



**Kommunal
K R E D I T**
International Bank Ltd

KOMMUNALKREDIT INTERNATIONAL BANK LTD

SEMI-ANNUAL REPORT 2007



HIGHLIGHTS.

**TOTAL ASSETS UP 14.6% COMPARED TO 31-12-2006,
NOW EXCEEDING EUR 10 BILLION.**

**PRE-TAX PROFIT REACHING EUR 21.4 MILLION, 88.4% HIGHER THAN
SAME PERIOD LAST YEAR.**

**THE RETURN ON EQUITY AFTER TAX IS 27.54%, THE COST-INCOME
RATIO AMOUNTS TO 7.36%.**

**FUNDING: KIB SUCCESSFULLY ISSUED A USD 600 MILLION-FIVE-YEAR-
EXL-NOTE ON THE US MARKET IN JUNE 2007.**

**KIB REMAINS THE HIGHEST RATED BANK IN CYPRUS
(MOODY'S AND FITCH).**

KEY FIGURES.

TABLE 1: KEY FIGURES.

in EUR 1,000 and/or %	30-06-2007	31-12-2006	Change
Balance-sheet figures			
Total assets	10,208,600.6	8,904,958.0	+14.64%
Loans and advances to customers	2,223,263.6	1,932,951.7	+15.02%
Financial investments	5,862,842.3	5,082,324.5	+15.36%
Securitised liabilities	7,849,860.6	6,810,554.0	+15.26%
Income figures			
	01-01 to 30-06-2007	01-01 to 30-06-2006	Change
Net interest income	14,717.2	7,753.0	+89.83%
Net fee and commission income	2,494.2	1,506.8	+65.53%
Pre-tax profit for the year	21,419.4	11,371.9	+88.35%
Return on equity after-tax	27.5%	20.4%	
Cost-income ratio	7.4%	10.4%	
Own funds ratios			
	30-06-2007	31-12-2006	Change
Risk-weighted assets	3,816,987.0	3,051,848.2	+25.07%
Own funds	497,691.0	401,484.0	+23.96%
Own funds rate	13.0%	13.2%	
Core capital – Tier 1	329,823.0	244,023.0	+35.16%
Core capital ratio	8.6%	8.0%	

INFORMATION ON THE DEVELOPMENT OF BUSINESS.

TABLE 2: SELECTED BALANCE SHEET FIGURES.

in EUR 1,000 and/or %	30-06-2007	31-12-2006	Change
Total assets	10,208,600.60	8,904,958.00	+14.64%
Loans and advances to customers	2,223,263.60	1,932,951.70	+15.02%
Financial investments	5,862,842.30	5,082,324.50	+15.36%
Securitized liabilities	7,849,860.60	6,810,554.00	+15.26%

BALANCE-SHEET STRUCTURE.

During the first six month of 2007 the **total assets** of Kommunalkredit International Bank (KIB) grew by EUR 1.3 billion or 14.6% to EUR 10.2 billion. Essentially, this increase was due to the expansion of business in the fields of financial investments (+EUR 780.5 million or 15.4%) and loans and advances to customers (+EUR 290.3 million or 15.0%). On the liabilities side, favorable market conditions enabled the company to obtain funding on most attractive conditions. Thus, securitized liabilities increased by EUR 1.0 billion or 15.3% (see Table 2). The funds received were partly invested in the inter-bank market. As of 30-06-2007 loans and advances to customers of EUR 229.6 million were in Cyprus, followed by the rest of EU with EUR 926.4 million and Non-EU countries with EUR 1,067.2 million. The funds invested were used primarily for infrastructure measures as well as direct public-sector budget finance.

DEVELOPMENT OF INCOME.

KIB's income situation continues to take a very positive course. The **net interest income** at the end of June 2007 was EUR 14.7 million which means an increase of 90% compared to end of June 2006. The bank's net commission income also grew significantly to EUR 2.5 million, which is a rise of 65.5% compared to end of June 2006. On a year to year basis and owing to the substantial expansion of KIB's business volume, general administrative expenses rose by 26.3% to EUR 1.8 million at the end of first half of 2007, but this increase is below average, considering the overall development of income. Consequently, the cost-income ratio dropped from 10.37% as of 30-06-2006 to 7.36% as of 30-06-2007. The pre-tax profit for the year grew by impressive 88.4% to EUR 21.4 million. The after-tax profit for the year, standing at EUR 19.5 million, exceeded the previous year's value by 85.1%. The return on equity after tax further improved from 20.4% at the end of June 2006 to 27.5% at reporting date (see Table 3).

TABLE 3: SELECTED INCOME FIGURES.

in EUR 1,000 and/or %	30-06-2007	30-06-2006	Change
Net interest income	14,717.2	7,753.0	+89.83%
Net fee and commission income	2,494.2	1,506.8	+65.53%
General administrative expenses	-1,750.8	-1,386.3	+26.29%
Pre-tax profit for the year	21,419.4	11,371.9	+88.35%
After-tax profit for the year	19,498.8	10,536.9	+85.05%
Return on equity after tax	27.5%	20.4%	
Cost-income ratio	7.4%	10.4%	

RISK WEIGHTED ASSETS AND EQUITY.

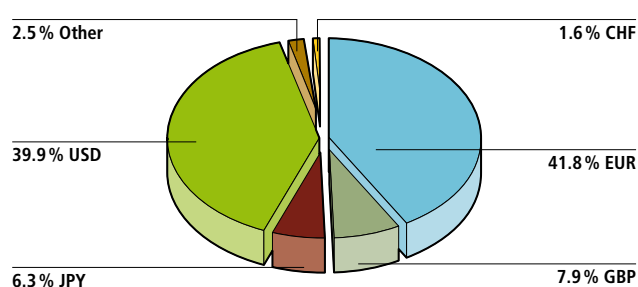
The continued strong growth of KIB is also reflected in the development of **risk-weighted assets**, which increased by 25% to EUR 3.9 billion in the first half of 2007. KIB's own funds amounted to a total of EUR 498 million as of 30-06-2007. This is exceeding the previous years value by 65% or EUR 195 million. Compared with 31-12-2006, the **core capital** grew by EUR 86 million, standing at EUR 330 million as of 30-06-2007. Essentially, the increase in core capital is due to an issue of preferential shares which were mainly subscribed by KIB's sole shareholder Kommunalkredit Austria AG. On this basis, the bank's capital adequacy requirement now stands at EUR 382 million. The core capital ratio as of 30-06-2007 is 8.6%. Due to the above mentioned capital measure, the total capital ratio is 13.0% (see Table 4).

FUNDING STRUCTURE.

The treasury of KIB continues to be successful in the optimization of the refinancing cost of the bank. Due to good business connections to the financial community, KIB is able to keep the refinancing cost at a low level. KIB is acting successfully with its US and its European Commercial Paper Programs in the area of short-term refinancing. Long-term funding is provided by the Group. On the repo-market, KIB is in the meantime a acknowledged player as well. In addition to its already existing EUR 5 billion European Commercial Paper Program, the US Commercial Paper Program (USCPP) with a volume of USD 5 billion and a swing line facility of USD 550 million is well established on the market. With this transaction (the first time carried out by a Cypriot bank) KIB was able to reach international recognition and to further optimize the funding costs. The notes issued under this program received the best possible short-term rating (P-1/F1+) by Moody's and Fitch. The high acceptance of the USCPP is reflected in the figures. At the end of June 2007 a total of USD 2.1 billion was outstanding. Since June 2007, extendible notes have also been used by KIB as an additional refinancing instrument. As of 30-06-2007, the funding structure is as follows (see Diagram 1):

TABLE 4: SELECTED EQUITY RATIOS.

in EUR 1,000 and/or %	30-06-2007	31-12-2006	Change
Risk-weighted assets	3,816,987.0	3,051,848.2	+25.07%
Equity requirement	381,698.7	305,184.8	+25.07%
Own funds	497,691.0	401,484.0	+23.96%
Total capital ratio	13.0%	13.2%	
Core capital – Tier 1	329,823.0	244,023.0	+35.16%
Core capital ratio	8.6%	8.0%	
Economic capital for credit risk	35,329.0	24,736.3	+42.82%
Equity required/Economic capital for credit risk	10.8	12.3	
Core capital/Economic capital for credit risk	9.3	9.9	

DIAGRAM 1: CURRENCY STRUCTURE.

RISK MANAGEMENT.

The business-policy risks managed by KIB are controlled and economically valued through the monthly determination of the economic capital. On that basis, the level of equity required to cover the maximum amount of all risks with a statistical possibility of materializing at a 99.97% level of confidence within one year is established. On 30-06-2007, the economic capital required amounted to EUR 79.0 million (30-06-2006: EUR 74.0 million), with the bank's actual core capital of EUR 329.8 million providing fourfold back-

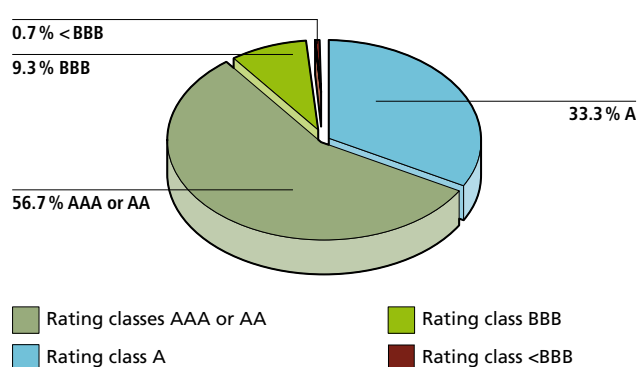
ing as of that date. This underlines the strategic orientation of KIB after a phase of high-quality expansion (see Table 5).

CREDIT RISK.

After the first half of 2007, the economic capital required to cover the credit risk, measured in terms of credit at risk for the total portfolio, a time horizon of one year and a confidence level of 99.97%, minus the expected loss, amounts to EUR 35.3 million. KIB's core capital stands at 930% of its economic capital as of 30-06-2007. This reflects the strong equity backing of KIB relative to the risk represented by its public-finance dominated credit portfolio. Given its focus on the provision of finance to states, regions, provinces, municipalities and local authorities, KIB's credit portfolio comprises fewer customers than that of universal banks. As of 30-06-2007, the bank was engaged in transactions with 16 clients that exceeded 10% of its capital base. However, the resulting risk is low due to the excellent risk quality of these customers, as is illustrated by the economic capital requirement for the credit risk. The excellent credit risk of the portfolio of loans and advances to customers is also reflected in the weighted average rating

TABLE 5: ECONOMIC CAPITAL.

in EUR, for 99.97% confidence interval, risk horizon 1 year	30-06-2007	31-12-2006	Change in %
Economic capital credit risk	35,329,037	24,736,272	
Economic capital market risk BB	38,229,758	44,309,436	
Economic capital market risk FX	1,652,886	1,163,324	
Economic capital operational risk*	3,744,269	3,744,269	
Total economic capital	78,955,950	73,953,301	+6.76%
Core capital	329,823,000	244,023,000	+35.16%
Surplus cover core capital : economic capital	418%	330%	

DIAGRAM 2: CREDIT RISK STRUCTURE.

of the total portfolio, i. e. a composite rating of AA3. As of 30-06-2007, the breakdown of the credit risk structure is shown in Diagram 2. The quality of KIB's portfolio is also reflected in the fact that since the establishment of KIB in the year 2002, there have been no defaults. The rate of

impaired lending is similarly low at 0,09%. Statistic loan loss provisions amount to EUR 3.65 million (see Table 6).

MARKET RISK.

At reporting date, the economic capital for the market risk carried on the banking book, measured in terms of value at risk for the interest-rate risk and standardized for a time horizon of one year and a confidence level of 99.97%, amounts to EUR 38.2 million.

CREDIT DERIVATIVES.

KIB uses this market to complement its loan and securities business and predominantly sells single-name credit protection on high-grade sovereigns, mainly European Union members. More than 97% of the underlying exposures are sovereign or sub-sovereign.

TABLE 6: VALUATION ALLOWANCES.

in EUR and/or %	30-06-2007	31-12-2006	Change
Specific risk provisions	0.00	3,000,000.00	-100.00%
Statistical risk provisions	3,650,000.00	0.00	n. a.
Impaired loans in % of total loans	-	0.04%	

BALANCE SHEET OF KOMMUNALKREDIT INTERNATIONAL BANK (AS OF 30-06-2007).

Assets in EUR 1,000	30-06-2007	31-12-2006	Change in %
Cash and balances with central bank	107,085.7	77,528.1	
Loans and advances to banks	1,684,523.7	1,391,184.9	
Loans and advances to customers	2,223,263.6	1,932,951.7	+15.02%
Risk provision	-3,650.0	-3,000.0	
Financial investments	5,862,842.3	5,082,324.5	+15.36%
Property and equipment	5,177.7	756.0	
Other assets	329,357.6	423,212.8	
Total assets	10,208,600.6	8,904,958.0	+14.64%

Liabilities in EUR 1,000	30-06-2007	31-12-2006	Change in %
Amounts owed to banks	1,370,440.2	1,155,997.7	
Amounts owed to customers	111,568.9	109,959.0	
Securitised liabilities	7,849,860.6	6,810,554.0	+15.26%
Provisions	2,334.0	635.8	
Other liabilities	344,967.1	408,822.4	
Subordinated capital	378,628.2	286,591.3	
Equity	150,801.6	132,397.8	+13.90%
Total liabilities	10,208,600.6	8,904,958.0	+14.64%

CONTINGENT LIABILITIES AND OTHER OFF-BALANCE-SHEET LIABILITIES.

in EUR 1,000	30-06-2007	31-12-2006
Contingent liabilities		
Guarantees (CDS)	5,071,983.8	4,411,455.4
Other liabilities		
Credit lines and advance commitments	352,915.4	295,180.7
Others (Interest Rate Swaps, Cross-Currency Swaps, FX-Swaps)	5,070,332.1	3,911,809.5

INCOME STATEMENT.

in EUR 1,000	01-01-2007 to 30-06-2007	01-01-2006 to 30-06-2006	Change in %
Interest and similar income	325,043.8	177,674.5	
Interest and similar expenses	-310,326.6	-169,921.5	
Net interest income	14,717.2	7,753.0	+89.83%
Net credit risk provisions	-650.0	-600.0	
Fee and commission income	3,401.6	1,800.3	
Fee and commission expense	-907.4	-293.5	
Net Fee and commission income	2,494.2	1,506.8	
Trading result	59.4	-174.5	
Net income from investments	6,522.4	4,272.9	
General administrative expenses	-1,750.8	-1,386.3	
Other operating results	27.0	0.0	
Pre-tax profit for the year	21,419.4	11,371.9	+31.10%
Taxes on income	-1,920.6	-835.0	
After-tax profit for the year	19,498.8	10,536.9	+36.30%

EARNINGS PER SHARE.

	01-01-2007 to 30-06-2007	01-01-2006 to 30-06-2006
After tax profit for the year in EUR	19,498.8	10,536.9
Weighted average number of ordinary shares outstanding	310,000.0	309,454.0
Earnings per share in EUR	62.90	34.05

STATEMENT OF CHANGES IN EQUITY.

in EUR 1,000	Issued share capital	Share premium	General revenue reserve	Profit & loss account	Available for sale reserve	Equity
As of 01-01-2006	28,500.0	31,500.0	23,000.0	5,170.5	0.0	88,170.5
Capital increase	2,500.0	22,500.0	0.0	0.0	0.0	25,000.0
Dividend	0.0	0.0	0.0	-5,040.0	0.0	-5,040.0
Allocation to general revenue reserve	0.0	0.0	0.0	0.0	0.0	0.0
After-tax profit for the year	0.0	0.0	0.0	10,537.0	0.0	10,537.0
Available for sale reserve	0.0	0.0	0.0	0.0	-141.1	-141.1
As of 30-06-2006	31,000.0	54,000.0	23,000.0	10,667.4	-141.1	118,526.3
As of 01-01-2007	31,000.0	54,000.0	41,800.0	5,620.9	-23.1	132,397.8
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	-5,580.1	0.0	-5,580.1
Allocation to general revenue reserve	0.0	0.0	0.0	0.0	0.0	0.0
After-tax profit for the year	0.0	0.0	0.0	19,498.8	0.0	19,498.8
Available for sale reserve	0.0	0.0	0.0	0.0	4,485.1	4,485.1
As of 30-06-2007	31,000.0	54,000.0	41,800.0	19,539.6	4,462.0	150,801.6