INTERIM FINANCIAL REPORT 2011
OF THE KOMMUNALKREDIT GROUP

Infra Banking Experts

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INTERIM MANAGEMENT REPORT

Economic framework

The recovery of the world economy continued in the first half of 2011. However, growth is expected to slow down in the course of the year as a result of rising energy and raw material prices and a more restrictive monetary policy of the countries in transition. The development of government debt and public deficits and the related budgetary measures, the political changes in the Middle East and Northern Africa, as well as the earthquake and the nuclear disaster in Japan, combined with persistently volatile financial markets, generate a mood of uncertainty as regards future macro-economic trends.

The debt situation of the euro countries continues to be the predominant issue for the European and international financial and capital markets. At the European level, targeted efforts are being made to counteract these developments. The ESM (European Stability Mechanism), adopted at the end of March 2011, is to replace the existing European Financial Stability Facility (EFSF) from 2013 onwards. The ESM will have an effective lending capacity of EUR 500 billion to support euro area Member States. On 21 June 2011, the euro area Heads of State and Government, in coordination with the ECB (European Central Bank), agreed on a new rescue package of EUR 109 billion for Greece as well as support measures for other states. The agreement also included an extension of maturities of Greek government bonds, a voluntary participation of the private sector and a broadening of the competences of the EFSF and the ESM, all intended to support the stabilisation of the financial markets.

In Europe, we observe a substantial divergence between fast-growing economies, such as Germany as well as Scandinavia and Eastern Europe, on the one hand, and the peripheral states, with their markets weakened by the debt crisis, on the other hand. Austria experiences a continuing phase of recovery, which is reflected in a higher labour market participation rate, rising exports and increasing capital expenditure. At the same time, inflation is on the increase due to higher raw material and energy prices. According to the most recent forecasts of the Institute for Economic Research (WIFO) and the Institute of Advanced Studies (HIS), a satisfactory GDP growth of 3.0% is expected for Austria in 2011, compared with 2.1% in 2010. For the euro area, the Statistical Office of the European Union expects a rise in economic output by 1.6%, compared with 1.8% in 2010.

In the municipal sector, attention is focused, in particular, on the new stability pact, providing for a guarantee limit for provincial and local governments yet to be defined, and the long-term care fund endowed with a total of EUR 685 million until 2014, which will contribute EUR 100 million every six months from the second half of 2011 onwards to the long-term care budget of local authorities in order to contain the cost increases in the social sphere. Given the high level of debt of public households and the related spending constraints, local authorities tend to be prudent as far as investments are concerned.

Money markets saw the long expected rise in interest rates in the first half of the year, with the ECB – acting against the background of rising inflation – adjusting the European key lending rate in two upward moves, on 7 April and 7 July 2011, from 1.0% at the beginning of the year to 1.5%. A further rate increase by the ECB in the second half of the year cannot be excluded. The US Federal Reserve (FED) has maintained its key lending rate at its record low of 0.0% - 0.25% and continues to pursue a massively expansive monetary policy.

Development of business in the first half of 2011

Since its restructuring, Kommunalkredit Austria (KA) has been committed to the key principle of its new business model: contributing towards the sustainable success of projects in the fields of social infrastructure, energy, environment and transport. The consultancy expertise and the technical know-how of the KA team are highly appreciated by customers and market participants, and close customer relations exist with over two thirds of all Austrian local authorities. Moreover, KA maintains relations with all leading infrastructure and project developers and operators in Austria as well as public decision-makers in the municipal and infrastructure-related sectors.

During the first half of 2011, the bank continued to concentrate fully on the expansion of its strategic core business in the following areas:

- Social infrastructure (care homes, health-care and educational institutions)
- Energy & Environment (sustainable sources of energy)
- Transport (road, rail)

The bank's offer of services includes, in particular

- the development of individual financing solutions,
- project consulting,
- treasury services,
- risk management measures, and the
- management of support schemes as well as energy and climate protection programmes.

Against the background of the tight budgetary situation of municipal and other public authorities, with public budgets close to their debt limit, KA is very well positioned with its focus on municipal and infrastructure-related project business. While public and quasi-public bodies currently tend to be rather reserved as far as capital expenditure is concerned, demand for project-oriented solutions for municipal and infrastructure investments has increased. Total disbursements booked in the first half of 2011 amounted to EUR 226.8 million. Throughout the first half of 2011, KA remained committed to its disciplined pricing policy, preferring not to contract for a business volume of more than EUR 500 million due to unrealistic terms and conditions offered by competing providers.

New business was generated primarily through infrastructure projects in the fields of health care, energy and transport as well as public finance. Infrastructure and project consulting was another growing field of business. Kommunalkredit Public Consulting (KPC), Kommunalkredit's 90% subsidiary, specialises in the management of support programmes and acts as a provider of consultancy services for international organisations and financial institutions. In its support scheme and programme management activities, KPC primarily focuses on environmental protection measures and the fight against climate change, as well as the international carbon market. During the first half of 2011, the company processed more than 24,000 projects within the framework of its support scheme management activities and decided to grant financial support in the amount of EUR 278 million to 22,000 applicants. The projects funded involved a total capital expenditure volume of EUR 1.5 billion, which provides an important stimulus for economic activity at the regional and local level, as the measures supported are implemented mostly by local and regional businesses. The company's consulting activities have taken a particularly successful development in the first half of 2011. New business included a contract awarded by the EBRD (European Bank for Reconstruction and Development) for the establishment of financing structures for energy efficiency projects in Bulgaria. Moreover, KPC was awarded a contract by the EIB (European Investment Bank) for consultancy services relating to water supply, waste-water disposal and flood control projects within the framework of the JASPERS Programme. The IFC (International Finance Corporation), a subsidiary of the World Bank, contracted KPC for an energy efficiency project in private residential construction in Ukraine.

State aid procedure of the European Commission

At the end of March 2011, the European Commission formally approved the restructuring plan of Kommunalkredit Austria. With its positive decision, the European Commission confirmed that the corporate restructuring of Kommunalkredit Austria meets the criteria of EU competition law. At the same time, the Commission endorsed Kommunalkredit's business strategy, especially its income-oriented approach in the interest of the public owners of the bank and its customers in municipal and infrastructure project business. The decision approving the restructuring plan and the conditions imposed on Kommunalkredit Austria AG were published by the European Commission on 6 July 2011 under http://ec.europa.eu/eu_law/state_aids/comp-2011/sa32745-2011nn.pdf.

The conditions agreed upon between the Republic of Austria and the EU correspond to the restructuring plan submitted and to the usual EU practice in such procedures. Therefore, no coupon payments will be made to holders of participation and supplementary capital prior to the privatisation of the bank, a development aimed at on a medium-term basis. However, Kommunalkredit will pay a compensatory own contribution to the Republic of Austria for state aid received.

Asset structure

As of 30 June 2011, the total assets of the KA Group according to IFRS amounted to EUR 16.5 billion, compared with EUR 16.3 billion at the end of 2010. After scheduled redemptions and new disbursements, loans and advances to customers amounted to EUR 8.1 billion as of 30 June 2011, unchanged from 31 December 2010 (31-12-2010: EUR 8.1 billion). In addition, amounts outstanding under loans and advances to customers include receivables from collateralised public-sector housing loans of EUR 2.6 billion (31-12-2010: EUR 2.7 billion), which are reported under assets at fair value. Other items reported under assets at fair value and available for sale comprise, above all, securities from the cover pool for the funding of covered bonds. Loans and advances to banks amount to EUR 2.3 billion (31-12-2010: EUR 1.5 billion), the increase being primarily due to a higher liquidity reserve.

Risk-weighted assets and equity

The regulatory capital ratios of KA are based on the calculation criteria to be applied in accordance with the Austrian Banking Act, with the standard approach being used to determine risk-weighted assets. The standard approach is also applied to operational risk. As of 30 June 2011, risk-weighted assets relative to credit risk totalled EUR 2,531.5 million (31-12-2010: EUR 2,611.2 million). The Group's own funds amount to EUR 498.9 million (31-12-2010: EUR 517.1 million), with a consolidated core capital of EUR 411.4 million (31-12-2010: EUR 411.4 million). Considering other risks requiring equity backing (market and operational risks), this results in a total capital ratio of 18.9% and a core capital ratio of 15.5%, respectively (31-12-2010: 19.7% and 15.7%, respectively). KA's equity according to IFRS stood at EUR 425.8 million as of 30 June 2011 (31-12-2010: EUR 418.9 million). The rise in equity is due to the positive development of the AFS reserve. Thus, KA has a very sound capital base.

Funding structure / Liquidity

KA raises its funding in the free market, independent of government support.[1] Long-term funding needs are secured mainly through public issues and private placements in covered and unsecured format. In February 2011, KA floated a five-year EUR 500 million covered bond issue at a fixed interest rate of 3.5%, which was heavily oversubscribed. In addition, senior unsecured issues with a total nominal value of EUR 198.0 million were placed as private placements. As of 30 June 2011, the portfolio of securitised liabilities amounted to a total of EUR 11.0 billion (31-12-2010: EUR 11.8 billion).

Moreover, continued efforts were made in the first half of 2011 to attract additional customer deposits, above all from institutional clients. These include municipalities, local authorities, public enterprises and investment companies, insurance companies and pension funds. The bank has no retail business. As of mid 2011, amounts owed to customers totalled EUR 1.9 billion (31-12-2010: EUR 1.6 billion). Cooperation with the EIB in the context of global loans is another important funding component for KA.

The funding structure as of 30 June 2011 is as follows:

Securitised liabilities[2]	EUR 11.0 bn. (31-12-2010: EUR 11.8 bn.)
Amounts owed to customers	EUR 1.9 bn. (31-12-2010: EUR 1.6 bn.)
Amounts owed to banks	EUR 1.9 bn. (31-12-2010: EUR 1.1 bn.)

Rating

KA has Fitch ratings of A in the long-term segment and F1 in the short-term segment. Both ratings were confirmed in December 2010 with a stable outlook. Moody's confirmed its long-term rating of Baa1 and its short-term rating of P-2 in April 2011. Kommunalkredit Covered Bonds are rated Aa1, with a stable outlook, by Moody's.

Income situation according to IFRS

The pre-tax result for the period according to IFRS amounted to EUR 1.2 million (HY 2010: EUR 2.2 million); the after-tax result for the period was EUR 0.9 million (HY 2010: EUR 1.8 million). The mid-year result is strongly affected by impairment charges for Greek government bonds of EUR -31.3 million based on the second rescue package for Greece adopted on 21 June 2011 and the related voluntary contribution by banks and insurance companies. Without this impairment charge, the pre-tax result for the period would have been EUR 32.4 million (HY 2010: EUR 2.2 million).

Impact of the second rescue package for Greece on income according to IFRS

Initial situation of KA

As of 30 June 2011, KA held securities of the Republic of Greece with a nominal value of EUR 221.7 million (IFRS book value EUR 198.1 million). In addition, government-guaranteed receivables amount to EUR 6.1 million. Apart from that, KA has no exposure to other states receiving support from the European Financial Stability Facility.

[1] Except for funding of the debtor warrant structure of KA Finanz AG. For this purpose, KA issued a government-guaranteed bond with a volume of EUR 1 billion maturing in July 2013. The liquidity thus gained was passed on to KA Finanz AG via the debtor warrant structure with no effect on liquidity, profit or loss and risk.
[2] Incl. debtor warrant structure.

Decision by Heads of State and Government on 21 June 2011

On 21 June 2011, the euro area Heads of State and Government adopted a package of measures which, besides releasing another EUR 109 billion in support of Greece and adopting further debt relief measures in addition to the support already decided, including an extension of maturities and a reduction of interest rates, provides for voluntary participation of the banking and insurance sector in the bailout. Based on the IIF term sheet (Institute for International Finance - private international bankers' association), this private support package has been estimated to generate an additional EUR 135 billion, assuming 90% participation. Moreover, a buyback programme for Greek government bonds, the amount of which is yet to be specified, is to be implemented via the EFSF (European Financial Stability Facility).

Four alternatives are being offered for voluntary private-sector participation, essentially providing for a bond exchange or the rolling over of bonds maturing by the end of 2020 (KA positions in this maturity range amount to a nominal value of EUR 141.7 million). Coupon payments on the exchanged instruments are to range between 4.0% and 6.8%, with maturities of between 15 and 30 years. The principal will be fully or partly collateralised by bonds or EFSF funds or other AAA-rated securities (full collateral value at end of term through accumulation of interest). According to the IIF, the coupon is below market value, as the IIF term sheet assumes a market rate of 9%. The difference between the actual interest rate and the assumed 9%, discounted over the term of the debt, results in a net present value loss of approx. 21%.

Impairment trigger according to IFRS

As recommended by relevant institutions, adoption of the second rescue package for Greece led to an "impairment trigger" for Greek government bonds according to IFRS (not to be confused with a "credit event" for CDS – KA holds no CDS contracts). Upon identification of an "impairment trigger", impairment charges on the AFS (available for sale) portfolio, usually recognised in equity, have to be carried through profit or loss. Based on the second rescue package, this reclassification was required as of 30 June 2011 for Greek bonds maturing by the end of 2020. Impairment charges on positions with longer maturities continue to be recognised in equity.

As of 30 June 2011, KA's AFS portfolio includes positions maturing by the end of 2020 with a nominal value of EUR 19.5 million. Based on their measurement at market prices as of 30 June 2011, an impairment charge of EUR -6.4 million was recognised in the income statement. It is important to underline that this impairment charge had already been carried before, but was recognised in equity, and does not represent a realised loss or debt waiver.

Risk provisions for Greece

Besides the fair value and AFS portfolios, other IFRS portfolios maturing by 2020 also have to be written down by 21% in accordance with recommendations issued by relevant institutions, unless the prevailing opinion demonstrably is in favour of not participating in the voluntary programme. KA holds positions of this category in a nominal amount of EUR 119.7 million; the resulting impairment charge is EUR -24.9 million.

In total, the book charge of EUR 6.4 million on the AFS portfolio recognised in the income statement and the write-down on portfolios maturing by 2020 in the amount of EUR 24.9 million result in a total impairment charge of EUR -31.3 million; this is booked against positive valuation results on other positions of EUR 22.2 million. Thus, the resulting net trading and valuation result stands at EUR -9.1 million.

The write-down on Greek government bonds does not anticipate KA's decision regarding its participation in the voluntary programme, but would allow the bank to participate without any further charge on profit or loss, if this were considered appropriate once the final parameters have been communicated. Moreover, through is measure, KA's exposure to Greece has been accounted for to a substantial extent on the basis of the bank's own earning strength and its strong capital base. After these measures, KA reports a total capital ratio of 18.9% and a core capital ratio of 15.5%. Equity according to IFRS, as already reported on pages 5/6, is stable at EUR 425.8 million.

Other essential components of the result for the period

In addition to the above, the following factors had a significant impact on the 2011 interim result:

- *Net interest income*
  At the end of the first six months of 2011, net interest income amounted to EUR 23.7 million (HY 2010: EUR 23.5 million).

- *Net fee and commission income*
  The net fee and commission income of EUR 6.8 million (HY 2010: 5.8 million) is primarily due to revenues generated through support programme management and consultancy services in the amount of EUR 6.1 million. The remaining amount is due to commission income from the lending business and from treasury services.

- *Loan impairment*
  There were no loan impairment events during the first half of the year. The net credit risk result therefore stands at EUR 0.0 as of 30 June 2011 (HY 2010: EUR 0.0 million).

- *General administrative expenses*
  General administrative expenses in the first half of 2011 amounted to EUR 22.3 million (HY 2010: EUR 21.9 million). The slight increase over the previous period is primarily due to one-off project costs. Proceeds from administrative services rendered and charged to KA Finanz AG under the service level agreement amounted to EUR 5.5 million (HY 2010: EUR 6.8 million) and are reported under other operating result. On a net basis, actual general administrative expenses amounted to EUR 16.9 million (HY 2010: EUR 15.1 million), with EUR 10.3 million (HY 2010: EUR 9.2 million) accounted for by personnel expenses and EUR 6.6 million (HY 2010: EUR 5.8 million) by non-personnel expenses.

- *Stability tax*
  The stability tax paid to the Republic of Austria on the basis of the company's total assets as of 31 December 2010 is reported under operating expenses and amounts to EUR 3.7 million for the first half of 2011 (HY 2010: EUR 0.0 million).

Balance sheet and income according to the Austrian Company Code/Austrian Banking Act

As of 30 June 2011, Kommunalkredit reports total assets of EUR 15.4 billion (31-12-2010: EUR 15.0 billion) according to the Austrian Company Code/Austrian Banking Act. The result for the period according to the Austrian Company Code/Austrian Banking Act stands at EUR 0.0 million (HY 2010: EUR 7.5 million), with an operating result of EUR 9.0 million (HY 2010: EUR 14.7 million).

Like the IFRS result, the result for the period according to the Austrian Company Code is substantially influenced by the second rescue package for Greece. According to the Austrian Company Code, all non-current asset portfolios maturing by the end of 2020 were written down by 21%. These portfolios amount to a total nominal value of EUR 141.7 million, the resulting impairment charge of 21% being EUR 29.9 million. This impairment charge is covered by the release of EUR 18.2 million from the provision of EUR 32.1 million set up pursuant to § 57(1) of the Austrian Banking Act as of 31 December 2010 and by the positive operating result. Following this partial release, the remaining provision pursuant to § 57(1) of the Austrian Banking Act amounts to EUR 13.9 million as of 30 June 2011.

Risk structure

KA's portfolio is characterised by the board customer base of the bank in the public and quasi-public sectors. No credit defaults were reported in the first half of 2011. Austrian territorial authorities and quasi-public customers account for 58.5% of the total portfolio, other EU Member States and for 29.8% and non-'EU countries for 11.7%. The overall asset quality is high, which is reflected in low probabilities of default. The breakdown of the total portfolio by rating is as follows:

Breakdown of total exposure by rating

Rating range	30-06-2011	31-12-2010
AAA / AA	67.7%	71.7%
A	18.8%	14.4%
BBB	9.2%	10.0%
Non-investment grade	4.3%	3.9%

KA's exposure is concentrated in the higher rating categories, with 68% rated AAA/AA as of 30 June 2011. Overall, 96% of the exposure is rated investment grade. The capital-weighted average rating of the total exposure is A3 (according to Moody's). Thus, the asset quality of KA's portfolio is high.

30-06-2011 **in EUR 1,000**	Total exposure	Share	of which securities	of which loans
Austria	8,922,598	58.5%	508,045	7,827,975
EU-17 (euro area excl. Austria) of which*	3,597,794	23.6%	831,040	1,816,029
Republic of Greece	204,202	*1.3%*	198,069	*6,132*
Republic of Ireland	*0*	*0,0%*	*0*	*0*
Republic of Portugal	*0*	*0.0%*	*0*	*0*
EU non-euro area	948,539	6.2%	688,835	212,164
Non-EU Europe	1,740,280	11.4%	0	1,639,826
Other	43,650	0.3%	0	42,047
Total	**15,252,861**		**2,027,921**	**11,538,041**

* IFRS book values for securities; Republic of Greece incl. government-guaranteed exposures of TEUR 6,132

Broken down by geographical regions, the major part of the exposure is accounted for by the euro area (EU-17 incl. Austria 82%; share of Austria 58%) and the remaining EU Member States (6%). Within the exposure to non-EU Europe (11%) Switzerland alone accounts for 81%.

In view of the support mechanisms established by the euro area states and the International Monetary Fund within the framework of the debt crisis of several euro countries, i.e. the European Financial Stability Facility (EFSF) and the ESM (European Stability Mechanism), as well as the additional measures adopted and/or extended by the euro area Heads of State and Government at their Special Summit on 21 June 2011 to stabilise the situation in Greece and the euro area as a whole, KA does not expect Greek instruments to default. Nevertheless, based on the second rescue package for Greece, an impairment charge was booked for Greek government bonds in the amount of EUR 31.3 million according to IFRS and EUR 29.9 million according to the Austrian Company Code.

Significant events after the balance-sheet date

Examination of KA's potential participation in the voluntary debt rescheduling programme for Greece

Within the framework of a special summit meeting on 21 June 2011, the euro area Heads of State and Government and the leading representatives of the EU institutions accepted an offer submitted by the Institute of International Finance (IIF), signed by 26 banks and insurance companies, regarding a voluntary contribution of the private sector to safeguard the stability of the Republic of Greece. This offer provides for the following commitments:

- A contribution of EUR 135 billion by the private sector to help Greece meet its funding needs for the period 2011 – 2020 through the exchange of existing Greek government bonds, with a choice of four different instruments, each resulting in a net present value loss of 21%
- Participation in a debt buyback programme

KA is currently examining the possibility of participating in the rescheduling of Greek government bonds. However, essential parameters of the concrete rescheduling scenarios were not yet available at the time of reporting and a final assessment of the scenarios was therefore not possible.

Outlook

Against the background of current developments of the debt crisis of the euro countries and the USA, markets are expected to remain volatile for the rest of 2011. The primary goal of the countries of the euro area will and must consist in engaging the strength of this economic region through targeted and appropriate measures. A common and timely approach is therefore indispensable.

According to forecasts by the Institute of Advance Studies, the growth of economic output in the euro area will amount to 2.0% in 2011 and drop slightly to 1.7% in the following year. Austria's GDP is expected to grow by 3.0% in 2011 and 2.1% in 2012. Thus, economic growth will fall to the level of 2010.

KA is well positioned to address the current challenges and offers its customers tailor-made financing solutions and specific consultancy services in the fields of Social Infrastructure, Energy & Environment and Transport. Under conditions of tight public budgets and an urgent need for budget consolidation, project-based structures are continuously gaining in importance for the implementation of infrastructure projects in the public and quasi-public sector. This trend, which is positively reflected in the operating results of the first half of the year, is expected to continue during the second half of 2011. The balanced interim result reported as of 30 June 2011 is essentially influenced by impairment charges for Greek government bonds. At the same time, a possible negative effect of a potential participation in the voluntary support programme for Greece has already been anticipated, which significantly widens KA's decision-making leeway. The company expects to generate a positive operating result in the second half of the year as well.

In general, KA will consistently pursue its income-oriented market strategy, aimed at building sustainable and solution-oriented customer relations, in the current market environment. This business model has been recognised and endorsed through the approval of the restructuring plan by the European Commission. Under the conditions imposed within the framework of the decision by the European Union, KA will have to pay a compensatory own contribution to the Republic of Austria in the amount of the profit for the year otherwise generated according to the Austrian Company Code. Therefore, no dividend and coupon payments will be made to holders of participation and supplementary capital prior to the privatisation of the bank, which is aimed at on a medium-term basis. In accordance with the Stability Tax Act adopted on 23 December 2010, the stability tax to be paid by KA, based on its total assets as of 31 December 2010, will amount to approx. EUR 7.4 million annually in the years 2011 through 2013, i.e. EUR 22.2 million for the entire period.

With its sound tier-1 and total capital ratios of 15.5% and 18.9%, respectively, KA is well prepared to address the future requirements of Basel III. At the same time, a strong capital base provides an essential, positive foundation for the bank in the current market environment.

INTERIM FINANCIAL STATEMENTS

Balance Sheet of the Kommunalkredit Group according to IFRS*

Assets **in EUR 1,000**	**30-06-2011**	**31-12-2010**
Cash and balances with central banks	61,437.3	163,606.0
Loans and advances to banks	2,261,408.2	1,458,730.4
Loans and advances to customers	8,081,842.1	8,144,570.4
Assets at fair value	3,129,939.9	3,316,394.4
Assets available for sale	518,251.0	590,119.8
Assets held to maturity	476,481.0	497,183.7
Derivatives**	858,124.9	982,893.8
Investments in associates	1,515.7	1,468.4
Property, plant and equipment	31,152.6	31,197.0
Investment property	5,768.8	5,861.8
Intangible assets	123.8	175.2
Current tax assets	145.1	103.4
Deferred tax assets	18,817.2	21,042.7
Other assets***	1,077,673.2	1,057,724.3
Assets	**16,522,680.8**	**16,271,071.2**

Liabilities and equity **in EUR 1,000**	**30-06-2011**	**31-12-2010**
Amounts owed to banks	1,902,717.7	1,090,050.6
Amounts owed to customers	1,877,060.1	1,580,569.5
Derivatives**	1,215,668.6	1,287,368.5
Securitised liabilities.	10,993,783.0	11,780,270.3
Subordinated liabilities	80,329.4	83,160.1
Provisions	8,717.6	8,680.8
Current tax liabilities	2,131.1	3,069.9
Other liabilities	16,441.2	18,963.7
Equity	425,832.1	418,937.9
of which subscribed capital	*225,337.1*	*225,337.1*
of which capital reserves	*8,973.6*	*8,973.6*
of which participation capital	*138,373.3*	*138,373.3*
of which non-controlling interests	*88.7*	*99.8*
Liabilities and equity	**16,522,680.8**	**16,271,071.2**

*Comprises the fully consolidated Kommunalkredit Beteiligungs- und Immobilien GmbH and Kommunalkredit Public Consulting GmbH as well as Kommunalleasing GmbH consolidated at equity.

** Primarily interest-rate swaps, interest/currency swaps and FX forward transactions made to hedge against interest-rate and foreign-currency risks. The bank has no significant proprietary trading portfolio.

***Comprises the debtor warrant in the amount of EUR 1.0 billion.

Income Statement of the Kommunalkredit Group according to IFRS

Income Statement in EUR 1,000	01-01-2011 to 30-06-2011	01-01-2010 to 30-06-2010
Interest and similar income	463,210.0	473,138.7
Interest and similar expenses	-439,478.4	-449,686.9
Net interest income	**23,731.6**	**23,451.8**
Loan impairment charges	-5.6	0.3
Fee and commission income	7,449.9	6,452.3
Fee and commission expenses	-651.1	-638.7
Net fee and commission income	6,798.8	5,813.5
Income from other investment	0.0	174.8
Income from investment in associates	47.4	80.0
Net trading and valuation result	-9,092.6	-13,158.2
General administrative expenses	-22,288.5	-21,922.5
Other operating result	5,707.5	7,737.1
Other operating expenses*	-3,731.7	-0.6
Other operating result	1,975.8	7,736.5
Pre-tax profit for the period	**1,166.9**	**2,176.2**
Taxes on income	-283.5	-420.5
After-tax profit for the period	**883.3**	**1,755.7**
of which attributable to owners	866.6	1,743.6
of which attributable to non-controlling interests	16.8	12.1

* Comprises the stability tax of EUR 3.7 million introduced in 2011.

Statement of Comprehensive Income

Comprehensive income in EUR 1,000	01-01-2011 to 30-06-2011	01-01-2010 to 30-06-2010
After-tax profit for the period	**883.3**	**1,755.7**
Valuation of AFS portfolios	*1,372.2*	*-52,340.8*
Recycling of AFS reserve	*6,679.5*	*281.7*
Deferred taxes on AFS reserve	*-2,012.9*	*13,014.8*
Change in AFS reserve	**6,038.7**	**-39,044.3**
Comprehensive income	**6,922.1**	**-37,288.6**
of which attributable to owners	6,905.3	-37,300.7
of which attributable to non-controlling interests	16.8	12.1

Condensed Statement of Cash Flows

in EUR 1,000	01-01 to 30-06-2011	01-01 to 30-06-2010
Cash and cash equivalents at the end of the previous period	**163,606.0**	**2,699.0**
Cash flow from operating activities*	-120,702.5	539,578.9
Cash flow from investing activities	21,392.4	-48,136.9
Cash flow from financing activities	-2,858.6	3,145.2
Cash and cash equivalents at the end of the period	**61,437.3**	**497,286.2**

* The negative cash flow from operating activities is primarily due to the wind-down of securitised liabilities.

Statement of Changes in Equity

in EUR 1,000	Subscribed capital	Participation capital	Capital reserve	Statutory reserve[1]	Retained earnings and other reserves	Net income for the period	Available-for-sale reserve[2]	Equity exl. minority interest	Minority interest	Total equity
as of 01-01-2011	**225.337,1**	**138.373,3**	**8.973,6**	**27.805,7**	**52.073,7**	**24.637,5**	**-58.362,8**	**418.838,0**	**99,8**	**418.937,9**
Result for the period	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*866,6*	*0,0*	***866,6***	*16,8*	***883,3***
Valuation of AFS portfolios	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*1.029,1*	***1.029,1***	*0,0*	***1.029,1***
Amortisation of AFS reseve	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*5.009,6*	***5.009,6***	*0,0*	***5.009,6***
Total	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**866,6**	**6.038,7**	**6.905,3**	**16,8**	**6.922,1**
Capital increases / contributions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	**0,0**	0,0	**0,0**
Distributions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	**0,0**	-27,9	**-27,9**
Reclassifications	0,0	0,0	0,0	0,0	24.637,5	-24.637,5	0,0	**0,0**	0,0	**0,0**
Other changes	0,0	0,0	0,0	0,0	0,0	0,0	0,0	**0,0**	0,0	**0,0**
as of 30-06-2011	**225.337,1**	**138.373,3**	**8.973,6**	**27.805,7**	**76.711,2**	**866,6**	**-52.324,1**	**425.743,3**	**88,7**	**425.832,1**

b. Eigenkapitalentwicklung 2010

in EUR 1,000	Subscribed capital	Participation capital	Capital reserve	Statutory reserve[1]	Retained earnings and other reserves	Net income for the period	Available-for-sale reserve[2]	Equity exl. minority interest	Minority interest	Total equity
as of 01-01-2010	**225.337,1**	**138.373,3**	**8.973,6**	**27.805,7**	**49.159,5**	**2.914,3**	**-31.518,5**	**421.044,9**	**92,5**	**421.137,4**
Result for the period	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*1.743,6*	*0,0*	***1.743,6***	*12,1*	***1.755,7***
Valuation of AFS portfolios	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*-39.255,6*	***-39.255,6***	*0,0*	***-39.255,6***
Amortisation of AFS reseve	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*211,3*	***211,3***	*0,0*	***211,3***
Total	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**1.743,6**	**-39.044,3**	**-37.300,7**	**12,1**	**-37.288,6**
Capital increases / contributions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	**0,0**	0,0	**0,0**
Distributions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	**0,0**	-22,7	**-22,7**
Reclassifications	0,0	0,0	0,0	0,0	2.914,3	-2.914,3	0,0	**0,0**	0,0	**0,0**
Other changes	0,0	0,0	0,0	0,0	-0,8	0,0	0,0	**-0,8**	0,0	**-0,8**
as of 30-06-2010	**225.337,1**	**138.373,3**	**8.973,6**	**27.805,7**	**52.072,9**	**1.743,6**	**-70.562,9**	**383.743,3**	**81,9**	**383.825,3**

1) Statutory reserves include revenue reserves of TEUR 508.7 (31-12-2010: TEUR 508.7) and other statutory reserves according to the Austrian Banking Act of TEUR 27,297.0 (31-12-2010: TEUR 27,297.0).

2 The available-for-sale reserve comprises deferred taxes of TEUR 17,441.4 (31-12-2010: TEUR 19,454.3).

NOTES TO THE INTERIM FINANCIAL STATEMENTS OF THE KOMMUNALKREDIT GROUP

1. General principles

These Condensed Interim Financial Statements of the Kommunalkredit Group were prepared on the basis of the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as well as all interpretations of the International Financial Reporting Committee (IFRICs and SICs), also adopted by and applied on a mandatory basis in the European Union.

The interim financial statements for the period from 1 January to 30 June 2011 are in compliance with IAS 34 ("Interim Financial Reporting"). The condensed interim financial statements do not contain all the information and disclosures required in the annual financial statements and therefore have to be read in conjunction with the 2010 annual financial statements of the Kommunalkredit Group.

The accounting and measurement principles applied in the interim reporting period were the same as those applied to the financial statements of the KA Group as of 31 December 2010. The accounting principles described therein have been supplemented in that the results of the measurement (including impairments) of assets held for sale maturing by 31 December 2020 are reported under the net trading and valuation result.

As regards the accounting treatment of Greek government bonds, see Item 5.

2. Other disclosures

Disclosures regarding the development of results in the first half of 2011 and significant events during the period under review are contained in the interim management report.

a. Development of regulatory own funds of the KA Group

Assessment base pursuant to § 22(2) Austrian Banking Act in EUR 1,000	30-06-2011	31-12-2010
Risk-weighted assets Basel II - credit risk	2,531,446.5	2,611,221.9
Capital adequacy requirements		
Bank book[1)]	202,515.7	208,897.8
Trading book[2)]	47.7	3.8
Currency risk[2)]	130.7	161.4
Operational risk[3)]	8,383.8	1,119.4
Total (own funds required)	**211,078.0**	**210,182.4**
Own funds	498,928.5	517,094.5
Total capital ratio (=own funds / (own funds required / 0.08)*100)	18.9%	19.7%
Core capital	411,418.5	411,382.3
Core capital ratio (=core capital / (own funds required / 0,08)*100)	15.5%	15.7%

b. Contingent liabilities

As of 30 June 2011, contingent liabilities are as follows:

in EUR 1,000	30-06-2011	31-12-2010
Contingent liabilities		
Sureties and guarantees	162,591.4	163,653.6
Other obligations		
Loan commitments and unused lines	384,220.4	420,538.2

The legal risks and other obligations outlined in the 2010 Consolidated Financial Statements remained unchanged during the interim reporting period.

c. Relations with related parties

The Republic of Austria owns 99.78% of KA; the remaining 0.22% is held by the Austrian Association of Municipalities.

KA has made the following asset transactions on an arm's-length basis with the Republic of Austria:

- Government bonds with a nominal value of EUR 34.2 million
- Loans to the Republic of Austria in the amount of EUR 55.0 million

In 2009 KA placed an issue with a nominal value of EUR 1 billion guaranteed by the Republic of Austria, which served to recapitalise KA Finanz AG through the debtor warrant structure provided for in the restructuring plan. This resulted in fee and commission expenses in the amount of EUR 5.1 million in the first half of 2011 (first half of 2010: EUR 5.3 million), which were compensated by interest income from loans and advances to KA Finanz. In addition, within the framework of the recapitalisation agreement of 17 November 2009, the Republic of Austria assumed liability as a guarantor and payer for the obligations of a special purpose company from a put option under the debtor warrant structure, with no expenses and risks arising for KA from these transactions.

d. Relations with KA Finanz AG

KA was established in the business year 2009 in the course of the restructuring of KA Old through the take-over of the core business of KA Old. The other, non-strategic business of KA Old remained with KA Finanz AG (KF). The Republic of Austria holds 99.78% of both companies; the Association of Austrian Municipalities holds 0.22% each of KA and KF.

In terms of organisation, the Executive Board positions and the Supervisory Board positions of KA and KF are held by the same persons. Moreover, KA provides clearly defined services to KF on the basis of a service level agreement. To safeguard the interests of each of the two companies and to avoid conflicts of interest in business practice, a special conflict management process has been introduced. In addition, staff positions (operating officer, portfolio officer and risk officer) have been created for the essential core functions of KF, which secure the autonomy of KF and uphold its interests vis-à-vis KA. All transactions made with KF are subject to approval by the Supervisory Board; if necessary, approval by the general shareholders' meeting can be obtained. The business relations between KA and KF, consisting of banking transactions on an arm's length basis, have been gradually reduced in the course of 2011. Quarterly reports describing the existing business relations are submitted to the Supervisory Board.

3. Segment reporting

KA primarily operates in the field of municipal and infrastructure-related project business. There are no other business segments subject to a reporting requirement.

4. Issues, buyback and redemption of bonds or equity instruments

In the period under review, securitized liabilities with a nominal value of EUR 697.0 million (01-01-2010 to 30-06-2010: EUR 0.0 million) were issued by KA and EUR 1,393.0 million (01-01-2010 to 30-06-2010: EUR 1,519.8 million) were bought back and/or redeemed.

5. Impairment of financial assets

In view of the debt situation of several euro countries, the Member States of the euro area, together with the International Monetary Fund, established support mechanisms for the protection of the euro. In 2010, extensive assistance was granted to Greece within the framework of the European Financial Stability Facility.

Towards the end of May 2011 it turned out that Greece had failed, by far, to meet its budget consolidation targets. As a result, the ratings for Greek government bonds were downgraded even further; as of 30 June 2011 the spreads for two-year Greek government bonds reached more than 27%. In July 2011, additional support for Greece was decided in order to fully close the existing financing gap. Private borrowers are to participate in the support measure on a voluntary basis.

The voluntary involvement of private borrowers is to consist in the exchange of existing bonds maturing not later than by the end of 2020 against new securities with maturities of 15 and 30 years, respectively. According to the financing offer of the IIF (Institute of International Finance) currently on the table, private borrowers have a choice of four exchange alternatives, with the future interest and redemption payments on the newly issued bonds resulting in a net present value of 79%, relative to a (notional) nominal value of 100%.

Thus, there are objective indications of impairment (impairment trigger) as defined in IAS 39.59.

Although KA is still examining the possibility of participating in the rescue package, the following impairment charges were recognised in the interim financial statements:

a. Assets available for sale

The accumulated impairment charges on assets held for sale, previously recognised in equity, have been reclassified for all assets maturing by 31 December 2020 and are now reported under the net trading and valuation result according to IAS 39.67. The difference between the fair values reported as of 30 June 2011 and the expected higher value of the exchanged bonds amounts to EUR 1.9 million.

in EUR 1,000 Category	Nominal value	Maturity	Fair value	P&L effect 2011
Fair value	2,494.6	01.02.2016	1,137.8	-523.7
Available for sale	17,297.4	25.06.2013	12,400.2	-4,904.1
Available for sale	2,236.6	14.07.2015	1,111.1	-1,478.4
Available for sale	30,000.0	17.07.2034	13,967.3	0.0

b. Assets held to maturity / Loans and advances to customers

Based on information regarding the participation of private creditors available to date, for assets held to maturity and loans and advances to customers maturing by 31 December 2011, the expected future cash flows have been recognised in the interim financial statements as of 30 June 2011 at a net present value of 79%. Given the support measures taken, it is assumed that bonds maturing after 31 December 2020 can be serviced completely. Moreover, KA does not intend to sell such bonds within the framework of the buyback programme at a price below the current book value. Therefore, the originally expected cash flows remain unchanged.

in EUR 1,000 Category	Nominal value	Maturity	Book value before impairment	Impairment	Book value after impairment	Market value
Held to maturity	49,705.9	05.07.2013	49,452.9	10,185.3	39,267.7	34,918.4
Held to maturity	50,000.0	20.09.2040	50,000.0	0.0	50,000.0	21,527.5
Loans and advances to customers	70,000.0	20.07.2016	70,000.0	14,700.0	55,300.0	37,100.0

Vienna, 5 August 2011

The Executive Board of Kommunalkredit Austria AG

Alois Steinbichler
Chairman of the Executive Board

Andreas Fleischmann
Member of the Executive Board

STATEMENT BY THE LEGAL REPRESENTATIVES ON THE INTERIM FINANCIAL REPORT

We herewith confirm to the best of our knowledge that the Condensed Consolidated Interim Financial Statements prepared in accordance with the relevant accounting standards present a true and fair view of the assets, the financial position and the income of the Group and that the Interim Management Report of the Group presents a true and fair view of the assets, the financial position and the income of the Group as regards the important events during the first six months of the business year and their impact on the Condensed Consolidated Interim Financial Statements, and as regards the material risks and uncertainties of the remaining six months of the business year.

Vienna, 5 August 2011

The Executive Board of Kommunalkredit Austria AG

Alois Steinbichler
Chairman of the Executive Board

Andreas Fleischmann
Member of the Executive Board

REPORT ON REVIEW OF THE CONDENSED INTERIM FINANCIAL STATEMENTS AS OF 30 JUNE 2011

Introduction

We have reviewed the accompanying Condensed Consolidated Interim Financial Statements of Kommunalkredit Austria AG, Vienna, for the period from 1 January to 30 June 2011. The Condensed Consolidated Interim Financial Statements comprise the condensed consolidated balance sheet as of 30 June 2011, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income and the condensed consolidated statement of changes in equity for the period from 1 January to 30 June 2011 as well as explanatory notes.

The legal representatives of the company are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with the International Financial Reporting Standards for interim financial reporting, as applicable in the European Union.

Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with the legal provisions and the professional standards applicable in Austria as well as the International Standard on Review Engagements ISRE 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

The review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Result of Review

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements have not been prepared in accordance with the International Financial Reporting Standards for interim financial reporting, as applicable in the European Union.

Comment on the Consolidated Interim Management Report and the Statement by the Legal Representatives pursuant to § 87 of the Stock Exchange Act

We have read and examined the consolidated interim management report as to the presence of apparent contradictions to the condensed consolidated interim financial statements. According to our assessment, the consolidated interim management report does not contain any apparent contradictions to the condensed consolidated interim financial statements.

The interim financial statements contain the statement by the legal representatives required by § 87 (1.3) of the Stock Exchange Act.

Vienna, 5 August 2011

PwC INTER-TREUHAND GmbH
Wirtschaftsprüfungs- und
Steuerberatungsgesellschaft

signed:	signed:
Dipl.-Ing. Mag. Friedrich Rödler Certified Public Accountant	Dipl.Kfm.Univ. Dorotea-E. Rebmann Certified Public Accountant

Balance Sheet of Kommunalkredit Austria AG according to the Austrian Commercial Code/Austrian Banking Act

Assets in EUR 1,000	30-06-2011	31-12-2010
Cash and balances with central banks	61,436.4	163,605.2
Public-sector debt instruments eligible for central bank funding	962,610.7	1,036,018.5
Loans and advances to banks (after provision pursuant to § 57 Austr. Banking Act, of MEUR 4.5)	2,171,853.5	1,349,140.3
Loans and advances to customers (after provision pursuant to § 57 Austr. Banking Act of MEUR 8.4)	10,020,501.2	10,085,644.1
Bonds and other fixed-income securities	765,025.4	873,480.7
Participations	0.1	0.1
Investments in affiliated companies	6,339.8	6,339.8
Non-current intangible assets	119.5	166.0
Property and equipment	2,059.5	1,911.1
Other assets*	1,342,514.7	1,427,312.0
Accruals	27,159.4	29,204.8
Assets	**15,359,620.2**	**14,972,822.6**

Liabilities and equity in EUR 1,000	30-06-2011	31-12-2010
Amounts owed to banks	1,900,888.0	1,064,038.2
Amounts owed to customers	1,880,670.1	1,580,736.6
Securitised liabilities	10,804,323.3	11,540,974.3
Other liabilities	255,720.3	262,747.8
Accruals	24,864.7	26,483.4
Provisions	15,341.7	18,049.5
Subordinated liabilities	66,041.1	67,527.3
Supplementary capital	11,281.5	11,775.7
Participation capital	138,373.3	138,373.3
Subscribed capital	225,337.1	225,337.1
Non-restricted capital reserve	8,973.6	8,973.6
Retained earnings	508.7	508.7
Statutory reserve pursuant to § 23(6) Austrian Banking Act	27,297.0	27,297.0
Profit/loss for the period	0.0	0.0
Liabilities and equity	**15,359,620.2**	**14,972,822.6**

* Includes the debtor warrant of EUR 1.0 billion

Income Statement of Kommunalkredit Austria AG according to the Austrian Company Code/Austrian Banking Act

in EUR 1,000	01-01-2011 to 30-06-2011	01-01-2010 to 30-06-2010
Net interest income	**22,670.0**	**23,169.2**
Income from investments	251.1	204.3
Net fee and commission income	704.5	514.6
Income/expenses from financial transactions	98.3	55.0
Other operating income	6,931.5	8,818.5
Operating income	**30,655.3**	**32,761.6**
General administrative expenses	**-17,827.5**	**-18,042.2**
Personnel expenses	-10,636.5	-10,566.3
Other administrative expenses (non-personnel expenses)	-7,191.0	-7,475.9
Depreciation	-85.9	-68.4
Other operating expenses*	-3,698.3	0.0
Operating expenses	**-21,611.7**	**-18,110.6**
Operating result	**9,043.6**	**14,650.9**
Impairment charges and additions to provisions for contingent liabilities and credit risks	0.0	-9,487.8
of which change in provision pursuant to § 57(1) of the Austrian Banking Act	*0.0*	*-4,500.0*
Balance of income/expenses from the write-back of impairment charges and provisions for contingent liabilities and credit risks	18,427.7	0.0
of which change in provision pursuant to § 57(1) of the Austrian Banking Act	*18,215.5*	*0.0*
Impairment charges for securities measured as financial investments and investments in affiliated companies	-27,438.3	*0.0*
Balance of income/expenses from impairment charges for securities measured as financial investments and investments in affiliated companies	0.0	3,258.4
Profit on ordinary activities	**33.1**	**8,421.5**
Taxes on income	-2.7	-800.0
Other taxes	-30.3	-104.8
Profit for the period	**0.0**	**7,516.7**

* Comprises the stability tax of EUR 3.7 million introduced in 2011

Regulatory Capital Ratios of Kommunalkredit Austria AG according to the Austrian Banking Act

	30-06-2011	31-12-2010
Risk-weighted assets Basel II (in TEUR) - credit risk	2,524,711.4	2,581,617.6
Total capital adequacy requirement (in TEUR)	209,842.2	207,814.0
Own funds (in TEUR)	487,505.2	505,660.9
Total capital ratio	18.6%	19.5%
Core capital (in TEUR)	399,995.2	399,948.7
Core capital ratio	15.2%	15.4%