

**KOMMUNALKREDIT CAPITAL I LIMITED**

**UNAUDITED FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 30TH JUNE 2010**

Ref: 307491  
Sims: 2013669

# **KOMMUNALKREDIT CAPITAL I LIMITED**

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## **REPORT OF THE DIRECTORS**

The Directors present their report and the unaudited financial statements for the period 1st January 2010 to 30th June 2010.

### **INCORPORATION**

The Company was incorporated in Jersey, Channel Islands.

### **ACTIVITIES**

The principal activity of the Company is the issue of €80,000,000 Perpetual Non-Cumulative Subordinated Fixed/Floating Rate Capital Notes (the "Capital Notes"). The proceeds of the Capital Notes have been placed on deposit with Kommunalkredit International Bank Ltd., Cyprus ("KIB") which in turn had deposited the same amount with Kommunalkredit Austria AG ("KA"), the deposit at KA qualifying as supplementary capital (Ergänzungskapital) for the purposes of the Austrian Banking Act.

During November 2009 a restructuring of Kommunalkredit Austria AG ("KA (old)") was implemented effectively splitting KA (old) into two banks. KA (old) was renamed to KA Finanz AG ("KF") and retained KA (old)'s non-core assets, essentially its credit default swap (CDS) portfolio and securities remaining after the demerger. KA (old)'s core business was then demerged and transferred to Kommunalkredit Depotbank AG, a 100% subsidiary of KA (old), and was then renamed Kommunalkredit Austria AG ("KA (new)").

As part of the demerger the Company's deposit with KIB, which in turn had been deposited with KA (old), was retained within KA (old) now KF and the nominal value of the investment was then reduced to 75.83% of its original amount. Simultaneously, KA (new) issued an investment at equal terms in the amount of 24.17% of the original nominal amount.

Following the restructuring, the Company therefore had a deposit with KIB in the amount of € 80m, who then had a deposit with KF in the amount of € 60.664m and a deposit with KA (new) in the amount of € 19.336m.

The Capital Notes are listed on both the Euronext Amsterdam Stock Exchange and the Frankfurt Stock Exchange.

### **RESULTS AND DIVIDENDS**

As described above the principal business of the Company is the issue of Capital Notes, the proceeds of which have been placed on deposit with KIB. There were no changes in the structure of the Company during the period.

The result for the period amounted to € nil (year ended 31st Dec 2009: € nil). The Directors do not propose a dividend for the period (year ended 31st Dec 2009: € nil).

Interest payments under the Capital Notes are non-cumulative.

The principal risks and uncertainties of the Company are disclosed in Note 9 of the financial statements.

The Company's use of financial instruments and the Company's risk management objectives are disclosed in Note 9 of the financial statements.

### **POST BALANCE SHEET EVENTS NOTE**

During August 2010 the Company launched an announcement in relation to an invitation to tender the Company's Capital Notes (see note 14 for further details).

## **KOMMUNALKREDIT CAPITAL I LIMITED**

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### **REPORT OF THE DIRECTORS - (CONTINUED)**

#### **DIRECTORS**

The Directors who held office throughout the period and up to the date of approval of the financial statements were:-

G.P. Essex-Cater

D.J. Le Blancq (resigned 29th January 2010)

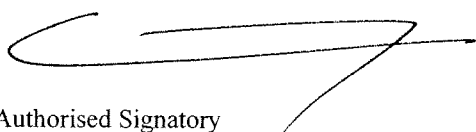
H.C. Grant

F. Chesnay (appointed 12th February 2010)

#### **REGISTERED OFFICE**

22 Grenville Street, St. Helier, Jersey, Channel Islands, JE4 8PX

#### **BY ORDER OF THE BOARD**



**François Chesnay**

Authorised Signatory

**State Street Secretaries (Jersey) Limited**

(formerly Maurant & Co. Secretaries Limited)

Secretary

Date: 27/8/10

## **KOMMUNALKREDIT CAPITAL I LIMITED**

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### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the financial statements in accordance with applicable Jersey law and International Financial Reporting Standards.

Jersey Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- \* select suitable accounting policies and then apply them consistently;
- \* make judgements and estimates that are reasonable and prudent;
- \* state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- \* prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **STATEMENT OF PERSONS RESPONSIBLE WITHIN THE ISSUER**

With regard to Regulation 2004/109/EC of the European Union (the "EU Transparency Directive"), the Directors of the Company whose names appear on page 1 confirm to the best of their knowledge that the financial statements for the period ended 30th June 2010 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by the applicable accounting standards. The Report of the Directors gives a fair review of the development of the Company's business, financial position and the important events that have occurred during the financial period and their impact on the financial statements. The principal risks and uncertainties faced by the Company are disclosed in Note 8 of these financial statements.

Signed on behalf of the Board of Directors



**François Chesnay**

27/8/10

# KOMMUNALKREDIT CAPITAL I LIMITED

## BALANCE SHEET

AS AT 30TH JUNE 2010

	<u>Notes</u>	<u>30th Jun 10</u>	<u>31st Dec 09</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Loans and receivables	2	-	19,336,000
<b>Current assets</b>			
Loans and receivables	2	19,336,000	-
Cash and cash equivalents	4	2	2
		19,336,002	2
<b>TOTAL ASSETS</b>		€ 19,336,002	€ 19,336,002
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	6	2	2
Retained profit		-	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>		2	2
<b>Non-current liabilities</b>			
Financial liabilities at amortised cost	5	-	19,336,000
<b>Current liabilities</b>			
Financial liabilities at amortised cost	5	19,336,000	-
<b>TOTAL EQUITY AND LIABILITIES</b>		€ 19,336,002	€ 19,336,002

The financial statements were approved and authorised for issue by the Board of Directors on the 27 day of August 2010 and were signed on its behalf by:

Director:



Gareth Essex-Cater  
Director

(The notes on pages 8 to 19 form part of these financial statements)

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**KOMMUNALKREDIT CAPITAL I LIMITED**

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**STATEMENT OF COMPREHENSIVE INCOME****FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010**

	<u>Notes</u>	<b>1st Jan 10 to 30th Jun 10</b>	<b>1st Jan 09 to 31st Dec 09</b>
<b>INCOME:</b>			
Reversal of interest income accrual		-	( 83,911)
		-	( 83,911)
<b>EXPENDITURE:</b>			
Reversal of interest payable accrual		-	( 83,911)
		-	( 83,911)
<b>RESULT FOR THE PERIOD/YEAR</b>		-	-
Loss on impairment of loans and receivables	2	-	( 60,664,000)
Gain on write down of financial liabilities	5	-	60,664,000
<b>RESULT FOR THE PERIOD/YEAR</b>		€ -	€ -

**Continuing operations**

All items dealt with in arriving at the result for the period ended 30th June 2010 relate to continuing operations.

*(The notes on pages 8 to 19 form part of these financial statements)*

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## KOMMUNALKREDIT CAPITAL I LIMITED

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### STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010

	Share Capital	Retained profit	Total
Balance at 1st January 2009	2	-	2
Result for the year	-	-	-
	<hr/>	<hr/>	<hr/>
Balance at 31st December 2009	€ 2	€ -	€ 2
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Share Capital	Retained profit	Total
Balance at 1st January 2010	2	-	2
Result for the period	-	-	-
	<hr/>	<hr/>	<hr/>
Balance at 30th June 2010	€ 2	€ -	€ 2
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

*(The notes on pages 8 to 19 form part of these financial statements)*

# KOMMUNALKREDIT CAPITAL I LIMITED

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## STATEMENT OF CASH FLOWS

FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010

	<b>1st Jan 10 to 30th Jun 10</b>	<b>1st Jan 09 to 31st Dec 09</b>
<b>Result for the period/year</b>	-	-
Interest expense on Capital Notes	-	-
Interest income on deposit agreement	-	-
<b>Net cash flow from operating activities</b>	-	-
<b>Cash flows from investing activities</b>		
Interest received on deposit agreement	-	-
<b>Net cash flows from investing activities</b>	-	-
<b>Cash flows from financing activities</b>		
Interest paid on Capital Notes	-	-
<b>Net cash flows from financing activities</b>	-	-
<b>Net increase in cash and cash equivalents</b>	-	-
<b>Cash and cash equivalents at the beginning of the period/year</b>	2	2
<b>Cash and cash equivalents at the end of ythe peirod/year</b>	€ 2	€ 2

*(The notes on pages 8 to 19 form part of these financial statements)*



**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010**

**1. ACCOUNTING POLICIES**

These financial statements have been prepared on the historical cost basis and in accordance with International Financial Reporting Standards ("IFRS"), and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body. The more significant policies are set out below:

**Applicable new standards and interpretations not yet adopted**

In November 2009, the IASB issued a new accounting standard, "IFRS 9: Financial Instruments (Replacement of IAS 39)". IFRS 9 is mandatory for accounting periods commencing from 1st January 2013 with early adoption permitted at any time from 12th November 2009 onwards. The main changes resulting from the replacement of IAS 39 by IFRS 9 are changes to the permitted classifications and subsequent measurement of financial instruments. However, in the opinion of the Directors adoption of IFRS 9 will result in no material changes to the Company's financial statements.

**Use of estimates and judgements**

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There were no significant areas of uncertainty and critical judgements in applying accounting policies.

**Loans and receivables**

The Company has designated its deposit at KIB as loans and receivables under International Accounting Standard 39 'Financial Instruments: Recognition and Measurement' ("IAS 39"). Loans and receivables are initially recognised at cost on the date of purchase and are stated at amortised cost using the effective interest method thereafter. Loans and receivables are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

**Impairment**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the effective interest rate. Impairment losses, if any, are recognised in the statement of comprehensive income.

## **KOMMUNALKREDIT CAPITAL I LIMITED**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

#### **FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010**

##### **1. ACCOUNTING POLICIES - (CONTINUED)**

###### **Financial liabilities at amortised cost**

The Directors have considered the characteristics of the Capital Notes, and the requirements of International Accounting Standard 32 'Financial Instruments: Disclosure and Presentation' ("IAS 32") and consider that the most appropriate classification of these securities is as other financial liabilities. The Capital Notes are therefore stated at amortised cost using the effective interest method. The Capital Notes are derecognised only when the obligations under the Capital Notes are discharged, cancelled or expired.

###### **Fair value estimation**

Fair value estimation of the financial assets and liabilities are determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

###### **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

###### **Foreign currency translation**

###### **a) Currency of domicile, functional currency and presentation currency**

The currency of domicile is GBP (pounds sterling). Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro, which is the Company's functional and presentation currency.

###### **b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

###### **Share capital**

Ordinary shares are not redeemable and are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

###### **Interest income and interest expense**

Deposit interest income and interest payable on Capital Notes are recognised in the statement of comprehensive income using the effective interest method.

## KOMMUNALKREDIT CAPITAL I LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

#### FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010

#### 1. ACCOUNTING POLICIES - (CONTINUED)

##### Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

##### Employees

The Company had no employees during the period ended 30th June 2010 and the year ended 31st December 2009.

##### Segmental reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Directors perform regular review of the operating results of the Company and make decisions using financial information at the entity level. Accordingly, the Directors believe that the Company has only one operating segment (see Note 9).

The Directors are responsible for ensuring that the Company carries out business activities in line with the transaction documents. They may delegate some or all of the day to day management of the business including the decisions to purchase and sell securities to other parties both internal and external to the Company. The decisions of such parties are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Directors. Therefore the Directors retain full responsibility as to the major allocation decisions of the Company.

#### 2. LOANS AND RECEIVABLES

	<u>30th Jun 10</u>	<u>31st Dec 09</u>
Deposit with Kommunalkredit International Bank Ltd., Cyprus ("KIB")		
Opening balance	19,336,000	80,000,000
Impairment	-	( 60,664,000)
Closing balance	€ 19,336,000	€ 19,336,000

The net proceeds from the issue of the Capital Notes have been placed on deposit with KIB which in turn had deposited the amount with Kommunalkredit Austria AG ("KA").

The proceeds of the Note issue were placed on deposit on 20th December 2004 under the terms and conditions detailed in the Deposit Agreement between the Company and KIB.

The deposit has no fixed maturity date.

## KOMMUNALKREDIT CAPITAL I LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

#### FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010

#### 2. LOANS AND RECEIVABLES - (CONTINUED)

During November 2009 a restructuring of KA (old) was implemented effectively splitting KA (old) into two banks. KA (old) was renamed to KA Finanz AG (KF) and retained KA (old)'s non-core assets, essentially its credit default swap (CDS) portfolio and securities remaining after the demerger. KA (old)'s core business was then demerged and transferred to Kommunalkredit Depotbank AG, a 100% subsidiary of KA (old), and was then renamed Kommunalkredit Austria AG (KA (new)).

KA (new) will carry on and further expand the banks core business while, KF is in charge of the structured run down of the remaining portfolio. KA (new) and KF are both majority owned by the Republic of Austria.

As part of the demerger the Company's deposit with KIB, which in turn had been deposited with KA (old), was retained within KA (old) now KF and the nominal value of the investment was then reduced to 75.83% of its original amount. Simultaneously, KA (new) issued an investment at equal terms in the amount of 24.17% of the original nominal amount.

Following the restructuring, the Company therefore had a deposit with KIB in the amount of € 80m, who then had a deposit with KF in the amount of € 60.664m and a deposit with KA (new) in the amount of € 19.336m.

No interest was received on the deposit on 20th December 2009 due to insufficient distributable profits by KA (old) now KF for the fiscal year 2008. Consequently, no interest payments were made on the Capital Notes.

KF have announced that due to insufficient distributable profits for the fiscal year 2009 no interest will be received on the next interest payment date 20th December 2010 and therefore no interest accrual has been made as at 30th June 2010.

Due to the structured run down of KF, the Directors are of the opinion that the recoverability of the 75.83% investment retained within KF to be materially impaired and had therefore recognised an impairment amounting to € 60.664m in the prior year.

#### 3. TRADE RECEIVABLES

	<u>30th Jun 10</u>	<u>31st Dec 09</u>
Deposit interest income receivable	€ -	€ 83,911
	<u>                    </u>	<u>                    </u>

#### 4. CASH AND CASH EQUIVALENTS

	<u>30th Jun 10</u>	<u>31st Dec 09</u>
Client account	€ 2	€ 2
	<u>                    </u>	<u>                    </u>

## KOMMUNALKREDIT CAPITAL I LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

#### FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010

5. FINANCIAL LIABILITIES AT AMORTISED COST	<u>30th Jun 10</u>	<u>31st Dec 09</u>
€80,000,000 Perpetual Non-Cumulative Subordinated Fixed/Floating Rate Capital Notes (the "Capital Notes").		
Opening balance	19,336,000	80,000,000
Write down	-	(60,664,000)
Closing balance	<u>€ 19,336,000</u>	<u>€ 19,336,000</u>

The Capital Notes (nominal amount €80,000,000) were issued by the Company at par on 20th December 2004 under the terms of the Offering Circular of the same date.

The Capital Notes bore interest at a fixed rate of 6.5% per annum to 20th December 2005, with the first amount payable in arrears on 20th December 2005. Thereafter, the Capital Notes bear interest at a floating rate equal to the prevailing Reference Rate plus a margin of 0.025% per annum, subject to a cap of 8%, payable annually in arrears each 20th December. The prevailing reference rate is the 10-year mid swap rate in euro versus 12M EURIBOR.

Interest payments under the Capital Notes are non-cumulative. The Company is not obliged to make any payment to the holders of the Capital Notes to the extent that KF would not be obliged to make a corresponding payment to the Company under the terms of the Support Agreement.

The Capital Notes have no fixed maturity date and there is no option for the Noteholders to request redemption at any time. The Capital Notes are redeemable at the option of the Company in whole but not in part, subject to the prior consent of KF, on 20th December 2011 or any interest payment date falling thereafter.

The Support Agreement was entered into on 17th December 2004 between the Company and KF (KA (old)) as the Support Provider. Under this Agreement KF undertakes to provide the Company with financial support, but KF is not obliged to make any payment to the Company to the extent that such a payment would exceed KF's distributable funds for the prior fiscal year or to the extent that such a payment would exceed KF's annual surplus pursuant to KF's own financial statements as at the balance sheet date immediately preceding the interest payment date. KF is also not obliged to make any payment to the Company to the extent that such a payment would impair KF's ability to make payments on preference shares or preferred securities under applicable Austrian Banking regulations.

In the event of winding-up of the Company or the dissolution or winding-up of KF, holders of the Capital Notes will be entitled to receive for each Preferred Security a liquidation preference of €1,000 plus any accrued and unpaid interest. Any shortfall of the amount that will be realised from the asset will be met by KF in accordance with the Support Agreement.

Due to the recourse of the holders of the Capital Notes being limited to amounts received or receivable under the terms of the Loans and receivables, the impairment recognised during the prior year on the Company's loans and receivables (see note 2) has resulted in an exact and opposite effect in the carrying value of the Capital Notes.

As no interest is due to be received on the Loans and receivable on the next interest payment date the 20th December 2010 (see note 2), the Company announced that there will be no interest due to be made on the Capital Notes.

## KOMMUNALKREDIT CAPITAL I LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010

6. SHARE CAPITAL	30th Jun 10	31st Dec 09
AUTHORISED:		
1,000 Ordinary Shares of €1 each	€ 1,000	€ 1,000
ISSUED AND FULLY PAID:		
2 Ordinary Shares of €1 each	€ 2	€ 2

### 7. TAXATION

With effect from the 2009 year of assessment Jersey abolished the exempt company regime for existing companies. Profits arising in the Company for the 2009 year of assessment and future periods will be subject to Jersey Income Tax at the rate of 0%. In the prior year the Company was exempt from taxation under the provisions of Article 123A of the Income Tax (Jersey) Law 1961 as amended.

### 8. FINANCIAL INSTRUMENTS

The principal activity of the Company is the issue of Perpetual Non-cumulative Subordinated Fixed/Floating Rate Capital Notes. The proceeds from the issue have been placed on deposit with KIB, which in turn had deposited the same amount with KA (old) now KF. As part of the demerger (please see page 1) the nominal value of the investment with KA (old) now KF was reduced to 75.83% of its original amount. Simultaneously, KA (new) issued an investment at equal terms in the amount of 24.17% of the original nominal amount. Therefore, the role of financial assets and financial liabilities is central to the activities of the Company; the financial liabilities provided the funding to purchase the Company's financial assets. Financial assets and liabilities provide the majority of the assets and liabilities of the Company along with all of the income and expenses.

The strategies used by the Company in achieving its objectives regarding the use of its financial assets and liabilities were set when the Company entered into the transactions. The Company has attempted to match the properties of its financial liabilities to its assets to avoid significant elements of risk generated by mismatches of investment performance against its obligations, together with any maturity or interest rate risk.

With the exception of currency exposures, all short-term trade receivables and trade payables have been excluded from the following disclosures.

## KOMMUNALKREDIT CAPITAL I LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010

#### 8. FINANCIAL INSTRUMENTS - (CONTINUED)

##### Interest rate risk

The Company finances its operations through the issue of Capital Notes upon which interest is payable. Interest payments under the Capital Notes are non-cumulative, and are limited to amounts receivable from KA (old) now KF and KA (new) under the Deposit. The interest receivable from the Deposit is equal to the interest payable on the Capital Notes, therefore the Directors believe that there is no significant interest rate risk to the Company.

The interest rate profile of the Company's financial assets and liabilities is as follows:

	Interest charging basis	Effective interest rate	<u>30th Jun 10</u>	Effective interest rate	<u>31st Dec 09</u>
<b>Financial assets</b>					
Loans and receivables	Floating	0.0000%	€ 19,336,000	0.0000%	€ 19,336,000
<b>Financial liabilities</b>					
Financial liabilities at amortised cost	Floating	0.0000%	€ ( 19,336,000)	0.0000%	€ ( 19,336,000)

##### Interest rate risk - sensitivity analysis

As disclosed above, in the Directors' opinion there is no significant interest rate risk to the Company. From the Company's perspective any change in the interest rate attached to the Capital Notes would be matched by an equal and opposite change in the interest rate attached to the Deposit. Consequently a change in interest rates would have no net effect on profit or loss and/or equity.

IFRS 7 requires disclosure of "a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date." As stated, whilst the financial instruments held by the Company are separately exposed to interest rate risk, the Company itself is not exposed to interest rate risk overall. Therefore, in the Directors' opinion, no sensitivity analysis in respect of interest rates is required to be disclosed.

## KOMMUNALKREDIT CAPITAL I LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010

#### 8. FINANCIAL INSTRUMENTS - (CONTINUED)

##### Exchange rate risk

All of the Company's assets and liabilities are denominated in Euro, consequently, the Directors believe that there is no significant currency risk to the Company.

	<u>30th Jun 10</u>	<u>31st Dec 09</u>
Denominated in Euro:		
Loans and receivables	€ 19,336,000	€ 19,336,000
Financial liabilities at amortised cost	€ 19,336,000	€ 19,336,000

##### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's Deposit with KIB.

The Company's main financial asset consists of a Deposit with KIB corresponding interest receivable at year-end. The funds deposited with KIB have in turn been deposited with KA. The Company's revenue derives from this financial asset.

In addition the Company receives the benefit of Support Agreement entered into with KA (old) now KF. Under this agreement KF undertakes to provide the Company with financial support. However, KF is not obliged to make any payment to the Company to the extent that such a payment would exceed KF's distributable funds for the prior fiscal year or to the extent that such a payment would exceed KF's annual surplus pursuant to KF's own financial statements as at the balance sheet date immediately preceding the interest payment date. KF is also not obliged to make any payment to the Company to the extent that such a payment would impair KF's ability to make payments on preference shares or preferred securities under applicable Austrian Banking regulations.

The Company's maximum exposure to credit risk is as follows:

	<u>30th Jun 10</u>	<u>31st Dec 09</u>
Deposit with Kommunalkredit International Bank Ltd., Cyprus ("KIB")	19,336,000	19,336,000
Cash and cash equivalents	2	2
	<u>€ 19,336,002</u>	<u>€ 19,336,002</u>



## KOMMUNALKREDIT CAPITAL I LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

#### FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010

#### 8. FINANCIAL INSTRUMENTS - (CONTINUED)

##### Fair values

The fair values of the Company's assets and liabilities are as follows:

	<u>30th Jun 10</u>	<u>30th Jun 10</u>	<u>31st Dec 09</u>	<u>31st Dec 09</u>
	Book cost	Fair Value	Book cost	Fair Value
Loans and receivables	€ 19,336,000	€ 17,600,000	€ 19,336,000	€ 18,400,000
Financial liabilities at amortised cost	€ ( 19,336,000)	€ ( 17,600,000)	€ (19,336,000)	€ (18,400,000)

During the prior year the Company's assets were impaired by the amount of € 60.664m from € 80m to € 19.336m (please see note 2 for details) which resulted in an exact and opposite effect in the carrying value of the Capital Notes.

In the opinion of the Directors, the fair value of the financial assets held is approximate to the fair value of the Capital Notes, as the terms and conditions of the Capital Notes are identical to those of the Deposit, and the credit risk attached to both the Capital Notes and the Deposit are similar, being in each case closely related to that of KA. In the opinion of the Directors, it is not practicable to estimate with sufficient reliability any difference in fair value between the Capital Notes and the Deposit although such difference in fair value is not expected to be significant.

The fair values of the Capital Notes as at 30th June 2010 was 22% (31st December 2009: 23%) of the nominal which has been disclosed above. The Capital Notes are quoted on the Euronext Amsterdam Stock Exchange and the Frankfurt Stock Exchange. For debt securities in issue and other borrowed funds carried at amortised cost, the fair values have been derived using quoted prices where available, broker valuations and where these are not available, cash flow models. No fair values have been derived using cash flow models as at 30th June 2010 and 31st December 2009.

##### Fair values - sensitivity analysis

In the Directors' opinion there is no material difference between the fair value of the Deposit and the fair value of the Capital Notes. From the perspective of the Company, any change in the fair value of the Capital Notes would be matched by an almost equal and opposite change in the fair value of the Deposit. Consequently the Company is not exposed to significant net market price risk.

Also as disclosed above, in the Directors' opinion, there is no significant net interest rate risk to the Company, nor is there any significant currency rate risk to the Company.

IFRS 7 requires disclosure of "a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date." As stated, whilst the financial instruments held by the Company are separately exposed to interest rate risk and market price risk, the profit or loss and equity of the Company are not exposed to significant net interest rate or market risk. Therefore, in the Directors' opinion, no sensitivity analysis is required to be disclosed.

## KOMMUNALKREDIT CAPITAL I LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

#### FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010

#### 8. FINANCIAL INSTRUMENTS - (CONTINUED)

##### Contractual maturity of financial assets and

The contractual undiscounted maturity profile of the Company's financial assets and liabilities is as follows:

	<u>30th Jun 10</u>	<u>31st Dec 09</u>
Loans and receivables		
In less than five years	€ 19,336,000	€ 19,336,000
	<u>                    </u>	<u>                    </u>
Financial liabilities at amortised cost		
In less than five years	€ (19,336,000)	€ (19,336,000)
	<u>                    </u>	<u>                    </u>

##### Maturity of financial assets and liabilities

As the maturity dates of the assets and liabilities are approximately the same, the Directors believe that there is no significant liquidity risk to the Company.

##### Capital management

The Company's assets and liabilities and the relative underlying terms and conditions are exactly matched. The Company's transactions are designed to enable the Company to pay its liabilities as they fall due only, without realising a return on capital. The level of interest income and interest expense are exactly matched and were established on incorporation of the Company in order that the Company realises a net result of € nil each year and therefore there is no need for the monitoring of return on capital.

#### 9. OPERATING SEGMENTS

##### *Geographical information*

All of the Company's revenues are generated from external sources which are from Cyprus.

##### *Non-current assets*

The Company does not have non-current assets other than the deposit.

##### *Major investment company*

The Company's deposit interest income is derived solely from KIB.

#### 10. CONTROLLING PARTY

During November 2009 a restructuring of KA was undertaken (please see note 2 for details).

The Company is owned by KIB, which owns 100% of the issued ordinary shares of the Company. KIB is wholly owned by KA (old) now KF. KA (old) now KF, was majority owned (50.78%) by Investkredit Bank AG which is a subsidiary of OVAG AG. During 2008 the Republic of Austria became the new majority shareholder in KA (old) now KF taking over 99.78% and is the ultimate controlling party.

## KOMMUNALKREDIT CAPITAL I LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

#### FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010

##### 11. RELATED PARTIES

Up to and including the 31st March 2010 G.P. Essex-Cater was a shareholder of Maurant Limited. Each of G.P. Essex-Cater, D.J. Le Blancq, H.C. Grant and F. Chesnay was an employee of a subsidiary of Maurant Limited. Affiliates of Maurant Limited provided administrative services to the Company at commercial rates.

On the 1st April 2010, Maurant Limited sold its interest in Maurant International Finance Administration to State Street Corporation ("SSC"). Each of G.P. Essex-Cater, H.C. Grant and F. Chesnay is an employee of a subsidiary of SSC. Affiliates of SSC now provide administrative services to the Company at commercial rates.

##### 12. KEY MANAGEMENT PERSONNEL

The key management personnel have been identified as being the Directors of the Company. The emoluments of the key management personnel are paid by the ultimate controlling party and other related parties who make no recharge to the Company.

It is therefore not possible to make a reasonable apportionment of their emoluments in respect of the Company. Accordingly, no emoluments in respect of the Directors applicable to the Company have been disclosed.

##### 13. COMPANY EXPENSES

Under the terms of the Support Agreement, dated 17th December 2004, between the Company and KA, the Company's expenses are met by KA to the extent that the Company has insufficient funds to meet its own amount of company expenses.

##### 14. POST BALANCE SHEET EVENTS

On the 3rd August 2010 the Company released a launch announcement in relation to the proposed invitation to tender the Company's Euro 80,000,000 Perpetual Non-Cumulative Subordinated Fixed/Floating Rate Capital Notes for purchase by the Company for cash (the "**Offer**") and an invitation by the Company to the holders of the Capital Notes to approve the modification of the terms and conditions of the Capital Notes to provide for the Company to have the option to redeem all, but not some only, of the Capital Notes remaining on completion of the Offer (the "**Proposal**").

The Offer and the Proposal are to be made on the terms and subject to the conditions contained in the invitation memorandum dated 3rd August 2010.

The Offer begins on the 3rd August 2010 (the **Launch Date**) and expires on Tuesday 7th September 2010 (the **Offer Deadline**), unless the period for the Offer is extended or re-opened or the Offer is terminated. In order to be eligible to receive € 230 for each € 1,000 in principal amount of Capital Notes accepted for purchase pursuant to the Offer (the **Purchase Price**), Noteholders must validly tender their Capital Notes by the Offer Deadline.

Each Noteholder who validly tenders its Capital Notes by 3.00 p.m., (CET), on the 3rd September 2010 (the **Early Tender Deadline**) will receive a further cash payment of € 20 for each € 1,000 in principal amount of Capital Notes accepted for purchase pursuant to the Offer (the **Early Purchase Premium**) in addition to the Purchase Price, as additional consideration for its tender of the relevant Capital Notes.

The Offer Deadline is 12.00 noon (CET) on Tuesday 7th September 2010.

## **KOMMUNALKREDIT CAPITAL I LIMITED**

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### **NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

**FOR THE PERIOD 1ST JANUARY 2010 TO 30TH JUNE 2010**

#### **14. POST BALANCE SHEET EVENTS - (CONTINUED)**

With effect of 3rd August 2010 KF, KA (new), KIB and the Company agreed to transfer the rights and obligations of KIB under the deposits to the Company. As a consequence, the Company now holds a direct deposit with KF in the amount of € 60.664m and a direct deposit with KA (new) in the amount of €19.336m.

To the extent the Proposal is accepted by the holders of the Capital Notes and the Company exercises its option to redeem all of the then outstanding Capital Notes, it is the intention of the Company's shareholders to wind-up the Company.