

KOMMUNALKREDIT CAPITAL I LIMITED

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2009

KOMMUNALKREDIT CAPITAL I LIMITED

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31st December 2009.

INCORPORATION

The Company is 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 (Erganzungskapital) for the purposes of the Austrian Banking Act.

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 year.

The result for the year amounted to € nil (2008: € nil). The Directors do not propose a dividend for the year (2008: € nil).

Interest payments under the Capital Notes are non-cumulative. The deposit is a limited recourse obligation of KIB in that interest due to the Company under the terms of the deposit agreement equals the amounts that KIB receives under a deposit agreement with KA. Interest is receivable on the deposit in amounts equal to the amounts payable by the Company to the holders of the Capital Notes. During the year, no interest was received on the deposit due to insufficient distributable profits. Consequently, no interest payments were made on the Capital Notes.

During November 2009 a restructuring of KA was implemented effectively splitting KA into two banks. As a result of the restructuring the nominal amount of the Company's assets designated as Loans and receivables (held indirectly through KIB) were reduced, leading to an impairment of the assets amounting to € 60.664m (please see note 2 for details).

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 year on the Company's loans and receivables has resulted in an exact and opposite effect in the carrying value of the Capital Notes (please see note 6).

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.

DIRECTORS

The Directors who held office throughout the year 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)

KOMMUNALKREDIT CAPITAL I LIMITED

REPORT OF THE DIRECTORS - (CONTINUED)

SECRETARY

The Secretary of the Company throughout the year and up to the date of approval of the financial statements was Maurant & Co. Secretaries Limited.

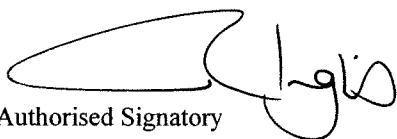
INDEPENDENT AUDITORS

KPMG Channel Islands Limited have expressed their willingness to continue in office.

REGISTERED OFFICE

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

BY ORDER OF THE BOARD



Authorised Signatory
Maurant & Co. Secretaries Limited
Secretary

Date: 30/4/10

KOMMUNALKREDIT CAPITAL I LIMITED

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:

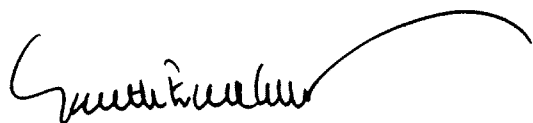
- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- * 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 year to 31st December 2009 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 the financial year and their impact on the financial statements. The principal risks and uncertainties faced by the Company are disclosed in Note 9 of these financial statements.

Signed on behalf of the Board of Directors



30/4/10



KPMG Channel Islands Limited
P.O. Box 453
St Helier
Jersey JE4 8WQ
Channel Islands

5 St Andrew's Place
Charing Cross, St Helier
Jersey JE4 8WQ
Channel Islands

Independent auditor's report to the members of Kommunalkredit Capital I Limited

We have audited the financial statements of Kommunalkredit Capital I Limited for the year ended 31 December 2009 which comprise the Balance Sheet, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.



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Independent auditor's report to the members of Kommunalkredit Capital I Limited – continued

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Emphasis of matter – impairment of loans and receivables and write down of financial liabilities at amortised cost

In forming our opinion on the financial statements, which is not qualified, we draw attention to the impairment of loans and receivables described in note 2 to the financial statements and the write down of financial liabilities at amortised cost described in note 6. The amount impaired and written down, respectively, of €60,664,000 has been determined by the directors based on their estimate of the future cash flows to be received from Kommunalkredit International Bank Ltd, which in turn has been based on the directors' assessment of the ability of KA Finanz AG and Kommunalkredit Austria AG to pay amounts due to Kommunalkredit International Bank Ltd under the terms of its deposits with those institutions. These cash flows are dependent on the future financial performance of KA Finanz AG and Kommunalkredit Austria AG, which is subject to significant uncertainty. Accordingly, the actual future cash flows to be received by the company through Kommunalkredit International Bank Ltd may differ significantly from those estimates, and as a result the impact on the impairment and write down estimated as at the balance sheet date may be material.

Steven D Hunt

for and on behalf of KPMG Channel Islands Limited
Chartered Accountants

30 April 2010

Notes:

- The maintenance and integrity of www.kommunalkredit.at and www.kafinanz.at websites is the responsibility of the directors; the work carried out by KPMG Channel Islands Limited does not involve consideration of these matters, and accordingly, KPMG Channel Islands Limited accept no responsibility for any changes that may have occurred to the financial statements or our audit report since 30 April 2010. KPMG Channel Islands Limited has carried out no procedures of any nature subsequent to 30 April 2010 which in any way extends this date.
- Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors shall remain responsible for establishing and controlling the process for doing so and for ensuring that the financial statements are complete and unaltered in any way.

KOMMUNALKREDIT CAPITAL I LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 2009

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
ASSETS			
Non-current assets			
Loans and receivables	2	19,336,000	80,000,000
Current assets			
Trade receivables	3	-	83,911
Cash and cash equivalents	4	2	2
		2	83,913
TOTAL ASSETS		€ 19,336,002	€ 80,083,913
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	7	2	2
Retained profit		-	-
TOTAL SHAREHOLDERS' EQUITY		2	2
Non-current liabilities			
Financial liabilities at amortised cost	6	19,336,000	80,000,000
Current liabilities			
Trade payables	5	-	83,911
TOTAL EQUITY AND LIABILITIES		€ 19,336,002	€ 80,083,913

The financial statements were approved and authorised for issue by the Board of Directors on the 30 day of April 2010 and were signed on its behalf by:

Director:


François Chesnay
Director

(The notes on pages 10 to 20 form part of these financial statements)

KOMMUNALKREDIT CAPITAL I LIMITED

STATEMENT OF COMPREHENSIVE INCOME**FOR THE YEAR ENDED 31ST DECEMBER 2009**

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
INCOME:			
Deposit interest income	2	-	3,753,467
Reversal of year end interest income accrual		(83,911)	-
		<u>(83,911)</u>	<u>3,753,467</u>
EXPENDITURE:			
Interest payable on Capital Notes	6	-	3,753,467
Reversal of year end interest payable accrual		(83,911)	-
		<u>(83,911)</u>	<u>3,753,467</u>
RESULT FOR THE YEAR		-	-
Loss on impairment of loans and receivables	2	(60,664,000)	-
Gain on write down of financial liabilities	6	60,664,000	-
RESULT FOR THE YEAR		<u>€ -</u>	<u>€ -</u>

Continuing operations

All items dealt with in arriving at the result for the year ended 31st December 2009 relate to continuing operations.

(The notes on pages 10 to 20 form part of these financial statements)

KOMMUNALKREDIT CAPITAL I LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2009

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

	Share Capital	Retained profit	Total
Balance at 1st January 2008	2	-	2
Result for the year	-	-	-
Balance at 31st December 2008	2	-	2
	€	€	€

(The notes on pages 10 to 20 form part of these financial statements)

KOMMUNALKREDIT CAPITAL I LIMITED

STATEMENT OF CASH FLOWS**FOR THE YEAR ENDED 31ST DECEMBER 2009**

	<u>2009</u>	<u>2008</u>
Result for the year	-	-
Interest expense on Capital Notes	-	3,753,467
Interest income on deposit agreement	-	(3,753,467)
	<hr/>	<hr/>
Net cash flow from operating activities	-	-
	<hr/>	<hr/>
Cash flows from investing activities		
Interest received on deposit agreement	-	3,774,400
	<hr/>	<hr/>
Net cash flows from investing activities	-	3,774,400
	<hr/>	<hr/>
Cash flows from financing activities		
Interest paid on Capital Notes	-	(3,774,400)
	<hr/>	<hr/>
Net cash flows from financing activities	-	(3,774,400)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	2	2
	<hr/>	<hr/>
Cash and cash equivalents at the end of year	€ 2	€ 2
	<hr/> <hr/>	<hr/> <hr/>

(The notes on pages 10 to 20 form part of these financial statements)

KOMMUNALKREDIT CAPITAL I LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2009

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:

New standards, amendments and interpretations applicable in the current year

IAS 1 (Revised) Presentation of financial statements became effective for accounting periods beginning on or after 1st January 2009. The revised standard prohibits the presentation of items of income and expenses (i.e. 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The revised standard also requires entities which restate or reclassify comparative information to present a restated statement of financial position as at the beginning comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period.

IFRS 8, "Operating Segments" became effective for accounting periods beginning on or after 1st January 2009. The standard requires segmental disclosure based on the components of the entity that management monitors in making decisions about operating matters. This "management approach" differs from IAS 14, which currently requires the disclosure of two sets of segments, business and geographical segments, based on a desegregation of information contained in the financial statements. Under IFRS 8 operating segments become reportable based on threshold tests related to revenues, results and assets.

The Company has applied these new standards and amendments in the current year which had no significant impact on the performance or position of the Company.

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.

KOMMUNALKREDIT CAPITAL I LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2009

1. ACCOUNTING POLICIES - (CONTINUED)

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 year. 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.

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.

KOMMUNALKREDIT CAPITAL I LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2009

1. ACCOUNTING POLICIES (CONTINUED)

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.

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 years ended 31 December 2009 and 31 December 2008.

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 10).

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.

KOMMUNALKREDIT CAPITAL I LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2009

2. LOANS AND RECEIVABLES	<u>2009</u>	<u>2008</u>
Deposit with Kommunalkredit International Bank Ltd., Cyprus ("KIB")		
Balance as at 1st January	80,000,000	80,000,000
Impairment	(60,664,000)	-
Balance as at 31st December	<u>€ 19,336,000</u>	<u>€ 80,000,000</u>

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 is a limited recourse obligation of KIB in that interest due to the Company under the terms of this agreement equals the amounts that KIB receives under a deposit agreement with KA. Interest is receivable on the deposit in amounts equal to the amounts payable by the Company to the holders of the Capital Notes.

The deposit has no fixed maturity date.

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)").

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.

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 as no repayment of interest or principal from KF is expected in the future and have therefore recognised an impairment amounting to € 60.664m.

3. TRADE RECEIVABLES	<u>2009</u>	<u>2008</u>
Deposit interest income receivable	<u>€ -</u>	<u>€ 83,911</u>

KOMMUNALKREDIT CAPITAL I LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2009

4. CASH AND CASH EQUIVALENTS	<u>2009</u>	<u>2008</u>
Mourant & Co. GBP client account	€ 2	€ 2
	<hr/>	<hr/>
5. TRADE PAYABLES	<u>2009</u>	<u>2008</u>
Interest payable on Capital Notes	€ -	€ 83,911
	<hr/>	<hr/>
6. FINANCIAL LIABILITIES AT AMORTISED COST	<u>2009</u>	<u>2008</u>
€80,000,000 Perpetual Non-Cumulative Subordinated Fixed/Floating Rate Capital Notes (the "Capital Notes").		
Balance as at 1st January	80,000,000	80,000,000
Write down	(60,664,000)	-
	<hr/>	<hr/>
Balance as at 31st December	€ 19,336,000	€ 80,000,000
	<hr/>	<hr/>

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 KA 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 KA, 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 KA as the Support Provider. Under this Agreement KA undertakes to provide the Company with financial support, but KA is not obliged to make any payment to the Company to the extent that such a payment would exceed KA's distributable funds for the prior fiscal year or to the extent that such a payment would exceed KA's annual surplus pursuant to KA's own financial statements as at the balance sheet date immediately preceding the interest payment date. KA is also not obliged to make any payment to the Company to the extent that such a payment would impair KA'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 KA, 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 Kommunalkredit Austria AG 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 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.

KOMMUNALKREDIT CAPITAL I LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2009

7. SHARE CAPITAL	<u>2009</u>	<u>2008</u>
AUTHORISED:		
1,000 Ordinary Shares of €1 each	€ <u>1,000</u>	€ <u>1,000</u>
ISSUED AND FULLY PAID:		
2 Ordinary Shares of €1 each	€ <u>2</u>	€ <u>2</u>

8. TAXATION

The Company was granted exempt status for Jersey taxation purposes until 31st December 2008. The Company previously incurred an annual exempt company fee of £600. Effective 1 January 2009, Jersey's tax regime changed. The new regime imposes a general corporate income tax rate of 0%, a 10% rate applies to certain regulated financial services companies and a 20% rate applies to utilities and income from Jersey land (ie rents and development profits). Jersey registered companies are treated as resident for tax purposes and are subject to zero or ten percent standard income tax rate.

Since the Company is not a regulated financial service entity, the effect of the new tax regime is limited to the change of status from exempt to liable to Jersey income tax at 0%.

9. 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. 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

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2009

9. 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>2009</u>	Effective interest rate	<u>2008</u>
Financial assets					
Loans and receivables	Floating	0.0000%	€ 19,336,000	4.6918%	€ 80,000,000
Financial liabilities					
Financial liabilities at amortised cost	Floating	0.0000%	€ (19,336,000)	4.6918%	€ (80,000,000)

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

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2009

9. 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>2009</u>	<u>2008</u>
Denominated in Euro:		
Financial assets at amortised cost	€ 19,336,000	€ 80,000,000
Trade receivables	€ -	€ 83,911
Financial liabilities at amortised cost	€ 19,336,000	€ 80,083,911

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>2009</u>	<u>2008</u>
Deposit with Kommunalkredit International Bank Ltd., Cyprus ("KIB")	19,336,000	80,000,000
Deposit interest income receivable	-	83,911
Cash and cash equivalents	2	2
	<u>€ 19,336,002</u>	<u>€ 80,083,913</u>

Counterparty risk

The Capital Notes are rated by rating agencies and the latest ratings are Ca from Moody's. The rating agency's procedures include a review of the investments held by the Company on a regular basis, hence providing the Directors with an effective means of monitoring counterparty risk and credit risk via this assessment.

KOMMUNALKREDIT CAPITAL I LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2009

9. FINANCIAL INSTRUMENTS - (CONTINUED)

Fair values

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

	<u>2009</u> Carrying value	<u>2009</u> Fair Value	<u>2008</u> Carrying value	<u>2008</u> Fair Value
Loans and receivables	€ 19,336,000	€ 18,400,000	€ 80,000,000	€ 44,000,000
Financial liabilities at amortised cost	€ (19,336,000)	€ (18,400,000)	€ (80,000,000)	€ (44,000,000)

During the 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 31st December 2009 was 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 31st December 2009 and 2008.

KOMMUNALKREDIT CAPITAL I LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2009

9. FINANCIAL INSTRUMENTS - (CONTINUED)

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.

Contractual of financial assets and liabilities

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

	<u>2009</u>	<u>2008</u>
Loans and receivables		
In more than five years	€ 19,336,000	€ 80,000,000
	<u> </u>	<u> </u>
Financial liabilities at amortised cost		
In more than five years	€ (19,336,000)	€ (80,000,000)
	<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.

KOMMUNALKREDIT CAPITAL I LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2009

10. 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.

11. 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.

12. RELATED PARTIES

During the year G.P. Essex-Cater was a shareholder of Maurant Limited. Each of G.P. Essex-Cater, D.J. Le Blancq and H.C. Grant was an employee of a subsidiary of Maurant Limited. Affiliates of Maurant Limited provided ongoing 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, D.J. Le Blancq and H.C. Grant is an employee of a subsidiary of SSC. Affiliates of SSC now provide administrative services to the Company at commercial rates.

13. 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.

14. 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.