board performed its tasks within the framework of one extraordinary and four ordinary Supervisory Board meetings. The statutory Audit Committee, the Portfolio Committee and the Personnel Committee held their meetings and performed their tasks in accordance with the Articles of Association.

In the course of the meetings of the Supervisory Board and its committees, as well as through personal information on the development of business, the Supervisory Board was continually and comprehensively updated by the Executive Board on the position and the performance of the company and the company's business policy plans. Exercising its duties as laid down by law, in the Articles of Association and in the Rules of Procedure, the Supervisory Board advised and supervised the Executive Board in the management of the company.

For the eighth time, the Executive Board and the Supervisory Board prepared a Public Corporate Governance Report describing the corporate governance structure of KA Finanz AG, which was last subjected to an external evaluation in 2019. In the autumn of 2020, the members of the governing bodies of KF underwent the required fit-and-proper training relating to changes and innovations in the regulatory sphere in accordance with the fit-and-proper guidelines (based on EBA Guideline 06/2012 and the corresponding FMA circular of August 2018).

These Financial Statements and the Management Report were audited by Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna. The audit did not result in any findings. Given that all legal requirements were met and that the annual financial statements convey a true and fair view of the assets and the financial position of the company as at 31 December 2020, the auditors issued an unqualified audit opinion. At its meeting on 18 March 2021, the Supervisory Board endorsed the result of the audit and approved the 2020 Financial Statements, which have thus been officially adopted.

The Supervisory Board

Stephan Koren
Chairman

Vienna, 18 March 2021

LETTER OF REPRESENTATION

KA Finanz AG
Annual Financial Statements

We herewith **confirm** to the best of our knowledge that the **Annual Financial Statements** of the 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 essential risks and uncertainties to which the company is exposed.

Vienna, 10 March 2021

The Executive Board of
KA Finanz AG

Helmut Urban
Chairman of the Executive Board

Gabriele Müller
Member of the Executive Board

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