VOLKSBANK AG

# ANNUAL REPORT

## 2011

Any role discriptions in this consolidated annual report that are used only in the masculine form apply analogously to the feminine form.

# KEY FIGURES OF VOLKSBANK AG

| in euro million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Statement of financial position [1] | | | |
| **Total assets** | **41,135** | **46,550** | **48,129** |
| Loans and advances to customers | 12,717 | 23,615 | 24,169 |
| Amounts owed to customers | 2,713 | 7,312 | 7,315 |
| Debts evidenced by certificates | 13,452 | 16,122 | 17,329 |
| Subordinated liabilities | 1,729 | 1,864 | 1,923 |
| Own funds | | | |
| Core capital (tier I) after deductions | 2,305 | 2,613 | 2,715 |
| Supplementary capital (tier II, tier III) after deductions | 1,021 | 950 | 968 |
| Eligible qualifying capital | 3,326 | 3,563 | 3,682 |
| Assessment base credit risk | 22,947 | 25,454 | 27,255 |
| Capital requirement market risk | 121 | 54 | 55 |
| Capital requirement operational risk | 144 | 141 | 125 |
| Surplus capital | 1,225 | 1,333 | 1,321 |
| **Core capital ratio [2]** | **10.0 %** | **10.3 %** | **10.0 %** |
| **Equity ratio [3]** | **12.7 %** | **12.8 %** | **12.5 %** |
| Income statement [4] | | | |
| Net interest income | 394.4 | 506.6 | 383.1 |
| Risk provisions | –103.6 | –279.6 | –747.0 |
| Net fee and commission income | 94.3 | 100.9 | 137.7 |
| Net trading income | 2.9 | 36.8 | 56.5 |
| General administrative expenses | –299.3 | –349.8 | –339.6 |
| Restructuring cost | –41.5 | 0.0 | 0.0 |
| Other operating result | –365.3 | –0.9 | 35.1 |
| Income from financial investments | –441.1 | –15.4 | –179.0 |
| Income from discontinued operations | –132 | 40.8 | –218.3 |
| **Result before taxes** | **–891.2** | **39.5** | **–871.4** |
| Income taxes | –98.1 | –28.5 | –178.5 |
| **Result after taxes** | **–989.3** | **11.0** | **–1,050.0** |
| Non-controlling interest | 30.0 | –1.1 | 38.8 |
| **Consolidated net income** | **–959.3** | **9.9** | **–1,011.2** |
| Key ratios [5] | | | |
| Operating cost-income-ratio | 60.9 % | 54.3 % | 58.8 % |
| ROE before taxes | –71.5 % | –0.1 % | –36.2 % |
| ROE after taxes | –79.4 % | –0.1 % | –48.1 % |
| ROE consolidated net income | –118.7 % | 0.9 % | –64.3 % |
| ROE before taxes (regulatory) | –53.7 % | –0.1 % | –37.1 % |
| Resources [1] | | | |
| Staff average | 3,120 | 3,606 | 3,712 |
| of which domestic | 1,315 | 1,362 | 1,405 |
| of which foreign | 1,805 | 2,244 | 2,307 |
| Staff at end of period | 2,038 | 3,540 | 3,666 |
| of which domestic | 1,253 | 1,353 | 1,370 |
| of which foreign | 785 | 2,187 | 2,296 |
| Number of sales outlets | 2 | 238 | 248 |
| of which domestic | 1 | 1 | 1 |
| of which foreign | 1 | 237 | 247 |

1) The comparative figures of 2009 and 2010 were adjusted according to IAS 8.
2) In relation to credit risk
3) In relation to total risk
4) The comparative figures of 2009 and 2010 were restated for discontinued operations in line with IFRS 5 and according to IAS 8 (see Notes chapter 3).
5) The operating cost-income-ratio is the ratio between net interest income, net fee and commission income and general administrative expenses.
All ratios were displayed without including discontinued operations or disposal group.

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# INTRODUCTION FROM THE CHIEF EXECUTIVE OFFICER

**Gerald Wenzel**
CEO and Chairman
of the Managing Board

## Sustainable solution to stabilise VBAG

The former chairman of Deutsche Bank, Alfred Herrhausen, once said: "Companies make most mistakes when they are doing well, not when they are doing badly". We have confirmed the truth behind this pearl of wisdom. From my first day as Chairman of the Managing Board, we have had the arduous task of appraising the past and steering the whole Volksbank sector into calmer waters.

We achieved some positive and noteworthy partial successes with the sale of Europolis and Volksbank International, and we have prepared the sector for future challenges by plotting a course towards a group model in accordance with section 30a of the Austrian Banking Act. However, we look back on a patchy 2011 business year.

For the Österreichische Volksbanken-AG Group, 2011 was characterised by a tumultuous wave of events. The Bank was able to announce the turnaround in April. However, it was feared that the deteriorating government debt crisis from the second half of the year would have a massive impact on the Group. Not only regarding the annual result, but also the strategic realignment.

The main driver of the 2011 annual result – in the wake of the crisis on the international financial markets – was an extraordinary write down on sovereign risks, participations and sales of participations. In addition, a demerger of VBAG's banking operations to Investkredit Bank AG (= merger of VBAG and IK) was not possible in the planned form, as was the planned sale of the shareholding in RZB.

Ultimately, this combination of circumstances led to the Republic of Austria and the VBAG shareholders agreeing a sustainable solution to stabilise VBAG on 27 February 2012. After VBAG concluded the sale transactions and the Volksbanks passed a policy resolution on an association according to section 30a of the Austrian Banking Act with VBAG as the central organisation, the Austrian government and the shareholders took the next step: retroactively reducing VBAG's capital by up to 70%, effective from 31 December 2011 and at the same time perform a capital increase totalling euro 484 million.

I leave VBAG in the knowledge that after three difficult years of restructuring, the foundation has now been laid for a sustainable and stable future. I would like to thank all employees, especially my colleagues in the Managing Board, who have overcome the challenges of recent months with tremendous dedication, and wish all colleagues and the Volksbank sector the best for the future.

Vienna, April 2012

**Gerald Wenzel**
CEO and Chairman of the Managing Board

# REPORT OF THE SUPERVISORY BOARD

**Hans Hofinger**
Chairman of the
Supervisory Board

REPORT OF THE SUPERVISORY BOARD
of Österreichische Volksbanken-Aktiengesellschaft pursuant to section 96 Austrian Stock Corporation Act for the 2011 business year

1. In the financial year 2011, the Supervisory Board of Österreichische Volksbanken-Aktiengesellschaft (the "COMPANY" or "VBAG") held five regular meetings and six extraordinary meetings, as well as conducting additional discussions and committees to stay informed about management's legal compliance, expediency and operating efficiency, as well as the position and development of the company and the intended business policy.

Note was made of the corresponding reports of the COMPANY's Managing Board and the necessary resolutions were voted upon. The chairmen of the five Supervisory Board committees (dealing respectively with risk, approvals, audit, staff and remuneration) made regular reports on the work of their committees to the Supervisory Board.

2. In the 2011 business year, the Supervisory Board dealt intensely with the position of the COMPANY, discussed solution variations at its meetings and advised on possible measures to stabilise the COMPANY. Much focus – also in the sense of European Commission requirements – was devoted to discussion and analysis of projects for redimensioning the COMPANY.

In this sense, VBAG Supervisory Board's activities included in-depth discussion on the combination of the COMPANY's banking operations with Investkredit Bank AG, which had been planned but not carried out due to changed circumstances, and pass the necessary resolutions.

Finally, the Supervisory Board accompanied the process of selling VBAG's participation in Volksbank International AG (excluding Volksbank Romania S.A.) to Sberbank of Russia. The sale of Volksbank International AG (excluding Volksbank Romania S.A.) was a significant step towards stabilising VBAG in the last business year. The Supervisory Board discussed and analysed the numerous issues surrounding the selling process in detail and supervised the steps taken to implement it. The transaction was completed in mid-February 2012.

3. KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft ("KPMG") audited VBAG's annual financial statements and the notes as per 31 December 2011("ANNUAL FINANCIAL STATEMENTS") as well as the management report and consolidated financial statements as per 31 December 2011 ("CONSOLIDATED FINANCIAL STATEMENTS") together with the management report for the Group. Since there was no cause for objection, an unconditional audit certificate was granted. Without qualifying the certificate the following individual facts in the KPMG audit certificate (excerpt from the auditor's report)were drawn to attention:

"In the Notes, the Managing Board states that doubts had arisen concerning the company's ability to continue as a going concern on the basis of the loss for the 2011 financial year. Measures to stabilise VBAG were agreed on 27 February 2012 between the shareholders of VBAG and the Republic of Austria. These are dependent on the agreement of the owners' boards, the financial market authorities, the Republic of Austria and the European Commission, which means that risks regarding the implementation of the measures remain. In preparing the annual financial statements and the consolidated financial statements, the Managing Board expects that these stabilisation measures are very likely to be implemented.

Furthermore, the Managing Board describes in the Notes that the 100% investment in Investkredit Bank AG is reported in the balance sheet at the level of corresponding UGB (Austrian Commercial Code) equity amounting to euro 543 million. As part of the restructuring, it was decided to merge Investkredit Bank AG with VBAG with retroactive effect from 31 December 2011. At present, appropriate steps are being taken to prepare the implementation of the merger. The balance sheet figure for the investment in Investkredit as of 31 December 2011 assumes that the merger will be reported at the carrying amounts.

Due to the future concentration on core business, provision has been made for the medium-term reduction of securities portfolios held until maturity, which include major hidden liabilities. For the valuation of assets affected by the reduction, the Managing Board expects that the portfolio reduction will be controlled and does not account for any deductions for accelerated sales.

Moreover, we point to the comments in the Notes and the Management Report on the capital reduction and increase, which explain that a simplified capital reduction in accordance with section 188 (1) of the Austrian Stock Corporation (AktG) has been recognised in the annual financial statements of

31 December 2011 simultaneously with a capital increase in accordance with section 189 (1) AktG with retroactive effect and prior to the passing of the resolution. The plan is for these annual financial statements to be adopted by the Annual General Meeting on 26 April 2012.

The VBAG Supervisory Board states the following: The going-concern question was discussed intensively in the Supervisory Board. In view of the Managing Board's opinion, shared by the Supervisory Board, that doubts had arisen concerning the COMPANY's ability to continue as a going concern on the basis of the COMPANY's loss for the 2011 financial year, VBAG, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Ergo Versicherung AG, Raiffeisen Zentralbank Österreich Aktiengesellschaft, Volksbanken Holding eingetragene Genossenschaft (e.Gen.), the local Volksbanks, Österreichischer Genossenschaftsverband (Schulze-Delitzsch) and the Republic of Austria (Austrian government) agreed on the sustainable stabilisation of VBAG on 27 February 2012, and set down the relevant principles in a term sheet (the "TERM SHEET"; see also the VBAG ad hoc report of 27 February 2012 and clarification of 28 February 2012). The TERM SHEET was passed on to the members of the VBAG Supervisory Board on 1 March 2012. Key points of the TERM SHEET include restructuring and reorganising VBAG into a group bank (central organisation of an association of credit institutions) in accordance with section 30a Austrian Banking Act with a sustainable business model and securing financial market stability in terms of the Financial Market Stability Act.

According to the TERM SHEET, the following measures in particular, which are required in order to restructure and reorganise VBAG into a group bank (central organisation of an association of credit institutions) in accordance with section 30a Austrian Banking Act with a sustainable business model, must be implemented:

- Conclusion of a group contract on forming an association of credit institutions in accordance with section 30a Austrian Banking Act in the Volksbank sector with VBAG as the central organisation;
- Simplified reduction of VBAG's share capital from euro 311,095,411.82 at present to euro 93,328,623.55 pursuant to sections 182ff. Austrian Stock Corporation Act, plus a reduction of the entire participation capital issued by VBAG so that its nominal value is reduced by 70% (the "CAPITAL REDUCTION");
- Simultaneous increase of the VBAG share capital, reduced to euro 93,328,623.55, against fully payable cash contributions by euro 483,999,999.91 to euro 577,328,623.46 by issuing 221,916,552 new no-par value bearer shares with voting rights in accordance with section 189 Austrian Stock Corporation Act with retroactive effect from 31 December 2011 and with shareholders' legal subscription rights disapplied (the "CAPITAL INCREASE");

Adoption of VBAG's annual financial statements as of 31 December 2011 taking into account the CAPITAL REDUCTION and CAPITAL INCREASE; plus

- Implementation of the merger of Investkredit Bank AG with VBAG as of the 31 December 2011 merger date.

The above stability measures are dependent on the agreement of the owners' boards, the financial market authorities, the Republic of Austria and in particular the European Commission, which means that risks regarding the implementation of the measures remain.

4. The Supervisory Board made note of the report presented by the Managing Board and, following prior submission to the Audit Committee, reviewed the ANNUAL FINANCIAL STATEMENTS together with management report and the CONSOLIDATED FINANCIAL STATEMENTS together with Group management report according to section 96 (1) of the Austrian Stock Corporation Act. This review by the Supervisory Board gave no cause for objection; the ANNUAL FINANCIAL STATEMENTS and CONSOLIDATED FINANCIAL STATEMENTS in particular were established as in accordance with regulations and found unobjectionable in terms of content. Therefore, the Supervisory Board approves the ANNUAL FINANCIAL STATEMENTS together with management report and the CONSOLIDATED FINANCIAL STATEMENTS together with Group management report.

5. As a loss is reported in the ANNUAL FINANCIAL STATEMENTS, the VBAG Managing Board is to make no proposal on the appropriation of profits. For the same reason, the VBAG Supervisory Board is to pass no related resolution due to the lack of reported profit in the ANNUAL FINANCIAL STATEMENTS.

6. It is stated that in the previous financial year the company fully complied with its mission as stated in its Articles of Association and as mandated by its shareholders.

7. To comply with sections 188f. Austrian Stock Corporation Act, the planned retroactive CAPITAL REDUCTION and simultaneous retroactive CAPITAL INCREASE will only be possible if the COMPANY's Annual General Meeting adopts the ANNUAL FINANCIAL STATEMENTS. Therefore, the VBAG Supervisory Board and Managing Board have come to a decision in accordance with section 96 (4) Austrian Stock Corporation Act, which transfers the authority to adopt the ANNUAL FINANCIAL STATEMENTS pursuant to sections 104 (3) in conjunction with 188f. Austrian Stock Corporation Act to the VBAG Annual General Meeting.

The ANNUAL FINANCIAL STATEMENTS approved by the Supervisory Board will therefore not be adopted by the Supervisory Board of VBAG, but will instead be adopted in VBAG's Annual General Meeting on 26 April 2012*. The calling of this VBAG Annual General Meeting was announced in due time on 28 March 2012 in the Official Gazette of the Wiener Zeitung.

8. After reviewing the documents presented, the Supervisory Board endorses the adoption of the ANNUAL FINANCIAL STATEMENTS by the VBAG Annual General Meeting. The shareholders are to be comprehensively informed about the ANNUAL FINANCIAL STATEMENTS and the corresponding audit by way of the auditor KPMG taking part in the Annual General Meeting, reporting on the audit made and answering shareholders' questions.

9. The Supervisory Board extends its thanks to the Managing Board and all employees, acknowledging their commitment and dedication in this difficult economic environment.

Vienna, April 2012

For the Supervisory Board of
Österreichische Volksbanken-Aktiengesellschaft:

**Hans Hofinger**
Chairman of the Supervisory Board

* On 26 April 2012 the VBAG Annual General Meeting endorsed the Annual Financial Statements.

# THE MANAGING BOARD

## Gerald Wenzel

**Head of department**
Committee Supervision
Auditing
Compliance Office
Marketing & Communication
HR Management
Volksbanks Cooperation
Legal Affairs
Organisation/IT
Requirements Management CEE
IT infrastructure
Execution
Corporate Planning & Finance
VICTORIA-VOLKSBANKEN Versicherungs AG
ARZ Allgemeines Rechenzentrum GmbH
VB IT-Services GmbH
Back Office Service für Banken
Gesellschaft m.b.H.

Born 6 August 1950 in Vienna

Professional career

1975 Joined Creditanstalt, Corporate division

1978 Move to Erste Österreichische Sparkasse (branch of Bankhaus Rössler)

1981 Joined VBAG

1984 Managing Director of Volksbank Aspern, employee of Volksbank-Managementhilfe (until April 1985)

1985 Managing Director of Volksbank Gleisdorf, employee of Volksbank-Managementhilfe (until November);
Managing Director of Volksbank Alpenvorland, employee of Volksbank-Managementhilfe (from December)

1987 Granted power of attorney at VBAG, Head of VB-Managementservice at VBAG (from September)

1989 Managing Director and member of the Managing Board of Volksbank Ost

1995 Managing Director of Volksbank Baden-Mödling-Liesing

2004 Chairman of the Managing Board of Volksbank Baden-Mödling-Liesing

since 1 May 2009
CEO and Chairman of the Managing Board of VBAG

## Martin Fuchsbauer

**Head of department**
Banks/Liquidity
Research
Financial Markets Operations
Group Treasury
International Financial Markets Relation
VB Investments
Capital Markets
ALM
Volksbank Invest Kapitalanlage
Gesellschaft m.b.H.
Immo Kapitalanlage AG
VICTORIA-VOLKSBANKEN Pensionskassen AG
VICTORIA-VOLKSBANKEN Vorsorgekasse AG

Born 24 July 1966 in Vienna

Professional career

1989 Joined VBAG,
Bond Trading group, including basic banking training

1992 Head of the Bond Trading group

1998 Head of the Securities Trading department

2001 Built up Group Treasury division

2009 Head of Financial Markets segment
Founding of VB Investments AG

2010 Member of the Managing Board of VBAG

## Michael Mendel

**Head of department**
Operational Risk Control
Strategic Risk Management
Group Risk Control
VB Management Consulting

Born 13 June 1957 in Hamburg

Professional career

1986 Joined Bayerische Vereinsbank, Corporate lending business, finally Division Manager Corporate Finance

1997 Division Manager Group Risk Management and Corporate Banking of Hypo Vereinsbank

2001 Member of the Managing Board, Chief Risk Officer of Bank Austria (until 2002)

2002 Member of the Managing Board, responsible for Germany, Austria and CEE regions of Hypo Vereinsbank, finally Chairman of the Supervisory Board of Bank Austria-Creditanstalt (until 2006)

2007 Various Supervisory Board mandates (until 2008)

since 2009
Member of the Managing Board of VBAG since May 2009 Deputy Chairman of the Managing Board of VBAG

## Wolfgang Perdich

**Head of department**
International acitivities
Model Financing
Housing
Volksbank International AG
(Closing 15th February 2012)
VB-Leasing International Holding GmbH
VB Leasing
Finanzierungsgesellschaft m.b.H.
VB Factoring Bank AG
Investkredit Bank AG
Volksbank Malta Ltd.
Leasing-West GmbH & Co KG

Born 10 January 1958 in Vienna

Professional career

1981 Basic banking training at the Raiffeisen organisation in Vienna

1983 Joined Österreichische Volksbanken-AG, Head of Syndicated Loans Department

1985 Head of the Special Financing Department

1987 Founding of Immoconsult Leasinggesellschaft m.b.H., Chief Executive Officer

1990 Co-founder and Board Member of Volksbank Malta (remained on the board until 2001)

1994 Built up the Projekt Financing Department

1998 Head of Special Financing, Realt Estate Leasing and Property Development divisions as well as moveable property leasing activities in Austria and abroad

since 2004
Member of the Managing Board of VBAG

# MANAGEMENT REPORT

# MANAGEMENT REPORT

## Report on business development and the economic situation

### Economic environment in 2011

#### International developments

Nuclear disaster in Japan

In 2011 the global economy started slightly positive, but growth momentum slowed during the course of the year. In particular, government demand and the financial sector were impacted by (re-)financing problems in a number of European countries. The earthquake and nuclear disaster in Japan in March led to a sharp downturn in Japanese economic output and the temporary disruption of international supply chains. In many emerging economies, private demand began to respond to the previous streamlining of fiscal policy in 2011 and gradually cooled off. The rise in Chinese property prices came to a halt, for example, and there was talk of falling prices for the first time in December 2011. Taken over the year as a whole, however, the emerging economies continued to record impressive GDP growth. In the USA, GDP growth was also robust, with a downturn around the middle of the year being followed by a tangible recovery at the end of the year on the back of stabilised employment and property markets, higher levels of incoming orders and improved consumer demand.

Political changes

The political changes in North Africa and the Middle East resulted in higher prices for Brent Crude in particular, the most popular type of oil in Europe, with the price rising by 13% over the course of the year. Gold prices also appreciated by a further 10%, whereas industrial metals and agricultural raw materials became notably cheaper.

#### European Monetary Union

Hetero-geneous development

The economic development in the eurozone was heterogeneous. While export-oriented nations like Austria and Germany continued to benefit from strong demand, particularly in the first half of the year, more and more peripheral states entered a recession. In Ireland and Spain, the previously solid national budgets were hard hit by property and/or banking crises. Greece, Portugal and Italy were already highly indebted prior to the major recession of 2008/09 and had lost out in terms of international competitiveness. Since 2009, these states have also been faced with rising interest on their public finance. The financial sector, which was impacted by losses on government securities while at the same time having to meet stricter guidelines, also contributed to a deterioration in growth prospects. Gross domestic product was furthermore hit by the lower level of government demand, which, in turn, exacerbated the government debt crisis. Stagnating or falling tax income was accompanied by a rise in social security and financing costs.

Relief funds for at-risk countries

To break this vicious circle and ensure the short-term financing of countries that are at risk, relief funds were established in Europe. Following Greece and Ireland in 2010, Portugal also had to request corresponding funds in 2011. These funds are tied to strict fiscal conditions, compliance with which is regularly reviewed by the European Commission, the International Monetary Fund, IMF, and the European Central Bank, ECB. Stronger European cooperation and monitoring of national budgets and the introduction of uniform national debt ceilings were also stablished.

#### Austria

Gross domestic product enjoyed strong growth in 2011. At 4.4%, the first quarter saw the strongest year-on-year growth since 2000. The second and third quarters were also robust at 4% and 2.8% respectively, with Austria outperforming the European Monetary Union as a whole. In the fourth quarter, however, gross domestic product declined as it did in the country's main trading partner, Germany, and the annualised real growth rate amounted to just 1.5%.

Unemployment continued to fall in 2011. While the strong employment situation helped to support disposable income and private consumption, real disposable income was impacted by the high level of inflation in 2011. Despite this, private consumption was one of the key pillars of growth in the past year alongside exports and gross capital expenditure. Accordingly, the savings ratio declined.

Industrial sector weaker

The industrial sector grew weaker over the course of the year, reflecting the deterioration in the European economic environment. While industrial production was up around 10% year-on-year in early 2011, the annual rate in December decreased below zero. In October 2011, incoming orders were only minimally higher than the comparable figures for October 2010, the annual rate in November decreased to –6%. Capacity utilisation was down slightly. Construction output saw weak development.

In line with the European trend, the development of tourism was encouraging. The number of overnight stays increased by 0.8% year-on-year and arrivals reached a new record. The strongest growth rates were recorded by Vienna and Lower Austria, while Tyrol and Vorarlberg saw a slight decline.

**Higher inflation**

Consumer price inflation was consistently above the Europe-wide average. The average figure for the year as a whole amounted to 3.6% in accordance with the harmonised European calculation method (national method: 3.3%). Despite a slight downward trend in the last months of the year, inflation remained unusually high in December at 3.4%. The main price drivers were fuel, household energy exclusive energy and food. While consumer price inflation was above the European-average, the development of producer prices was comparatively moderate.

### Central and South-Eastern Europe

The economic development in Central and South-Eastern European countries was extremely varied in 2011. On the one hand, countries like Slovakia and Poland performed at around the level of their already high potential, recording estimated growth of 3.2% and 4.3% respectively. On the other hand, countries like Slovenia and Croatia were unable to overcome their persistent economic weakness in 2011. Economy in both countries only has grown slightly, and also for the current year economy shows hardly any growth. The development of the highly export-driven Czech economy was also comparatively weak in 2011, with moderate growth in the first half of the year followed by negative quarterly rates in the last two quarters of the year. Meanwhile, Serbia – whose economy started the year with an extremely lively year-on-year growth rate of 3.7% in the first quarter – saw a cooling of the economy over the course of the year, with an annualised rate of less than 1% in the last two quarters. In Bosnia-Herzegovina, industry enjoyed extremely good development, but the trade deficit increased further. Data on gross domestic product is not yet available.

**Downturn in Hungary**

Despite all its difficulties, Hungary's growth performance of around 1.5% in the last year was still acceptable. Due to its openness, however, the Hungarian economy was particularly hard hit by the downturn in a number of its trading partners. Domestic demand was supported by efforts to achieve public budget consolidation without increasing mass taxes with the corresponding impact on consumption. Domestic demand, however, was barely sufficient to offset the downturn in exports. In 2011, the three major rating agencies have downgraded Hungary's long-term foreign-currency credit rating to "non-investment grade". The downgrades were driven by the high level of government debt and the country's controversial economic policy, including a law that permits foreign-currency borrowers to repay or restructure their liabilities at fixed exchange rates that are considerably below prevailing market rates. These measures had a significant impact on profitability in the banking sector and there are doubts as to whether the legislation is compatible with European Community law.

In Romania, economic growth in the past year was relatively robust, coming in at an estimated 2%. This was significantly higher than expected, placing the country among the top performers in terms of growth in South-Eastern Europe. Following above-average performance in the third quarter, however, Romania also saw a slight decline in GDP in the fourth quarter. Having reached peaks of more than 8% in the first half of the year, inflation decreased significantly over the course of the year, amounting to 3.1% in December. The government's budget targets were comfortably exceeded, although the austerity measures are highly unpopular.

### Financial sector

**ECB provides several positive surprises**

In 2011, the European Central Bank surprised financial market players on several occasions with its speed of response. It twice increased the main refinancing rate in the first half of the year, only to reduce it to its original level of 1% in two stages in the fourth quarter. The reason for this rapid reversal in fiscal policy was the escalating government debt crisis, which was increasingly proving a burden for the financial sector. To counteract the risk of a credit crunch, the ECB not only implemented stabilising measures in the government bond markets, but also significantly expanded its refinancing offering for banks. Three-year loans at the main refinancing rate, which were offered by the ECB for the first time in December 2011, enjoyed strong demand. A total of almost EUR 500 billion was allocated.

While average lending for the year as a whole increased in the eurozone, there was a downturn towards the end of the year. Although loans to the private sector were up 1% year-on-year in December, the absolute figures for deposits from and loans to private households and companies were lower in December than in November.

**Sharp downturn in government bonds prices**

Until the third quarter, European money markets were characterised by rising interest rates. Early in the fourth quarter, the government debt crisis was further exacerbated when the Greek government – which was subsequently replaced by a government of experts – discussed the possibility of a referendum on the austerity measures required in connection with the international financial aid received by the country. The prices of many government bonds fell sharply as a result. The resulting losses for banks led to a new crisis of confidence on the money markets that persisted until the end of the year. Although money market interest rates declined, this development was not as pronounced as the reduction in the base rate. In addition, longer-term money market rates remained significantly higher than short-term rates – something that is unusual in phases of falling interest rates – while the interest rate curve remained steep.

**Downgrade by Standard & Poor's**

The divergence on the European government bond market continued. While most issuers were confronted with rising yields, German government bonds benefited from demand as a "safe haven". The 10-year yield fluctuated around the 2% mark, while the yield for 2-year bonds fell to below 0.5%. Yields for Austrian government bonds declined to a lesser extent, with yields of 2.9% for 10-year bonds and 0.8% for 2-year bonds at year-end. In December 2011, the rating agency Moody's confirmed its Aaa rating for the Republic of Austria, but there were already signs of the possibility of a downgrade (which Standard & Poor's later announced in January 2012). Spreads on corporate bonds and bank bonds also increased significantly in 2011.

In Central and South-Eastern Europe, the Hungarian financial market was particularly hard hit by the government debt crisis. Demand for Hungarian government bonds suffered from increased risk aversion on the part of investors, which was further exacerbated by growing unease concerning the unpredictability of the country's fiscal policy. Yields for 10-year Hungarian government bonds increased from 8% to around 10% in 2011. Following positive performance in the first half of the year, the Hungarian forint depreciated to HUF 320 per EUR at one point in the second half of the year, and the currency closed the year considerably higher than HUF 300 per EUR. Only the resumption of discussions with the IMF – the Hungarian government had previously strived to avoid economic policy intervention for some time – brought a little relief in December in spite of the rating downgrade.

**Development of exchange rates**

Investor demand for most other currencies in the region also deteriorated over the course of the year. Although the US dollar exchange rate of the Ukrainian hryvnia remained constant, in the second half foreign currency reserves declined rapidly. The exchange rate development of the zloty was comparable to that of the forint. The Czech koruna and the Romanian Leu were more stable than forint and zloty, but also devaluated. The Serbian dinar in 2011 recorded a slight appreciation against the euro.

The EUR/USD exchange rate reflected the government debt crisis in 2011: the euro depreciated every time the crisis intensified, and appreciated again in response to progress or hopes of progress. The development of the EUR/CHF exchange rate was even more dramatic, with the Swiss franc reaching its highest external value of CHF 1.03 per EUR in August. The Swiss Central Bank, considering this level to be clearly too high and fearing the associated risk of deflation, intervened and introduced an exchange rate cap of CHF 1.20 per EUR in September.

Following a friendly start to the year, price development on the stock markets became considerably weaker in the summer. While US stocks were able to recover their losses in the fourth quarter, however, most European share indices closed the year with a loss. The ATX was one of the weakest indices in 2011, falling by 35%.

## Business development

**Difficult economic environment**

The result in the 2011 financial year was affected by the difficult economic environment. Both the development in Romania and Hungary and the intensifying sovereign debt crisis had a negative impact, earnings targets could therefore not be reached. The result before taxes was euro –891 million for the reporting period and the consolidated result (after taxes and non-controlling interest) totalled euro –959 million.

On 8 September 2011, Volksbank International AG, VBI, was sold to Russian Sberbank. From this date, VBI Group is shown as a disposal group. The transaction was closed on 15 February 2012. Volksbank Romania S.A. (VB RO), which was not included in this transaction, was deconsolidated as at 30 September 2011 and has been measured at equity starting from this date, as the company is now managed together with the other owners (DZ Bank AG/WGZ Bank AG and Banque Populaire et Caisse d'Epargne, BPCE, holding 24.5% each).

Stabilisation measures resolved

On 27 February 2012, stabilisation measures were resolved with the owners of VBAG and the Republic of Austria, which include the recapitalisation of VBAG through the Volksbanks and the Austrian government, as well as the merger of Investkredit with VBAG. The merged institute is then to perform the role of the central organisation of the association of Volksbanks pursuant to section 30a Austrian Banking Act, which was created for this purpose. A detailed description of the measures resolved can be found in the Notes.

The capital reduction and subsequent capital increase are to be approved at the Annual General Meeting of 26 April 2012 and will increase equity in the single entity and own funds in accordance with the Austrian Banking Act with retroactive effect from 31 December 2011. According to IFRS, the measures can only be reported in the consolidated financial statements once they take full legal effect.

In the calculation of capital ratios the measures have already been included. Consequently, capital ratios decreased only moderately. As of 31 December 2011, the tier I ratio (in relation to credit risk) was 10% (31 December 2010: 10.3%) and the equity ratio (in relation to total risk) stood at 12.7% (31 December 2010: 12.8%).

### Results in detail

Due to the presentation of the CEE banks and Selini in the income from discontinued operations, all figures relate to continued operations not including CEE banks and Selini. VB RO is included with its result for 1-9/2011 and with the at equity valuation for the period 10-12/2011.

Net interest income (including at-equity valuation) amounted to euro 394 million in the 2011 financial year, down euro 112 million or 22% year-on-year. While net interest income in the Real Estate segment increased, the Retail segment reported a decline as against the same period of the previous year due on the one hand to the deconsolidation of VB RO and on the other to a drop of interest margins in Central and Eastern European countries. The at equity valuation of VB RO for the period 10-12/2011 amounts to euro –46 million.

Compared with the same period of the previous year, net fee and commission income decreased slightly by euro 7 million or 7% to euro 94 million. Net trading income stood at euro 3 million, reflecting a euro 34 million decline as against the 2010 financial year. The reduction in net trading income is primarily attributable to the market response to the sovereign debt crisis – volatility of derivatives increased due to distortions in the financial markets and credit spreads of bonds widened massively.

General administrative expenses for the 2011 financial year amounted to euro 299 million, a fall of euro 50 million or 14% against the comparative period. In addition to lower costs primarily in VBAG and Investkredit, the deconsolidation of VB RO also reduced administrative expenses by euro 11 million. Adjusted for discontinued operations and the deconsolidated VB RO, the number of employees in the Group fell by 131 since the end of 2010 to 2,038. The deconsolidation of VB RO resulted in a decrease of 1,371 employees outside Austria. In the CEE banks disposal group, the number of employees increased slightly against 31 December 2010 and reached 4,158 employees as at 31 December 2011.

The other operating result includes the VB RO deconsolidation result of euro –294 million. Since the calculation of VB RO's enterprise value as at 30 September 2011 resulted in a value of nil, the derecognised proportional equity is not offset by a revaluation from the at equity consolidation. The other operating result also includes an impairment on goodwill of Investkredit Bank AG in the amount of euro –32 million and an impairment on the Investkredit brand in the amount of euro –25 million. Furthermore, the other operating result was negatively impacted in an amount of euro –36 million by bank taxes due in Austria from the 2011 financial year onwards. The successful sale of the "North Gate" real estate project was reported under other operating result, with positive deconsolidation proceeds of euro 10 million.

Risk provisions declined

Despite the persisting difficult economic environment in some regions of Central and Eastern Europe, risk provisions declined by euro 176 million year-on-year and stood at euro 104 million. The greatest decrease was recorded in the Retail segment, where provisions fell by euro 32 million in the Leasing business area and by euro 113 million at VB RO and in the Corporates segment with a decline of euro 68 million. However, risk provisions had to be increased by euro 22 million in the Real Estate segment and by euro 14 million in the Investment Book/Other Operations segment.

Income from financial investments amounted to euro –441 million for 2011.Due to the measures by the European Union regarding Greece, all Greek bonds were impaired. For bonds held in the available for sale category, a negative market value of euro –97 million was transferred from the available for sale

reserve to profit and loss representing an impairment to market values as at 31 December 2011. Securities in the held to maturity category were also valued at market values as of 31 December 2011, which led to an impairment of euro –26 million. Due to the fact that impairments are required for Greek bonds with long maturities as well, a fair value hedge that had previously been assigned to hedging a Greek bond had to be terminated. This had a negative impact on income from financial investments of euro –37 million. In view of the increased volatility on the financial markets and the continuing economic crisis, the management decided that instruments previously recognised as financial guarantees are now to be valued at fair value through profit and loss. The change in accounting took place retroactively in accordance with IAS 8 and had a negative impact of euro –59 million on the result for 2011 (2010: euro –28 million). Since the negative developments on the financial markets also affect Kommunalkredit's results considerably, the participation capital assumed in the context of the disposal of Kommunalkredit was impaired by euro –142 million. In addition, the result was also adversely affected by market value declines of investment property assets and by write-downs on investments amounting to euro –76 million in the Real Estate segment.

Europolis Group was deconsolidated as at 1 January 2011, which led to a deconsolidation loss of euro 4 million, recognised in the result of discontinued operations.

On the basis of the contract signed on 8 September 2011 regarding the sale of VBI AG, VBI Group has been shown in the income from discontinued operations from this date. The result of the CEE banks is negatively impacted primarily by the uncertain economic policy situation in Hungary. This results in a need for increased risks provisions, firstly due to the forced conversion of foreign currency loans at non-market rates into forint-denominated loans, and secondly due to the weaker economic prospects. In addition, impairment tests were carried out on goodwill, leading to impairments totalling euro 11 million for the goodwill in Hungary, Ukraine, Banja Luka and Serbia.

The contract concerning the sale of Selini Holding GmbH was signed on 22 December 2011. The transaction is expected to be closed at the beginning of April 2012. As Selini was part of Europolis Group with the Vremena Goda project, but not taken over by the purchasers of Europolis Group, VBAG endeavoured to carry out the planned sale as quickly as possible. Selini and the Vremena Goda project, which was measured at equity, are also reported as discontinued operations as of the signing of the purchase contract. Income for the 2011 financial year amounted to euro 2 million and remains allocated to the Real Estate segment.

Income taxes for the reporting period amounted to euro –84 million. For the most part, no deferred tax assets were recognised for the rise in tax losses carried forward resulting from the increased impairments of financial instruments in the local financial statements. Furthermore, deferred tax assets from tax loss carry forwards and valuations of participations were impaired, as they cannot be offset against taxable income in an appropriate time period. The goodwill impairments and the deconsolidation result are not offset by income taxes.

The euro 31 million drop on the previous year in the annual result attributable to non-controlling interest to euro 30 million is due to the negative result in the CEE banks, primarily in Volksbank Hungary.

### Statement of financial position and own funds

Due to the presentation of VBI and Selini as a disposal group and the deconsolidation of VB RO, the figures of the statement of financial position are only comparable to a limited extent. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations requires that, when presenting discontinued business units, the previous-year figures in the income statement must be adjusted, while the comparative figures in the statement of financial position may not be adjusted. The notes to the consolidated financial statement include the carrying amounts adjusted for the disposal group as unaudited pro forma values. In the management report, comparisons are based on the pro forma figures.

Reconciliation to pro forma figures of the statement of financial position 31 December 2010 and comparative figures

| in euro million | 31 Dec 2011 | 31 Dec 2010 according to financial statements | of which VB RO | of which VBI | of which Selini | pro forma | Changes | |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Liquid funds | 431 | 1,982 | 1,089 | 750 | 0 | 144 | 287 | >200,0 % |
| Loans and advances to credit institutions (gross) | 7,964 | 6,432 | 434 | 517 | 0 | 5,480 | 2,484 | 45.3 % |
| Loans and advances to customers (gross) | 12,717 | 23,615 | 3,194 | 6,731 | 0 | 13,960 | –973 | –7.1 % |
| Risk provisions (–) | –946 | –1,523 | –243 | –260 | 0 | –1,020 | 74 | –7.3 % |
| Trading assets | 2,102 | 2,163 | 0 | 7 | 0 | 2,156 | –54 | –2.5 % |
| Financial investments | 6,796 | 8,994 | 312 | 561 | 0 | 8,120 | –1,325 | –16.3 % |
| Assets for operating lease | 308 | 335 | 0 | 20 | 0 | 314 | –6 | –1.9 % |
| Companies measured at equity | 13 | 73 | 0 | 0 | 54 | 18 | –6 | –30.5 % |
| Participations | 580 | 718 | 0 | 7 | 0 | 711 | –131 | –18.5 % |
| Intangible assets | 14 | 125 | 3 | 54 | 0 | 69 | –55 | –80.0 % |
| Tangible fixed assets | 128 | 248 | 17 | 97 | 0 | 134 | –6 | –4.7 % |
| Tax assets | 134 | 210 | 5 | 14 | 0 | 192 | –58 | –30.1 % |
| Other assets | 2,019 | 1,457 | 6 | 84 | 9 | 1,358 | 661 | 48.7 % |
| Assets VB RO | 0 | 0 | 0 | 0 | 0 | 4,817 | –4,817 | –100.0 % |
| Assets of the disposal group | 8,875 | 1,719 | 0 | 0 | 0 | 10,365 | –1,490 | –14.4 % |
| **Total assets** | **41,135** | **46,550** | **4,817** | **8,582** | **64** | **46,550** | **–5,415** | **–11.6 %** |
| of which consolidation | | | 0 | –4,092 | 0 | | | |
| **Liabilities and Equity** | | | | | | | | |
| Amounts owed to credit institutions | 11,650 | 14,377 | 24 | 3,581 | 78 | 10,425 | 1,225 | –11.8 % |
| Amounts owed to customers | 2,713 | 7,312 | 580 | 4,270 | 6 | 2,456 | 257 | 10.5 % |
| Debts evidenced by certificates | 13,452 | 16,122 | 0 | 252 | 0 | 15,869 | –2,417 | –15.2 % |
| Trading liabilities | 1,631 | 1,457 | 0 | 0 | 0 | 1,457 | 174 | 12.0 % |
| Provisions | 190 | 186 | 3 | 9 | 0 | 174 | 16 | 9.2 % |
| Tax liabilities | 84 | 92 | 4 | 5 | 0 | 84 | 0 | –0.4 % |
| Other liabilities | 1,928 | 1,898 | 21 | 88 | 0 | 1,789 | 139 | 7.8 % |
| Liabilities of VB RO | 0 | 0 | 0 | 0 | 0 | 632 | –632 | –100.0 % |
| Liabilities of the disposal group | 7,282 | 1,267 | 0 | 0 | 0 | 9,903 | –2,621 | 26.5 % |
| Subordinated liabilities | 1,729 | 1,864 | 1 | 78 | 0 | 1,785 | –57 | –3.2 % |
| Equity | 476 | 1,974 | 0 | 0 | 0 | 1,974 | –1,498 | –75.9 % |
| Shareholders' equity | 80 | 1,109 | 0 | 0 | 0 | 1,109 | –1,028 | –92.8 % |
| Non-controlling interest | 396 | 865 | 0 | 0 | 0 | 865 | –470 | –54.3 % |
| **Total liabilities and equity** | **41,135** | **46,550** | **632** | **8,553** | **84** | **46,550** | **–5,415** | **–11.6 %** |
| of which consolidation | | | –3,694 | –3,530 | 0 | | | |

As at 31 December 2011, total assets amounted to euro 41.1 billion, which represents a decrease of euro 5.4 billion or 11.6% against the previous year. Of this amount, euro 1.7 billion relates to the sale of Europolis Group and euro 4.8 billion to the deconsolidation of VB RO. For VBI, the assets of a disposal group amounted to euro 8.8 billion as at the end of 2011. These values include consolidations between VBI and the rest of VBAG Group.

As at the reporting date, loans and advances to customers amounted to euro 12.7 billion which represents a year-on-year decline of euro 1.0 billion. This decrease is primarily recorded in the Corporates and Real Estate segments and is attributable to the realignment of the business areas.

Amounts owed to customers increased slightly by euro 0.3 billion to euro 2.7 billion. The increase in the Financial Markets segment more than compensated for the decrease in the Corporates segment.

Debts evidenced by certificates declined by euro 2.4 billion or 15.2% compared with the end of 2010 and amounted to euro 13.5 billion as at 31 December 2011. This is due to scheduled redemptions which were only partly replaced by new issues.

Own funds exceed regulatory requirements

VBAG Group's own funds amounted to euro 3.3 billion as at 31 December 2011. Because CEE banks are still under the control of VBAG and VBAG also has an indirect majority shareholding in VB RO, both the CEE banks and VB RO are still included in the calculation of the Group's own funds under banking law. Moreover, the retroactive capital measures (capital reduction and capital increase) are also included in the calculation. The tier I ratio (ratio of core capital to the assessment base for credit risk) reached 10% (31 December 2010: 10.3%). The tier I ratio in relation to total risk was 8.8% (31 December 2010: 9.4%). The equity ratio in relation to total risk stood at 12.7% (31 December 2010: 12.8%). Eligible own funds exceed regulatory requirements by more than euro 1.2 billion.

If the sale of VBI would have been closed as of 31 December 2011, capital ratios would be considerably higher. The tier I ratio (ratio of core capital to the assessment base for credit risk) would then be 13.1%. The tier I ratio in relation to total risk would stand at 11.3% and the equity ratio in relation to total risk at 16.3%. Eligible own funds would exceed regulatory requirements by more than euro 1.6 billion.

For banks in Europe that are of cross-border systemic importance, the European Council has set the core capital ratio required after June 2012 at 9%. In January, the Financial Market Supervisory Authority announced that, with the sale of VBI, VBAG is no longer a bank of cross-border systemic importance and therefore does not need to fulfil the increased capital requirements.

## Non-financial performance indicators

### Human Resources

2011 was dominated by the reorientation of the Group and the sector as a whole. In the first quarter, the former Immoconsult Leasinggesellschaft m.b.H., ICL, was merged with PREMIUMRED Real Estate Development GmbH and renamed VB Real Estate Services GmbH. Reflecting the company's social responsibility, workforce redimensioning is being conducted in accordance with a redundancy programme negotiated with the employee representatives of VBAG, Investkredit and VB Real Estate Services GmbH. As well as requiring unbundling in the area of human resources, the successful sale of VBI has led to further structural changes.

All of the figures on the detailed topics relate solely to employees in Austria, provided in the tables specified otherwise.

Restructuring continued consistently

### Employment development

The Group systematically pressed ahead with its restructuring and redimensioning in 2011. The number of employees within the Group (incl. disposal groups) was reduced to 6,196 as of year-end 2011. Of this figure, 1,325 were in Austria and 4,871 abroad.

Employees in full-time equivalents at year-end (figures incl. disposal groups)

| | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| **Employees (total)** | **8,255** | **7,740** | **7,531** | **6,196** |
| Austria | 1,502 | 1,433 | 1,416 | 1,325 |
| Outside Austria | 6,753 | 6,307 | 6,115 | 4,871 |

### Staff turnover

Staff turnover increased from 12.3% to 16.3% on account of the human resources measures implemented.

| in %, rounded | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Staff turnover (alle persons leaving incl. retirees) | 15.0 | 12.4 | 12.3 | 16.3 |

### Age of employees/length of service

The conservative recruitment policy led to an increase in the average age and length of service of the Group's employees.

| | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Average age in years | 36.4 | 37.0 | 38.6 | 39.3 |
| Average length of service in years | 7.1 | 7.1 | 8.2 | 8.7 |

### Age groups

The group of employees under the age of 30 declined, while the proportion of employees between the ages of 30 and 50 and over the age of 50 increased slightly.

| in %, rounded | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Employees under 30 | 27.4 | 28.2 | 18.2 | 15.0 |
| Employees between 30 and 50 | 62.3 | 61.2 | 69.2 | 71.0 |
| Employees over 50 | 10.4 | 11.0 | 12.6 | 14.0 |

### Composition by gender

The composition of the workforce by gender shifted slightly on account of the Group refraining from making new appointments to replace employees on parental leave.

| in %, rounded | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Proportion of female employees | 46.9 | 48.1 | 53.7 | 51.6 |

### Part-time employment

The number of part-time employees increased largely as a result of the statutory right of parents to work part-time.

| in %, rounded | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Proportion of part-time employees | 13.6 | 12.1 | 15.1 | 18.1 |

The proportion of employees with an academic qualification was 37.7%. This figure is being reported for the first time.

### Employee representation

In Austria, the interests of 87.9% of all employees are currently represented by elected works councils (2010: 88.4%). The works councils of VBAG, Volksbank AG – Investkredit and VB Real Estate Services GmbH can be contacted by all VBAG Group employees and are ready to help with questions relating to employment law.

### Pension fund

A pension fund has been set up at Victoria-Volksbanken-Pensionskassen AG, a subsidiary of VBAG (or at ÖPAG Pensionskassen AG for long-serving employees of Investkredit), and at Victoria-Volksbanken-Versicherungs AG to provide a pension for the employees of VBAG and the majority of the companies in the Group. This is available to all employees whose length of service in the company is at least five years. The employer pays a minimum of 2.7% (in accordance with the regulations of the collective bargaining agreements or of the appropriate works agreements) of the pension assessment basis into the pension fund per year and per employee. The Volksbank pension scheme also offers employees the opportunity to make their own contributions to the fund. These voluntary contributions may match a quarter, a half, three-quarters or, as a maximum, the whole amount of the employer's contribution.

### Training

As part of the ÖVAGplus project (which involved preparations for the VBAG-Investkredit merger), a focus on the further development of the change expertise of managers was adopted at the start of the year. In the last quarter, 12 managers successfully completed the "Managing with mediation skills" course. In the VBAG Group, around 2.7 training days per employee were used on average in Austria. The figure was 4.2 days for management and 2.4 days for non-management staff.

Alongside the Volksbank Akademie, the central training provider, the majority of bookings in 2011 were again concentrated on the free internal training initiative WIN (Wissen Intern Nutzen – Using Knowledge Internally) as well as on services at external training providers and specific in-house training courses. The WIN training programme has represented a central component of staff development for many years and will continue to be enhanced in line with demand. A total of 1,052 participants took up these training opportunities, attending 90 sessions on 55 WIN training topics.

| | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Training days per employee (total) | 5.8 | 5.9 | 3.4 | 2.7 |
| Training days per management employee | n.a. | n.a. | 3.9 | 4.2 |
| Training days per non-management employee | n.a. | n.a. | 3.3 | 2.4 |

## Development and environmental protection

The following presentation of the direct environmental impact relates to the activities of VBAG Group in Austria. The data covers all departmental locations of the VBAG Group's headquarters in Vienna, excluding the departments in the Saturn-Tower. The planned participation in the Ecoprofit programme was only partially implemented in 2011 due to capacity reasons and again forms part of the sustainability programme for 2012.

### Heating

The proportion of office space supplied with district heating again increased in 2011 and conversion to district heating has been completed wherever technically possible. Accordingly, 98% of office space is supplied with district heating. The move to the new headquarters has also led to a significant reduction in specific heat energy consumption, although heat energy consumption increased on the whole. As of year-end 2011, the seamless recording of energy consumption data for all locations owned by VBAG has been completed.

| Energy consumption | Unit | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Consumption of natural gas | kWh | 2,855,240 | 1,889,950 | 446,560 |
| Consumption of district heating | kWh | 812,370 | 1,920,960 | 3,719,780 |
| Total heating requirements | kWh | 3,667,610 | 3,810,910 | 4,166,340 |
| Heating requirements per square metre | kWh pro $m^2$ | 121.71 | n.a.* | 59.20 |

* Heating requirements per square metre were not presented for 2010 as a result of the relocations during the year.

### Business travel

Air miles for business trips constitute a significant proportion of VBAG's operational carbon footprint. Savings were made in the year under review, thereby further improving the Group's environmental impact.

### Flights

| | Unit | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Air miles | km | n.a. | 2,854,000 | 2,209,394 |

### Electricity

Electricity consumption increased significantly as a result of the high-tech nature of the new Group headquarters. Wien Energie Vertrieb GmbH & Co KG provided VBAG with a hydropower certificate for 2012 and 2013 that guarantees that power generation for VBAG will not result in any CO2 emissions and that only electricity generated from hydropower will be supplied to VBAG in 2012 and 2013. The composition of the power generated by Wien Energie is reviewed annually by an independent auditor. The photovoltaic system on the roof of the Group's headquarters is running as planned and provided 27,697 kWh of green electricity in 2011.

| Energy consumption | Unit | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Electricity generation from company's own photovoltaic system | kWh | 0 | 536 | 27,697 |
| Electricity consumption | kWh | 3,305,031 | 4,903,711 | 6,077,866 |
| Electricity consumption per square metre | kWh | 95.83 | n.a.* | 127.00 |

* Energy consumption per square metre was not presented for 2010 as a result of the relocations during the year.

### Waste and cleaning

Due to further relocations and closures of locations, the volume of residual waste increased significantly year-on-year to 219,946 kg. The volume of data waste (category waste paper and cardboard) and other waste was reduced due to improvements in the waste disposal mechanism in the new Group headquarters, thereby resulting in an overall reduction in the volume of waste.

### Waste

| | Unit | 2010 | 2011 |
|---|---|---|---|
| Residual waste | kg | 140,626 | 219,946 |
| Waste paper (data waste) and cardboard | kg | 280,026 | 173,438 |
| Other waste excluding paper/cardboard | kg | 204,327 | 111,638 |
| Harmful or special waste | kg | 1.310 | 870 |
| **Total waste** | **kg** | **626,289** | **505,892** |
| Waste costs | EUR | 105,530 | 98,019 |

### Paper

In 2011, consumption per employee was 9,879 sheets, up significantly on the prior-year figure. As of the end of September 2011, double-sided printing was made the standard setting for all printer pools at the Group headquarters. This measure is intended to reduce paper consumption levels again. At the same time, paper procurement for the floor printers was switched to 100% recycled paper with the EU eco label.

### Consumption of printing and copying paper

| | Unit | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Printing and copying paper | Blatt | 12,748,635 | 11,749,057 | 12,229,756 |
| Printing and copying paper | kg | 63,743 | 58,745 | 61,149 |
| Printing and copying paper per employee (FTEs) | Blatt | 7,237 | 8,607 | 9,879 |
| Printing and copying paper per employee (FTEs) | kg | 40 | 43 | 49 |

## Organisation/IT

2011 was a year of upheaval – not only for the Group and the sector as a whole, but also for the Group's project and IT activities.

Although all preparations had been completed successfully, the combination of VBAG and Investkredit was not technically finalised in 2011. In connection with this, the deployment of the new "Murex" system for front, mid and back-office processes in the Financial Markets segment was postponed.

As for the merger of VBAG and Investkredit, which is still to go ahead, work was taken up again at the end of the year in order to finalise the process in 2012. This work built on the results of the aborted project. Murex will go live as an integrated system for Financial Markets in 2012 and support the above mentioned merger of VBAG and Investkredit.

**VBAG acquires LiveBANK**

As a result of resolutions passed within the sector, VBAG was commissioned in spring 2011 with acquiring LiveBANK with its customers and deposits which had been managed by Volksbank Kufstein with great success and merging it into VBAG as a sector-specific online bank. LiveBANK's website has been renewed and processes were streamlined and on 1 October the acquisition of LiveBANK with its extremely small operating team was successfully completed.

2011 also saw the establishment of a national clearing house under the control of the National Bank of Austria (Clearing Services.Austria) together with the community of major Austrian commercial banks. Since November, VBAG has routed its domestic payment transaction volumes via CS.A.

The organisational unit of VBAG provides services to the Austrian association of Volksbanks well as to VBAG Group. The most important project completed in the past year in terms of the market presence of the Volksbanks was the introduction of new software that provides browser-based, workflow-oriented support for the lending process, from the application and approval stages through to the allocation of funds. The success of this project led to the Volksbanks commissioning the organisational unit of VBAG to roll out this IT product at all of the Volksbanks.

European and national authorities often form the starting point for the project activities of the entire Volksbank sector. For example, the technical and process-related preparations for the payment of tax on share price gains were successfully completed in the past year. The organisational unit and the specialist departments of VBAG and of the Association of Austrian Credit Cooperatives enabled the regional Volksbanks to meet their tax payment obligations in a timely manner and fulfill their advisory duties to their customers.

Well prepared for SEPA

A key development in the area of payment transactions in 2011 was the continued migration to the SEPA environment. Based on the present draft regulation of the European Commission, the Single European Payment Area is set to come into force for credits and debits with effect from 31 January 2014 (with a grace period for certain payment transaction products). The Austrian Volksbank sector is well prepared for this changeover and has already successfully completed many of the necessary conversion measures.

#### Press relations & internal communications

Change processes require the commitment of all employees. Accordingly, a particular focus has been placed on internal communications in view of the restructuring and repositioning of VBAG Group. Employees are to be closely involved in this change process and kept informed on an ongoing basis. The communication tools used in this process include employee dialogue, in which employees have the opportunity to speak with the entire Managing Board, as well as workshops, surveys, mailings and information provided on the intranet.

However, open and credible communication is essential not only within the company and with stakeholders, but also in dealings with the media. This style of communication has been an important principle during difficult phases in particular, as the changes within VBAG Group are attracting significant attention from the media.

Direct cooperation with the Association of Austrian Credit Cooperatives and the regional Volksbanks remains an important pillar of communication.

### Events of particular importance occurring after the reporting date

On 27 February 2012, stabilisation measures were resolved with the owners of VBAG and the Republic of Austria, which include the recapitalisation of VBAG through the Volksbanks and the Austrian government, as well as the merger of Investkredit with VBAG. The merged institute is then to perform the role of the central organisation of the association of Volksbanks pursuant to section 30a of the Austrian Banking Act, which was created for this purpose. A detailed description of the measures resolved can be found in the Notes.

The sale of VBI to the Russian Sberbank was concluded on 15 February 2012.

The sale of the VICTORIA-VOLKSBANKEN insurance companies in Austria and Central and Eastern Europe was concluded on 16 February 2012. VBAG previously held just above 25% in each of the VICTORIA-VOLKSBANKEN insurance companies in Austria, Slovakia, Czech Republic, Hungary and Croatia. The negotiating parties agreed not to disclose the purchase price. In addition, the cooperation agreement that was to expire at the end of 2012 was redrafted and extended with effect from 1 January 2012 to the end of 2022.

## Report on the company's expected development and risks

### Economy and financial markets

Weak economic development in a number of eurozone countries is being accompanied by lower demand for imports, which is also affecting domestic exporters. In Austria, too, the enforcement of European agreements to ensure solid national finances in the medium term will involve cuts to government spending and/or increased taxes for the private sector. In this environment, investment is likely to stagnate and the other GDP components are likely to make only extremely moderate growth contributions. However, individual positive data from the past year, such as incoming orders in the construction industry up until October, suggest that there will not be a repeat of the events of 2009. The key condition for a slight upturn in economic development later in the year will be the success of the European fiscal plans, which – in combination with the measures already taken by the European Central Bank – could help bring about a gradual relaxation of the financial markets.

### Business performance

Foundation for the stabilisation

The agreement between the Austrian Government and the owners of VBAG laid the foundation for the stabilisation and continuity of the institution. Investkredit is to be merged with VBAG with retroactive effect from 31 December 2011. The capital reduction, which is also effective retroactively from 31 December 2011, and the subsequent capital increase secure the capital resources necessary for the business strategy to be implemented.

The planned joint liability scheme modelled on section 30a of the Austrian Banking Act specifies the new orientation of the then merged company. The new institution will focus on its role as central institution. Operations outside this area (non-core business) are to be phased out or sold in accordance with their underlying repayment profile.

## Material risks and uncertainties

### Risk management

Risk management is the responsibility of the Chief Risk Officer, CRO, who is a member of the managing board and is not involved in any market activities. The duties, competencies and responsibilities that make up the risk management process are clearly defined and specified at all lower levels. This ensures that risk-bearing organisational units (front office) are kept functionally separate from those organizational units that are responsible for the monitoring and communication of risks (mid office), up to the level of the Managing Board. Furthermore, this organisational structure also guarantees the separation of the front office and mid office functions as required by the regulatory authorities.

The quantification of risk and capital for risk coverage as well as the management of risk are performed centrally by the organisational units for strategic risk management and Group risk control. The subsidiaries of VBAG are actively involved in the ongoing development of methods and processes within the risk management system. This makes it possible to establish a common understanding of risk and efficiently utilise existing expertise within the Group early in the process. At the same time, the basis for consistent risk measurement and management within the VBAG Group is provided.

The ongoing economic and financial crisis had a strong impact on the risk management activities of VBAG in 2010. These activities focused on further developing the methods and content of the risk management processes.

At the same time as the sale of VBI in mid-2011, the IRB roll-out project was stopped in coordination with the supervisory authorities.

The measurement, limiting and management of credit risks were improved further through the use of an internally developed credit portfolio model. The process of compiling a monthly credit risk report was further accelerated and enhanced to include new data and tables.

For further details on risk management, see the risk report in the Notes.

### Compliance

VBAG is subject to the provisions of the Austrian Regulation on Compliance for Issuers. On this basis, an internal Compliance Code was issued and a compliance department headed by a Compliance Officer was established some years ago. The Compliance Office reports directly to the Managing Board of VBAG. In organisational terms, it is integrated into department 1 of Chief Executive Officer Gerard Wenzel. The Compliance Office defines and monitors the necessary processes and procedures for compliance with external and internal regulations in the areas of securities compliance, management of conflicts of interest and the duties of care relating to the prevention of money laundering, financing terrorism and fraud.

### Prevention of money laundering

New compliance manual

In the year under review, VBAG further expanded its internal range of instruments for preventing and combating money laundering. The "Manual for the Prevention of Money Laundering, Financing Terrorism and Fraud" was created with the aim of not only providing a set of regulations, but also improving employee understanding of the topic by offering a wide range of practical examples. The technical infrastructure was also adjusted to reflect the continuously evolving monitoring requirements.

In addition to technical measures for the prevention of money laundering, financing terrorism and fraud, the comprehensive and ongoing training of bank employees is a key factor in raising their awareness of these issues. As well as face-to-face sessions, bank employees are provided with training in the form of electronic learning programmes that are completed at their workstations. Bank employees are also informed regularly via a proprietary compliance database about current issues concerning the fight against money laundering and fraud. This serves to ensure that the VBAG Group complies fully with the regulatory requirements in this area in the best possible way.

### Combating fraud

Since 2004, combating economic crime has been one of the tasks of VBAG's Compliance Office. As the central point of contact for questions on issues such as the prevention of internet, wire or document fraud, the Compliance Office has significantly improved the efficiency of measures for preventing fraud at VBAG Group.

## Report on research and development

The company is not involved in research and development in the classic sense. However, VBAG Group supports the research activities of other organisations. The development of innovative products and services is also a central element of the Group's identity.

For many years, VBAG Group has supported the Rudolf Sallinger Fund, which aims to promote scientific publications concerning small and medium-sized enterprises. The fund supports both young scientists and SMEs, which benefit from the results of university research. In the 25 years since its creation, the Rudolf Sallinger Fund has awarded prizes to over 400 young academics for their outstanding scientific work.

Since 2007, VBAG has been dedicated to business mediation. In view of the diverse benefits of business mediation for society, the Volksbank sector, corporate customers and employees, VBAG has commissioned the first detailed scientific study of the cost of conflict in family businesses. The study offers a fundamentally new approach to the analysis of the effects of conflict on the assets of family businesses. In addition, the first "Business mediation and mediation skills in bank management" training course was held with the participation of around a dozen VBAG employees.

The VBAG Group also regularly supports university and college students with their theses.

## Report on key characteristics of the internal control and risk management system with regard to the accounting process

The purpose of the internal control system is to support management so that it is in a position to ensure effective internal controls with regard to accounting. The managing board is responsible for setting up and structuring an appropriate internal control and risk management system for the accounting process.

The internal auditing department also independently checks compliance with internal regulations in the field of accounting on a regular basis. As a department, auditing is assigned directly to the Managing Board and its head reports directly to the chairman of the managing board, as well as providing a quarterly report to the supervisory board.

### Environment for controlling

The internal control system is a system for documenting all control activities that have been carried out and builds on all controls that have already been actively implemented within the organisation (operational controls/management controls).

In the Group guideline for internal control systems, the managing board sets out a Group-wide framework for the implementation of the internal control system, whereby responsibility for implementation within VBAG Group has been assigned to process and guideline management at Österreichische Volksbanken-AG.

For the preparation of the consolidated financial statements, processes were set up that ensure that the data provided by Group subsidiaries is correctly transferred and processed. The data delivered firstly undergoes plausibility checks, both through comparisons with previous periods and through the analysis of typical transactions. The data is processed using consolidation software into which automatic checks have been integrated to ensure that the data has been recorded and processed in full. The results are monitored and plausibility checks are carried out by means of various reports. The monitoring and plausibility checks are based on the principle of dual control and are subject to further review by the department managers.

### Risk assessment

Risks relating to the accounting process are recorded and monitored by the process managers. The focus here will be on risks considered significant.

For the preparation of the financial statements, estimates must be taken regularly in areas for which there is an intrinsic risk that future development may deviate from these estimates. This particularly applies to the following items on the consolidated financial statements: impairment of financial assets, risks to the banking business, employee benefits and the outcome of legal disputes. In some cases, publicly available sources will be used or external experts will be consulted in order to minimise the risk of misjudgements.

### Control measures

Control measures are used in ongoing business processes to ensure that potential errors are prevented and that any discrepancies in financial reporting are discovered and rectified. These control measures range from the inspection of the various results for the period under review by management to the specific reconciliation of accounts and items and an analysis of ongoing processes in Group accounting. A distinction is made between two types of controls.

Operational controls include manual controls, which are carried out by employees in specific steps, automatic controls, which are carried out with the aid of IT systems, and preventative controls, which have the aim of preventing errors and risks in advance through the separation of functions, the regulation of competencies and access authorisation.

Management controls serve to ensure, on the basis of spot checks, that managers are complying with operational controls. The periodicity of checks is determined by the relevant manager (head of division, head of department), in accordance with the level of risk. The spot checks are documented in the control plan in a way that is comprehensible to third parties. The results will be reported at half-yearly intervals as part of management reporting.

At the companies included in the consolidated financial statements, the respective managing board and management staff are responsible for setting up and structuring an internal control and risk management system for the accounting process that meets the requirements of the company in question. They are also responsible for compliance with Group-wide guidelines and regulations in connection with this in the final instance.

### Information and communication

Guidelines and regulations relating to financial reporting are regularly updated by management and communicated to all employees concerned.

Employees in Group accounting are also trained on an ongoing basis with regard to international accounting reforms, so that risks relating to unintentional errors in reporting can be identified at an early stage. Reforms in international accounting are also relayed to employees involved in accounting at the respective subsidiaries.

A management report is produced twice a year. It contains declarations about the completeness, comprehensibility, active implementation and effectiveness of the control system with regard to the accounting process.

### Monitoring

Top management receives regular summarised financial reports, such as quarterly reports on the development of the respective segments and the key financial figures. Financial statements that are to be published undergo a final check by management-level employees in accounting, the management of the division and the managing board before they are forwarded to the responsible committees. The respective heads of department and group leaders are also in charge of monitoring the corresponding areas. Controls and plausibility checks are carried out at regular intervals.

The results of monitoring activities with regard to the accounting processes are reported within the management report. The report contains a risk assessment of the processes on a qualitative basis. The report also documents how many controls are being carried out in relation to control guidelines.

The internal auditing department also performs monitoring and supervisory functions.

## Disclosures on capital rights, ownership interests, voting rights and rights of control and related obligations

For the composition of the share capital of Österreichische Volksbanken-AG, please refer to the explanations in note 36 Equity in the notes to the consolidated financial statements.

On 31 December 2011, the following shareholders held an interest in the share capital.

| | After capital increase | | Before capital increase | |
|---|---|---|---|---|
| | in euro thousand | % | in euro thousand | % |
| Shareholders with qualified holdings | | | | |
| Volksbanken Holding eGen | 289,078 | 50.1 | 183,593 | 59.0 |
| Republic of Austria | 250,000 | 43.3 | 0 | 0.0 |
| Other shareholders | | | | |
| DZ Bank AG | 21,879 | 3.8 | 72,929 | 23.4 |
| ERGO Group | 8,751 | 1.5 | 29,171 | 9.4 |
| Raiffeisen Zentralbank Österreich AG | 5,317 | 0.9 | 17,725 | 5.7 |
| Volkskreditbank AG | 510 | 0.1 | 1,701 | 0.5 |
| Free float (not listed) and treasury stocks | 1,794 | 0.3 | 5,976 | 2.0 |
| **Total** | **577,329** | **100.0** | **311,095** | **100.0** |

For existing authorisation for the managing board to acquire treasury stocks and to carry out capital increases, please also refer to note 36 Equity in the notes to the consolidated financial statements.

Vienna, 30 March 2012

Gerald Wenzel
Chairman of the Managing Board

Michael Mendel
Deputy Chairman of the Managing Board

Martin Fuchsbauer
Member of the Managing Board

Wolfgang Perdich
Member of the Managing Board

# THE FIVE STRATEGIC SEGMENTS

# CORPORATES SEGMENT

In the year under review, corporate customers of VBAG Group were serviced by Volksbank AG – Investkredit, Investkredit Investmentbank AG, Invest Mezzanine Capital Management GmbH, Investkredit International Bank p.l.c. and VB Factoring Bank AG.

New Market division

A resolution was passed on the reorientation of VBAG Group in autumn 2011. In the new Market division all operations are pooled that represent the core business of VBAG Group, which is the function as central institution for the Volksbank sector. This includes all services provided to the regional Volksbanks. In the Corporates segment, syndicate business, subsidy management, project financing in the field of renewable energy and VB Factoring Bank AG are defined as core business. Business areas of the Corporates segment that are not related to the central institution function are to be wound down in the medium-term in an ordered process that preserves value.

## Performance over the business year

For the 2011 business year, the result before taxes for the Corporates segment amounts to euro 105 million, up euro 62 million on the result of the same period in 2010. This is primarily attributable to the reduction of risk provisions.

## Lending business/syndicate business

The SME/syndicate business with the Austrian Volksbanks remained a strategically important area of VBAG in 2011. Despite more restrictive conditions in the past financial year, the lending volume could be kept stable. Close and effective cooperation with the primary sector which is well established in SME business is the basis for the successful development.

Defined Core business

Syndicate business with the Volksbank primary banks constitutes core business. The Volksbank sector's position as a partner to industry is to be cemented further. VBAG's experienced employees develop financing structures together with the Volksbanks and consider all options for subsidies. The team is dedicated to offering the optimal form of financing, thereby meeting the constantly changing requirements and opportunities of capital management. The regional Volksanks are supported with a wide range of services.

Our aspiration is to provide the Volksbanks with optimal assistance in their SME market: in establishing long-term customer relations, attracting new customers and in selected tourism projects.

## Corporate subsidies and export trading

In 2011, corporate subsidies were again one of the central topics in servicing Austrian core customers of the Volksbanks and the corporate customers of Volksbank AG – Investkredit.

As at the end of December 2011, the total ERP loan volume reached around euro 200 million, approximately euro 38 million less than in the previous year. However, the number of individual loans rose significantly to more than 360 ERP loans (including 225 ERP small loans) compared to 273 (124 ERP small loans) in the previous year. This clearly shows that while investing continues in the Austrian economy, the projects are smaller overall. The majority of these loans are extended by the local Volksbanks that thus support Austrian small and medium-sized enterprises. As early as the second half of 2011, Volksbank AG – Investkredit began to withdraw from own-account business, in order to dedicate itself entirely to the Volksbank sector's SME customers.

In 2011, with 27 new loans and a lending volume of around euro 26 million, Volksbank AG – Investkredit supported the customers of the Volksbanks with long-term financing at favourable interest rates as part of the ERP large-scale-loan programme of Austria Wirtschaftsservice GmbH, aws. With 107 new lending transactions (volume of around euro 5.5 million), the ERP small loan programme also enjoyed a continuing increase in demand.

In OeKB, Oesterreichische Kontrollbank, short-term business, with 17 transactions in a total volume of approximately euro 42 million, the level of 2010 (21 transactions at approximately euro 44.5 million) could not quite be reached, which is attributable to the new strategic focus on SMEs.

The volume of financing under the Austrian Export Fund – mainly for SME customers of the Volksbank sector – declined due to loan repayments to approximately euro 41.5 million (147 loans) and is thus below the average of approximately euro 50 million at the end of the year.

In 2011, eight new OeKB equity finance deals (refinancing of foreign participations by Austrian companies) amounting to more than euro 50 million were concluded, almost reaching the previous year's level of euro 54 million. As at the end of 2011, 54 OeKB equity finance deals for Austrian companies with a total volume of euro 425 million were outstanding.

Since the end of 2010, the soft loan exposure has climbed from almost euro 22 million to approximately euro 49 million at the end of 2011.

Servicing Volksbank customers

In the area of trade finance, the bank concentrates predominantly on documentary business such as letters of credit and guarantees for customers of the Volksbank sector and selected customers of Volksbank AG – Investkredit. Due to the focus on Austrian core customers of the Volksbank sector, the extent of this product area decreased in Volksbank AG – Investkredit and will be more closely orientated to servicing Volksbank customers in future.

## Corporate Finance

The Corporate Finance segment offers structured financing for large companies, larger medium-sized enterprises and professional financial investors such as project sponsors and private equity funds. The range of services provided encompasses the structuring and settlement of complex financing transactions in connection with corporate acquisitions and divestitures, as well as comprehensive services with regard to succession issues. Large-volume transactions are arranged by the Syndication department together with established bank partners in the form of club deals.

## Leveraged Finance

The first half of 2011 saw a constant upward trend in the Leveraged Finance segment. While mergers and acquisitions activities, M&A, in Austria remained down on earlier levels, Central and Eastern Europe presented numerous opportunities for transactions, some of which were realised in the first months of the year.

In autumn 2011, the leveraged finance business unit was reoriented with a view to not entering into any further new business.

Frankfurt branch office with very good results

With a total of 15 projects concluded, the very good development of 2010 could be continued in Germany. Despite the halt on new business in autumn 2011, all of the forecasts and prior-year figures were exceeded; this was attributable in particular to the better than expected performance of acquisition and structured financing business. Stringent, yield-oriented portfolio management resulted in a slight increase in operating income as against the previous year despite a portfolio reduction of 15%. Volksbank AG – Investkredit was therefore able to maintain its position in the leading mid-range of this segment of the German market. It was one of the most successful foreign banks in the area of structured financing for SMEs.

Due to the stable economic environment, particularly in Germany, a number of borrowers enjoyed highly positive economic development, allowing risk provisions to be reduced significantly. Overall, the Frankfurt branch achieved a very good result in 2011.

Since large parts of the Corporate Finance field of business were defined as non-core business, activities have focused on portfolio reduction and management. In January 2012, for example, the Frankfurt branch sold around 10% of its portfolio at a profit.

## Project finance

In project finance, the trend of the past few months has continued. Large-scale international off-balance projects, which have traditionally been realised in an association of the public sector and arranging banks, remain on hold due to tight national budgets. Furthermore, willingness to conduct cross-regional financing of infrastructure projects remains limited as many banks are focusing on their regional environment. Very few banks are currently prepared to extend their balance sheet by taking on volume-intensive projects.

By contrast, demand for projects in the field of renewable energies remains strong. The rising need of energy is undisputed, and grid parity, i.e. the competitiveness of wind and photovoltaic energy sources without being subsidized, is just around the corner. Therefore, it should be possible to alleviate the

Renewable energies

concerns of some banks, which are attributable to growing uncertainty over subsidy regimes in certain countries. Government support in the form of the provision of extremely cheap liquidity, which is available in Germany for renewable energy projects in particular, remains unchanged.

In the area of renewable energy, both the scope of financing and the returns generated were well above the planned figures in 2011.

## Financing of international schools

In 2011, the partial allocation of the global loan concluded with KfW Bankengruppe was the primary objective of the International Schools business field. To this end, loans were extended to German foreign schools in Washington, Toronto and London. Furthermore, the year was characterised by ongoing dialogue with existing customers. For example, a loan was granted for an expansion project for the American School of Warsaw, with which we have longstanding business relations. Interest rate hedges reflect the conservative mandate of the school authorities and round off the financing packages.

The International Schools field of business will not be expanded further in future. The unwinding of unallocated KfW funds will be accompanied by the careful management of existing financing for this customer group.

## Investkredit Investmentbank AG (IKIB)

IKIB, a wholly owned subsidiary of Volksbank AG – Investkredit, is responsible for the M&A Consulting and Private Equity business areas. The latter consists of investments in private equity and mezzanine funds as well as direct investments.

In the Private Equity business field, a new commitment to a German private equity fund was entered into in the first half of 2011. In the same period, the portfolio of co-investments was expanded to include a further investment in a company in Germany. Two direct investments were successfully sold in 2011. In one case, the original amount of capital invested was increased almost fivefold.

Interesting exits were also recorded in the area of fund investments (involving sales to strategic buyers as well as the successful IPO of an indirect portfolio company).

In the M&A segment, the two remaining mandate agreements were terminated and the corresponding activities were discontinued. The Private Equity business field will be wound down as well.

## Debt capital markets

While the corporate bond market had been characterised by lively investor demand in the first half of 2011, demand decreased significantly in the second half of the year on account of the crisis on the periphery of the euro area. Volksbank AG – Investkredit took part in a total of six Austrian corporate bond issues in 2011: once as the lead arranger, three times as the senior co-lead manager and twice as a co-lead manager, which demonstrates the Bank's solid positioning in this market segment.

## Treasury Sales

The fourth quarter of 2011 was characterised by volatile capital markets in a directionless environment as well as extremely low money and capital market interest rates. In order to benefit from the very low variable interest rates for as long as possible, corporate clients changed their strategy concerning hedging long-term interest rate risks. They took the opportunity to set limit orders, in order to convert variable interest rates into fixed rates or to bring about a long-term hedge by means of a cap only once the targeted level has been reached.

Trend towards classic forward transactions

Among corporate clients, there was an identifiable trend towards classic forward transactions in currency hedging. Derivative products and structures were less in demand than in previous years. The EUR/CHF floor set by the SNB was a major relief to foreign-currency borrowers since it facilitates the management of foreign currency risk.

Sales activities in the banks, asset managers and institutional clients segments were affected by the European sovereign debt crisis and the exceedingly uncertain market conditions that resulted. For this reason, issuing activity dropped in both the corporate and banking sectors in the fourth quarter.

## VB Factoring Bank AG

Specialising in factoring, the bank substantially increased its business volume once again in 2011. By the middle of the year, a year-on-year increase of more than 35% had been achieved. As at 31 December 2011, revenues had surged by 39.2% thanks to the positive development of new business and growing business with existing customers. In 2011, assets in an amount of euro 1.5 billion were purchased and the bank held a 17% share in the Austrian factoring market (2010: 13%).

**Total revenue increased**

As the factoring specialist of the Volksbank sector, the bank cooperates closely with the Volksbanks. The bulk of the business volume was again attributable to the cooperation with the Volksbank sector. The share of revenue generated with the regional Volksbanks in VB Factoring Bank's total revenue continued to increase and amounted to 60.2% or euro 919.3 million. Compared with 2010 (euro 603.5 million), this is an increase of 52.32%.

## Outlook for the Corporates segment

While syndicate business was rather restrained in the fourth quarter of 2011 as a result of uncertainty on the markets, in the first months of 2012 there was a slight increase in the number of loans requested.

Demand for ERP small loans remains high, with the result that 10 new ERP small loans were added in January 2012. Demand for ERP industry loans on the part of the Volksbank sector's corporate customers is also increasing, which is indicative of increasing investing activities in Austrian SMEs.

**Demand for subsidised loans**

As many companies expect a significant increase in medium to long-term interest rates or even a shortage of credit supply, demand is also increasing markedly for subsidised loans, particularly export fund financing. Volksbank AG – Investkredit will respond to this trend by developing financing products especially for Austrian SMEs.

In the Corporate Finance segment, further substantial portfolio disposals are expected for 2012 as a whole. Assuming the economic situation remains stable, the profitability of the portfolio is considered to be positive.

In project financing, we expect to see uninterrupted demand for financing in the renewable energy segment in 2012.

VB Factoring will continue its business strategy unchanged in 2012 and anticipates further growth over the course of the year.

# RETAIL SEGMENT

Österreichische Volksbanken-AG is active in the Retail segment both in Austria and in Central and Eastern Europe. The Retail segment includes Austrian VB Leasing Finanzierungsgesellschaft m.b.H., VB-Leasing International Holding GmbH, which operates in the CEE region, and Volksbank Romania. Volksbank International Group (not including Volksbank Romania) was sold at the start of September and is now recognised in the disposal group.

In the course of VBAG Group's reorientation and the focussing on its function as central institution of the Volksbank sector, VB Leasing Finanzierungsgesellschaft m.b.H has been defined as core business area since the services it provides are important to the regional Volksbanks. As a consequence, it has been allocated to the new Market division. VBAG Group's activities in Central and Eastern Europe, however, do not constitute core business any more. VB-Leasing International Holding GmbH and Volksbank Romania therefore were assigned to the "non-core business".

## Performance over the business year

The segment's result is marked by the restructuring of Volksbank Romania and by the sale of the VBI Group. The result before taxes for the 2011 business year is euro -433 million, euro -294 million of which is attributable to the deconsolidation of VB Romania as at 30 September 2011. The VBI Group (excluding VB Romania) reports a loss before taxes of euro 133 million for the 2011 business year, which is mainly driven by increased risk provisions in Volksbank Hungary. The unstable situation in Hungary led to significantly higher risk provisioning resulting from the forced conversion of foreign currency loans at non-market rates into loans in forint on the one hand, and from the weak economic outlook on the other hand. The decline in net interest income is due to decreasing interest margins in CEE countries and the measurement at equity of Volksbank Romania amounting to euro -46 million for the fourth quarter of 2011, which is recognised under this item. Despite the difficult economic environment in Central and Eastern Europe, risk provisions were reduced in the leasing business field and in Volksbank Romania.

## Retail in Austria

### VB Leasing Finanzierungsgesellschaft m.b.H. (VBLF)

Strong regional focus

VBLF was founded in 2001 and is a wholly owned subsidiary of Österreichische Volksbanken-AG. It is in charge of VBAG Group's Austrian leasing activities together with two subsidiaries and two sister companies. VBLF has a strong regional focus; its distribution network consists of nine branches across Austria. Apart from selling its own products, VBLF is primarily a service provider to the Austrian Volksbanks in the leasing business field.

VBLF provides services for a large and diverse customer base. This means that the company has to develop individual financial solutions tailored to the needs of each customer group. For this reason, in addition to creating individual financial solutions, VB Leasing also offers tailor-made services. VBLF services its customers in the business areas of cars, transportation, office automation and machinery. With its extensive expertise in all types of lease financing, VBLF is well positioned on the Austrian leasing market. VBLF completes its service range through its intensive cooperation with banks and financial service providers, as well as dealers and manufacturers in the capital goods industry.

#### Very positive year 2011

Since its formation, VBLF Group has aimed for a granular portfolio structure and has followed an approval policy based on balancing risk and return. Thanks to stable margin levels coupled with a continued downward risk trend, VBLF posted a very positive result in the year under review. In 2011, VB Leasing Finanzierungsgesellschaft m.b.H. recorded a new business volume of euro 300 million, corresponding to 20,000 new contracts.

Highest number of new contracts

Positive development was seen in all areas of business. The number of new contracts exceeded that of the very positive year 2010 and was the highest in VBLF's history. The spread on the Euribor over the year as a whole was satisfactory, but came under pressure recently due to fiercer competition from captives and some regional banks. In view of the difficult economic situation, impairments were very low. Furthermore, there were further high repayments from doubtful debts from previous years.

## Retail abroad

### VB-Leasing International Holding GmbH (VBLI)

Although the economic environment continued to be difficult, VB-Leasing International significantly improved its annual result again in 2011. Sales performance (new business volume) improved by 2.7% from euro 924 million in the 2010 financial year to euro 1,008 million. In total, 37,976 new contracts were concluded in 2011 (2010: 37,743 contracts). This increase in new business is all the more positive considering that VB Leasing adhered to its very conservative risk policy during the reporting period.

The annual result of euro 39.4 million was considerably higher than the previous year's figure of euro 6.4 million.

Positive results in all countries

For the first time in the history of the company, positive results were achieved in all countries. A major criterion for success – in addition to the good performance of individual markets – was the Group's human resources and cost management, which is centralized and given high priority. Moreover, local partnerships were further intensified and internal processes optimised in the past year.

#### The network

VB-Leasing International was founded in 1994; Österreichische Volksbanken-AG and the Germany-based VR-LEASING AG each hold 50%. The step-by-step expansion of the network in eight Central and Eastern European states has made VB Leasing one of the most successful leasing providers in the CEE region. The Group has eight local subsidiaries in the Czech Republic, Slovenia, Croatia, Poland, Bosnia-Herzegovina, Slovakia, Serbia and Romania, and has held an interest of just above 8% in the Hungarian market leader Lombard Lízing since January 2009.

#### Volksbank Romania S.A.

Volksbank Romania S.A. was excluded from the sale of VBI to Sberbank and has been transferred to a separate entity in October 2011. This new entity is being managed by the owners (VBAG Group: 51%, DZ Bank AG/WGZ Bank AG: 24.5%, Banque Populaire Caisse d'Epargne: 24.5%) directly. The goal is to sell VB Romania by 2015, after completion of the restructuring process.

## Outlook for the Retail segment

In a recovering Austrian leasing market, VB Leasing Finanzierungsgesellschaft m.b.H. will pursue its consistent risk policy with regard to creditworthiness of customers, asset security and risk diversification. Particular attention will be paid to a risk-adequate pricing policy.

Despite the faltering economic recovery in parts of Central and Eastern Europe and increasing market uncertainty resulting from the European debt crisis, VB-Leasing International expects stable business to continue in 2012.

# REAL ESTATE SEGMENT

The Real Estate segment encompasses the real estate financing operations of Volksbank AG – Investkredit, the real estate lease financing operations and asset management of VB Real Estate Services GmbH and Immo Kapitalanlage AG. Customers in Austria as well as in CEE and SEE countries are serviced by the segment. In addition, Immo Kapitalanlage AG offers private customers an attractive opportunity to invest in a real estate fund. In 2011 all real estate activities of VBAG Group were pooled under the brand VB Real Estate Services.

„non-core business“

Following the successful restructuring of the Real Estate segment, a resolution was passed on the reorientation of VBAG Group in autumn 2011. With the exception of Immo KAG, real estate is no longer part of VBAG's core business and was therefore allocated to the "non-core business".

## Performance over the business year

For the 2011 business year, the result before taxes in the Real Estate segment amounts to euro -91 million. Due to the considerable deterioration in the market environment increased risk provisions and impairments on investment property fair values and investments were necessary, which led to this decline in comparison to the previous year. Furthermore, a provision for restructuring cost of euro 5 million was recognised in the segment. The successful sale of the "North Gate" real estate project with a profit from deconsolidation of euro 10 million is reported in the other operating result. The Europolis Group was deconsolidated on 1 January 2011, which led to a deconsolidation loss of euro 4 million in 2011.

## Real estate loan financing at Volksbank AG – Investkredit

In the Real Estate Financing business field, Volksbank AG – Investkredit has been involved in the long-term financing of commercial real estate projects (office buildings, retail properties, logistics real estate and hotels) in Austria and CEE countries for many years.

Geographically, the focus in this area is on Austria with a share of approximately 31%, followed by the Czech Republic with approximately 16% and Poland with approximately 13%. In the early part of the year, new business was still concluded on a selective basis, before it was stopped completely in the second half of the year.

In the course of VBAG Group's reorientation, the Real Estate Financing field of business was allocated to the "non-core business". As a consequence, the portfolio and associated processes were reviewed in order to minimise the impact on earnings of the medium term wind down process. Initial measures that have already been taken reduced loans and advances to customers by approximately 10% in comparison with 31 December 2010.

## Leasing and asset Management

In 2011, the focus was on managing the existing portfolio. Branches in Central and Eastern Europe were merged and redimensioned, regional offices are located in Poland, the Czech Republic, Slovakia, Hungary, and Romania.

Cooperation with Volksbanks

In real estate leasing, attention is paid to the cooperation with the Austrian Volksbanks. In the 2011 business year – predominantly in the first half – new business was concluded amounting to euro 37 million. Due to maturing leasing contracts, premature contract terminations and the resulting sale of properties, the portfolio volume declined by euro 40 million, generating profit of euro 1 million.

As a niche product, container leasing is offered to the shipping industry via a subsidiary, Immoconsult Asset Leasing GmbH. The leasing volume amounts to approximately euro 160 million. In the 2011 business year, follow-up agreements with existing customers amounting to euro 50 million were successfully concluded.

In real estate investments, after the sale of Europolis AG at the end of 2010, a contractual purchase price adjustment was made in 2011. Further redimensioning steps were taken in the first quarter of 2011 with the sale of the North Gate office building in Warsaw. The corresponding deconsolidation result contributed perceptibly to the segment result. In the Asset Management division, space of around 9,000m$^2$ was successfully let or re-let.

## Immo KAG

Broadly diversified real estate portfolio

Immo Kapitalanlage AG (Immo KAG) is a subsidiary of Volksbank Invest Kapitalanlage Gesellschaft mbH. It was established in 2004 with the mission of offering open-ended fund products and special funds in accordance with the Real Estate Investment Fund Act. On this basis, <immofonds1> was set up as a retail fund in 2004. <immofonds1> offers particularly small retail investors the opportunity to invest in a broadly diversified real estate portfolio. Investments are made predominantly in commercial properties in Austria and Germany. The stability of these two countries has been clearly demonstrated over the last few years and has led to stable rental income.

Over the course of 2011, the fund assets increased to euro 237 million, with a noticeable upturn and rising unit sales towards the end of the year. Due to the turbulence of the capital markets, investors showed increased demand for security and for tangible assets such as real estate.

In 2011, a property in Graz, which was no longer compatible with the real estate fund portfolio because of the type of its usage, was sold. As a result of active asset management, the rental rate could be kept above 96% over the course of the year.

A key focus in 2011 was the continued strengthening of sales and marketing measures.

## Outlook for the Real Estate segment

Immo KAG anticipates that the growth in demand for real estate investment products resulting from the tendency towards secure tangible assets will continue in 2012. The focus will therefore remain on intensive asset management and sales promotion measures.

Apart from Immo KAG's activities, the Real Estate segment is one of the business areas from which VBAG Group is to withdraw in the medium term in order to raise its capital ratio.

Accordingly, the plan for 2012 is to reduce the loan portfolio in real estate financing thereby achieving capital relief. More attention will be paid to the workout unit for impaired real estate financing, in which sales activities are to be intensified.

In real estate leasing, one point of focus will be the management of the existing portfolio and the servicing of customers. A reduction of the leasing volume by approximately euro 53 million is expected as a result of maturing contracts. Despite demanding economic conditions, VB Real Estate Services GmbH intends to sell further portfolio properties and take further redimensioning steps.

# FINANCIAL MARKETS SEGMENT

In addition to strategically important staff departments, the Financial Markets segment comprises two customer-oriented organisational units: Group Treasury and Volksbank Investments. The online bank LiveBANK, which was acquired from Volksbank Kufstein in October 2011, also belongs to this segment.

The segment's key task is servicing and supporting the Volksbank sector. Within VBAG Group, Financial Markets is responsible for all treasury services such as securities and foreign exchange trading and the management of interest rate and currency risks. Volksbank Investments is an innovative product supplier for the Volksbank sector and offers a wide range of products, from traditional funds, certificates and alpha investments to asset management.

New division „Market“

On 15 December 2011, it was decided to reorganise the divisions in a way that organisationally reflects VBAG's focus on its central institution role. All business units that are tasked with servicing the Volksbank sector are pooled in the new division "Market". This includes the Financial Markets segment and the syndicated financing and financing of renewable energy business areas. VB Leasing Finanzierungsgesellschaft m.b.H., VB Factoring Bank AG and Immo Kapitalanlage AG are also allocated to the Market division. As the new divisional structure was only resolved uponat the end of the year, it is not represented in the 2011 Annual Report.

## Performance over the business year

The 2011 financial year was challenging for the Financial Markets segment due to the European government debt crisis and the extremely volatile markets. As a consequence of the massive widening of European government bond spreads, the segment's net trading result in the period under review was negative at euro -10.4 million. The difficult market environment also affected net fee and commission income, as a result of reduced customer business it decreased to euro 45 million. At euro 36.4 million, net interest income was stable for 2011. General administrative expenses could be lowered and stood for 2011 at euro 43.6 million. Overall, the Financial Markets segment concluded the 2011 business year with a result before taxes of euro 28.2 million.

## Group Treasury

Support and services to the Volksbank sector

Group Treasury's business base is in the provision of support and services to the Volksbank sector. In addition, institutional clients, corporate clients and foreign and domestic banks are serviced. The range of services offered encompasses the management of regional Volksbank's balance sheet structures, supporting them in their own business and customer business, the implementation of hedging strategies for corporate clients as well as the placement of capital market issues. The product range comprises bonds, interest and currency products, commodities and derivatives as well as structured products tailored to customers' specific requirements.

In Group Treasury, the 2011 financial year was characterised by the optimisation of the organisational structure. The units servicing the regional Volksbanks and the Treasury Sales units were each grouped in one department. This helped to realize synergies, streamline processes, bundle competences, generate the highest possible profitability and ensure a consistent market presence.

### Trading

The past financial year was overshadowed by the debt crisis and numerous downgrades of countries and banks. Money and currency markets remained volatile due to the threat of a return to recession and the ongoing political discussion on restructuring national budgets. After the base rate was increased in the first few months of the year, the new President of the ECB Mario Draghi lowered it twice by 25 basis points each time, with the result that the refinancing rate returned to the level of the beginning of the year, 1.00%. In reaction to the volatile markets following the devastating earthquake in Japan, the Japanese central bank intervened against a strong yen in a concerted action with the USA, UK, Canada and the European Union.

Extremely high volatility

2011, particularly the middle of the year, was also characterised by extremely high volatility on interest and currency markets which resulted in new lows for EUR/CHF of 1.03 and USD/CHF of 0.72. As a result of these market distortions, the Swiss National Bank (SNB) introduced a EUR/CHF floor of 1.20 in September.

In trading, a precise management of short and medium-term liquidity was attained through the utilisation of all available money market instruments thereby guaranteeing a stable liquidity position throughout the reporting period.

The uncertainty on the markets that dominated the entire year drove up the gold price to new highs. This led to high trading volumes, the area of precious metals therefore generated stable income for the bank.

In the bond segment, the focus in retail sales was on products such as mortgage bonds and inflation-linked bonds as well as bonds in foreign currency, such as the Norwegian krone (NOK). Due to high market fluctuations, trading book positions were reduced and diversified in order to lower earnings volatility.

### Consulting

In the area of management of the Volksbanks' own accounts, demand for "fix-to-float" rate VBAG issues increased at the beginning of the financial year. In the money market segment, the high forward rates were utilised more intensively via sold forward rate agreements. The Volksbanks' approach to managing investments with regard to maturity transformation strategies and quality of investment was adapted to the new equity and liquidity standards of Basel III over the course of the year.

Focus on interest rate hedging

In risk hedging for customers of the Volksbanks, the focus in the reporting period was on interest rate hedging. Noteworthy sales were generated both with retail customers with individually arranged interest rate caps and with business customers using interest rate caps and swaps. In the first half of the year, conversions of foreign currency loans (CHF) declined in comparison with the previous year despite new CHF highs. This trend intensified in the second half of the year due to the above mentioned implementation of a EUR/CHF limit of 1.20 by the SNB.

Due to the expansion of the sales support application "Treasury 4 You" to include commodity hedging products, the Volksbanks can now also offer their customers products in the commodity segment.

Sales management was characterised in 2011 by advising the Volksbanks on taxation issues and by the topic of earnings and sales generation. Specifically in the second half of the year, the focus was on issuer diversification in customer securities accounts – tailored third-party products were made available here.

In the area of order management, the focus also was on issuer and currency diversification. In the corporate bonds segment, for example, Austrian issues in a two-digit million volume were placed in private customer business.

The quality of information in the bonds segment was improved significantly with the implementation of a new database. Together with the increased volatility on the financial markets and the resulting customer trading activity, this led to rising sales volume and transaction figures. In the third-party funds segment, customer demand for emerging market shares and inflation-linked bonds increased.

### Sales

The fourth quarter of 2011 was characterised by volatile capital markets in a directionless environment as well as extremely low money and capital market interest rates. In order to benefit from the very low variable interest rates for as long as possible, corporate clients changed their strategy concerning hedging long-term interest rate risks. They took the opportunity to set limit orders, in order to convert variable interest rates into fixed rates or to bring about a long-term hedge by means of a cap only once the targeted level has been reached.

Among corporate clients, there was an identifiable trend towards classic forward transactions in currency hedging. Derivative products and structures were less in demand than in previous years. The EUR/CHF floor set by the SNB was a major relief to foreign-currency borrowers since it facilitates the management of foreign currency risk.

Sales activities in the banks, asset managers and institutional clients segments were affected by the European sovereign debt crisis and the exceedingly uncertain market conditions that resulted. For this reason, issuing activity dropped in both the corporate and banking sectors in the fourth quarter.

## Volksbank Investments

Volksbank Investments emerged in 2008 from the integration of Volksbank Strukturierte Investments and Volksbank Invest KAG under one umbrella. Volksbank Investments' philosophy is based on the separation of market-dependent (beta) and market-independent yields (alpha investments), which can be brought to market as funds, certificates or insurance products.

2011 was characterised by high levels of uncertainty and, above all in the second half of the year, massive turbulence on the capital markets. Particularly in the fourth quarter, there were declines in the market volumes of both investment funds and certificates which also affected Volksbank Investments.

**Increased market share in retail funds**

The Volksbank Investments certificate volume fell by euro 163 million in the fourth quarter, reflecting the negative development of the market. The funds market also was characterised by pronounced declines, in December in particular. Volksbank Investments was impacted by this trend, its fund volume dropped by euro 125 million in the fourth quarter. On the Austrian retail funds market, the highest quarterly net outflows were registered in the last three months of the year, when they reached euro 1.7 billion. Volksbank Investments, however, performed considerably better than its competitors in this area and increased its market share.

Asset management at Volksbank Investments continued to develop positively; contrary to market trends. This business filed grew in 2011 and the volume of asset management mandates rose to euro 2.28 billion.

Consultant feedback shows that the structural and strategic reorientation of the last few years has proved a success even in these difficult times. Volksbank Investments can meet customer requirements in terms of asset management precisely with its philosophy of bundling fund and certificate expertise. This is a competitive advantage that should grow in value as a result of the difficult general conditions that are expected to continue.

The specific combination of a wide range of asset classes – not just bonds and shares – and the right weighting of the individual asset classes form the core of the new asset management funds, which are focused on the limitation of risk. While the investment sector as a whole has strayed little from its traditional path to date, Volksbank Investments and therefore the Volksbank sector have laid the foundations to benefit from the particular product quality developed in recent years.

### Strong signals towards capital protection and capital preservation concepts

Although Volksbank Investments' assets under management decreased to euro 7.38 billion due to the market situation and investors' risk aversion, there was also a number of positive trends in 2011 that resulted in a strengthening of its position as specialist for capital protection and preservation concepts. A good example is the VB Asset Navigator, which is based on a systematic investment process and represents the philosophy of Volksbank Investments – creating risk-controlled forms of investment that adapt flexibly to changing market conditions.

**Quickly reaction to new market developments**

Volksbank Investments offers its customers several "shells" such as certificates, funds or insurance products – or an optimum combination thereof. Volksbank Investments can thus react quickly and efficiently to new market developments or changes in investor behaviour, as the effects of the government debt crisis made quite plain in 2011: Volksbank Investments reacted to the soaring demand for security and alternative forms of investment within and outside the euro zone with the new key topic "earnings prospects despite the crisis of confidence". Within the framework of this key topic a product portfolio (certificates and funds) is offered which includes investment opportunities that cover a broad spectrum from very high security to attractive earnings alternatives with somewhat lower security, according to the individual needs of investors.

### High certificate market share maintained despite heavy volume reductions

The volume of the Austrian certificate market dropped considerably over the course of the year, before it stabilised towards the end of the year. In 2011, open interest decreased by 8.7% overall. Total volume placed with retail investors (including interest rate products) amounted to approximately euro 13 billion as of 31 December 2011. The open interest excluding interest rate products of the five leading Austrian certificate issuers was euro 5.6 billion as of the end of 2011. More than 99% of this, or euro 5.5 billion, is attributable to capital protection, bonus and index certificates.

As of the end of the year, the certificate volume for equities and commodities at Volksbank Investments was euro 2.18 billion. As the clear number one on the Austrian certificate market, Volksbank Investments kept its high market shares stable. These remain clearly above 40% for guarantee certificates and above 30% for partial protection and bonus certificates. Overall, the market share for structured investments in Austria amounts to almost 40% (based on open interest excluding interest rate products).

Volksbank Investments expanded its partial protection and bonus certificate product range, thereby adapting its product policy to the volatile development of the market. Investors can benefit from rising, sideways moving or even falling prices.

### Performance promises have been kept

An analysis performed at the end of 2011 shows that investors in Volksbank Investments certificates can rely on the performance promises made: for coupon-oriented capital protection certificates, for example, the payout profile includes 100% of the capital protected at the end of the term, the fixed interest and the "opportunity for more" – which depends on the development of the "tracked" shares. In fact, the average annual interest rate from 2007 to 2011 was 1.8% above that of a comparable savings account.

"Bonus Garant" certificates, offer the chance for a bonus, if the underlying share value does not breach the safety buffer. However, if the latter should occur, hedging in the form of up to 100% capital protection at maturity acts against a potential capital loss. Here, too, a performance review drawn from the market launch in mid-2008 to the end of 2011 yielded a respectable result – not least in view of the extremely volatile markets: of the ten products repaid to date, three paid out a bonus of up to 45%; for the rest, the 100% capital protection came into effect. Comparison with the direct investment shows that losses of up to 65% occurring in the underlying security were avoided.

### High net outflows in retail funds

In 2011, the fund volume in the Austrian investment fund sector declined by 7.3% to euro 134.6 billion. In addition to euro 2.2 billion payouts to investors and price losses of euro 3.8 billion, there were very high net outflows, which pertained primarily to retail funds (euro 5.1 billion) and large-scale investor funds (approximately euro 800 million). Only special funds saw significant net inflows (approximately euro 1.1 billion). In the area of retail funds, only mixed funds grew in 2011 and increased by almost euro 900 million. Above all, the turbulence on the share and currency markets considerably weakened the confidence base among retail investors over the course of the year. This had a marked effect on the development of volume at Volksbank Investments, as traditionally the strength of the company lies in retail funds. The overall VB Investments fund volume decreased by 13.7% to approximately euro 2.8 billion. It must be stressed, however, that Volksbank Investments' market share in this area rose to around 3.2% as of the end of the year.

## Corporate responsibility

Empirical data over a long-term period show that there are no yield differences between sustainable and non-sustainable investments based on risk/yield-adjusted performance. A growing number of investors want to invest in companies that live up to demanding value and quality standards. Therefore, Volksbank Investments offers a successively expanding range of investment funds and certificates which focus on sustainability. The volume of these products was increased again in 2011; as of the end of the year it amounted to approximately euro 700 million, equating to a share of more than 16% in the total volume.

**Funds and certificates which focus on sustainability**

With the "Fix Plus Garant 4/2011" (and subsequent tranches) set up in mid-2011, Volksbank Investments succeeded in becoming the first certificate provider to launch a product certified with the Austrian eco-label. The two funds "VB-Ethik-Invest" and "VB-Mündel-Rent" also carry the Austrian eco-label. Furthermore, they are certified as "sustainable" by Eurosif (European Sustainable Investment Forum).

### Asset management

Volksbank Investments has many years of experience in managing institutional mandates. Thanks to the targeted combination of selected asset classes, tailored asset management solutions are developed which are supplemented by professional reporting and portfolio and sensitivity analyses. Alternatively, institutional investors can also make use of individual components for designing their portfolios.

Due to the current market situation, Volksbank Investments' "VB 1" fund is a very attractive investment component for institutional customers. This fund invests exclusively in European government bonds from prime issuers. A core euro area country concept ensures that the fund only contains bonds that meet the highest security criteria. Furthermore, interest risk is systematically hedged in the event of rising interest rates.

Building on the extremely successful asset management mandate of Victoria-Volksbanken Pensionskassen AG (VVP), asset management at Volksbank Investments has continued to intensify its acquisition activities among institutional investors in 2011.

### Excerpt of 2011 awards

Volksbank Investments' high level of competence was confirmed once again in 2011 by numerous awards from prestigious institutions.

**"VB-Pacific-Invest" very successful**

In 2011, the "VB-Pacific-Invest" fund repeated its victories of the previous year in the "Equity Asia Pacific" segment of both the Lipper Award Austria and the Lipper Award Europe – both in the particularly prestigious five-year category. Volksbank Investments also achieved first place in the coveted Austrian Fund Award with "VB-Pacific-Invest" and "ZEUS-Rent" (both in the five-year category).

At the Austrian Fund of Funds Awards, "HI Volksbank Global Trend" was honoured as 2011's best "Fund of hedge funds" in the five-year category. In the "mixed fund of funds – flexible" category, "VB Smile" took second place, also in the five-year category.

Volksbank Investments' high level of bond expertise was emphasised by a coveted German award. Together with the Institut für Vermögensaufbau (Institute for Asset Accumulation, IVA) and the Deutsche Schutzvereinigung für Wertpapierbesitz (German Association for Private Shareholders, DSW), the well-known German finance magazine Focus Money selected Volksbank Investments as "Germany's best fund company" in the "Euro-denominated bond funds" category.

## Outlook for the Financial Markets segment

For 2012, Group Treasury expects neither a permanent solution to the debt crisis in individual euro zone countries nor a global recession. It therefore anticipates that the market environment in 2012, as in the year before, will be characterised by high volatility, low yields and earnings and heavily fluctuating risk appetite. It will demand considerable observational skills and flexibility from market participants. On this basis, Group Treasury will focus on low-risk, fungible investment products in retail investment and on simple hedging products in the corporate segment. Important performance indicators for the coming business year will be the level of sales that can be generated from customer business and the extent of market fluctuations.

The development of the bond markets, which make up one of Volksbank Investments' core competencies, is difficult to forecast, because movements are primarily influenced by political decisions, which are close to unpredictable. However, it can be assumed that the significant differences between countries are likely to continue and individual states will repeatedly come under pressure. In terms of corporate bonds, non-financial instruments are still to be favoured, as bank bonds will presumably continue to be volatile in 2012. Volksbank Investments expects neither a significant economic upturn nor an increase of interest rates in 2012, and therefore anticipates an extremely low yield level.

Volksbank Investments is well-positioned to guarantee reliable compliance with the performance promises given to the customers, even in markets that remain unstable and volatile.

Due to demographic development, the pension problem will pick up momentum. 13% of GDP already goes into the state pension system. Serious discussions about cost-cutting are to be expected. A direct consequence is the increasing divergence of salaries and pensions. The importance of tailored products for both private and corporate pension provision will therefore continue to rise rapidly. The size of the pent-up demand for corporate and private pension provision is shown by analyses that currently determine the ratio of state to private provision as 90 to 10.

With its broad range of pension solutions that can be coordinated optimally with customer needs, Volksbank Investments is ideally prepared for these market opportunities.

For the Financial Markets segment overall, the focus in 2011 was on the provision of services to the regional Volksbanks. This path will be followed consistently in 2012 as well. In accordance with the strategy of concentrating on the central institution function, supporting the regional Volksbanks optimally remains the segment's central task. Financial Markets is confident that it can generate solid results in the current financial year as well.

# INVESTMENT BOOK/OTHER OPERATIONS SEGMENT

All activities relating to VBAG Group's investment book are organised centrally and reported in the Investment Book/Other Operations segment. The segment consists of the capital markets and asset liability management departments. Furthermore, the Investment Book/Other Operations segment includes VB Services für Banken GmbH and various holding companies.

## Capital Market

Within VBAG Group, the capital markets division is responsible for the management of the strategic investment book. The portfolio contains the entire securities portfolio of around euro 5.2 billion that is required for regulatory purposes and banking operations, along with other capital market investments of around euro 1.2 billion.

As a result of the intensifying problems in the states on the periphery of the euro area, credit spreads widened significantly in practically all segments in the year under review. The crisis in Greece worsened over the course of the year; taking this development into account, the Group-wide exposure to the Greek state was impaired to market prices as of 31 December 2011.

In the year under review, the volume of the investment book was reduced through both sales and redemptions by more than euro 1.1 billion as part of the Group's reorganisation measures.

## Group ALM and Liquidity Management

ALM is in charge of the management of long-term interest rate and FX risks and of liquidity management. Transfer prices are used to take over market risks from front office areas.

### Interest rate risk

The aim of interest rate risk management is to record interest rate risks from assets, liabilities and off-balance sheet items in the investment book. In order to reach this aim it is necessary to analyse both the income effect and the present value effect of fluctuations of interest rates and take these into account when making decisions.

The market risk controlling department measures and monitors interest rate risk by using different limits. The total limit is determined by the Managing Board based on regulatory limits and the Bank's risk-bearing capacity. Risk measurement covers all the main forms of interest rate risk. All of the Group's interest-sensitive positions are presented in a monthly report.

ALM is responsible for leading the Asset Liability Committee (ALCO), the coordination body for managing ALM processes, which is convened quarterly. For the meetings, ALM prepares all the relevant data and analyses.

### Foreign currency risk

Foreign currency risk is defined as the danger of losses resulting from open foreign currency positions. In the reporting period, VBAG Group had participations outside the euro area with equity held in the respective local currency. Therefore, exchange rate changes had to be hedged in order the avoid fluctuations in the Group's consolidated capital.

Various approaches can be taken to hedging foreign currency risk. VBAG's hedging strategy aims to immunise the capital held in local currency with corresponding offsetting positions on a consolidated basis. VBAG Group's participations outside the euro area were greatly reduced by the sale of Volksbank International AG.

### Liquidity management

Operative and strategic liquidity management proceeded in line with planning in the business year. The surplus liquidity (liquidity buffer) held by VBAG Group comprises cash and/or unencumbered loans and securities that can be deposited at the central bank at any time to raise liquidity. As of 31 December 2011, the liquidity buffer was approximately euro 1.7 billion. It increased significantly as a result of the sale of VBI and amounted to approximately euro 2.6 billion as of the end of March 2012. The Group is thus fulfilling its responsibility as central institution and lender of last resort for the Austrian Volksbank sector.

# CENTRAL CORPORATE RESPONSIBILITY FIGURES

A comprehensive Corporate Responsibility Report will be published in the second half of 2012

**46** Sustainable Development in Times of Crises

# SUSTAINABLE DEVELOPMENT IN TIMES OF CRISES

Corporate responsibility is an important instrument offering the company long-term guidance even in difficult economic times. Today, a stronger orientation to principles of sustainability is seen as a way out of the current crisis and as a precaution against any future recurrence. Whether in lending, international project finance or in investment – there are numerous levers to promote sustainable development actively.

## Contributions to a positive future – ecological, social and economic

The current development of the global economy and financial markets has made it plain that sustainable investments have been significantly less affected by the crisis. Financial Markets at Österreichische Volksbanken-AG recognised this. In 2011, sustainable investment products – several funds and a certificate – were certified with the Austrian eco-label and with the Transparency Code. Investors thus benefit from solid investments that conform to a demanding value and quality standard.

In terms of the environment, as of the end of 2011 almost all heated office space is supplied by district heating. Wien Energie Vertrieb GmbH & Co KG provided VBAG with a hydropower certificate for 2012 and 2013 that guarantees that only electricity generated from hydropower will be supplied. Double-sided printing was made the default setting for all printer pools at the Group headquarters and, at the same time, paper procurement for the floor printers was switched to 100% recycled paper with the EU eco label (further information in the management report page 21).

The focus in Human Resources was on the redundancy programme agreed with the employee representatives, which was negotiated in connection with the necessary restructuring and redimensioning measures. A focus on the further development of the change expertise of managers was adopted at the start of the year. VBAG has been engaged in business mediation for several years. The shared search for permanent and sustainable solutions conforms to the idea of sustainability and the cooperative values of personal responsibility and participation. Especially in times of upheaval, it comes down to an appreciative "how" in communication at all levels – internally just as much as with stakeholders. At the end of 2011, the first VBAG "Mediation and management skills in banks" course was completed successfully. Twelve managers completed this intensive training. In 2011, preparations for the opening of the in-house Vitareal health centre, which will open in the first half of 2012, were continued (further information in the management report page 19).

Due to the current structural changes in the Group, no comprehensive sustainability report for 2011 will be published at this time. The organisation of sustainability management adapted to the new structure is in development. This shortened form of sustainability reporting has been chosen to coincide with publication of the Group Report. A detailed Corporate Responsibility Report adapted to the new reporting limits and complying with GRI guidelines will be published in the second half of the year. A return to the integrated reporting of 2011 is planned for the 2012 reporting year.

## Sustainability & Financial Markets

The Financial Markets segment offers a broad range of sustainable investment products. The volume of the money invested sustainably has continued to rise in the past few years, as has its proportion in the total volume of all funds and certificates.

At the end of 2011, the proportion of sustainable certificates was almost 20% and sustainable funds made up approximately 14% of the total volume. Overall, the proportion of sustainable products amounted to approximately 17% of the total volume. Selected products were certified in 2011. Three funds with certification marks are currently available: Volksbank-Mündel-Rent, Volksbank-Mündel-Flex and VB-Ethik Invest. All three funds were examined externally and were awarded with both the Eurosif transparency logo and the Austrian eco-label. Furthermore, the Fix Plus Garant 4/2011 certificate (and subsequent tranches) was the first certificate to be awarded the Austrian eco-label.

### Volume of sustainable fund products* at 31 December

| Unit | 2009 | 2010 | 2011 |
|---|---|---|---|
| Euro | 269,150,200 | 255,273,810 | 275,728,450 |

* Sustainable fund products are defined as all funds with the Austrian eco-label and Eurosif transparency logo.

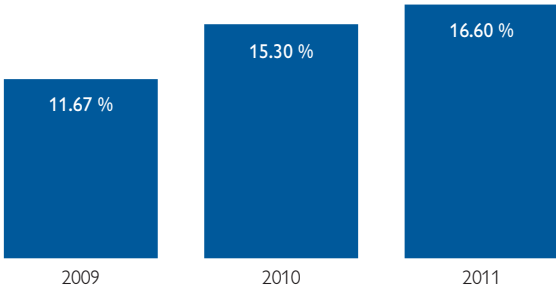
### Volume of sustainable certificates at 31 December

| Unit | 2009 | 2010 | 2011 |
|---|---|---|---|
| Euro | 288,197,000 | 426,350,000 | 417,566,000 |

### Share of sustainable certificates in the overall certificate volume in % at 31 December

| Unit | 2009 | 2010 | 2011 |
|---|---|---|---|
| Euro | 269,150,200 | 255,273,810 | 275,728,450 |

### Share of sustainable certificates in the overall certificate volume in % at 31 December




Prospectus

The published prospectuses for these above mentioned investment funds in their present form, including all modifications that have been made since their initial publication, are available under www.volksbankinvestments.com at and may also be obtained from the headquarters and branch offices of the Volksbank Group.

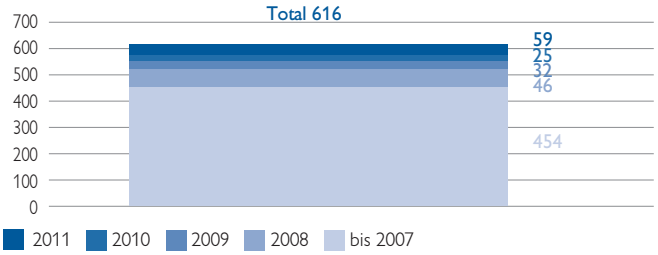
The financial instruments described are publicly offered in only those countries where it is expressly permitted pursuant to the applicable prospectus or terms of issue. The published prospectus applicable to the depicted financial instruments pursuant to Section 10.2 KMG, including any amendments or addenda, can be downloaded at www.volksbank.com/prospekt (for each product). The valid terms of issue upon completion and additional information can be found at www.volksbankinvestments.com. Österreichische Volksbanken-AG accepts no liability for the correctness, completeness, relevance or accuracy of this information. Misprints are reserved.

## Renewable energy in the Corporates segment

At the end of 2011, considerably more than 80% of all project financing is allocated to the renewable energy segment. A wide range of projects involving the energy of the future are primarily financed here: wind power plants, small hydropower plants, photovoltaic plants, biomass power plants and biogas systems. In total, the projects amount to a volume of approximately euro 500 million. The objective of the CR programme for 2011 – to provide financing of around euro 100 million for wind and photovoltaic power plants – was thus achieved. In total, the portfolio of plants and systems for renewable energy currently held by Volksbank AG – Investkredit equates to installed electrical output of 616 megawatts. 59 megawatts were added in 2011 – 28 of which came from newly installed photovoltaic plants.

### Installed electrical output of renewable energy

From projects financed by Volksbank AG – Investkredit in megawatts



The aim for 2012 is an increase in financing volume of around euro 65 million for wind and photovoltaic power plants. To achieve this, co-operation with the manufacturers and developers of these systems and plants as well as with funds and customers in the German-speaking region is being intensified.

Of particular note in project finance that demonstrates a high benefit for society is the continued expansion of the Tetron emergency services radio network, which saw a standardised radio network installed for the emergency services (the loan was increased to finance the expansion of the network in the federal state of Steiermark). The review of individual projects in terms of the sustainability standards of the Equator Principles showed that around 90% comply with the Equator Principles' strict regulations. In 2011, Volksbank AG – Investkredit was represented at the 10th Austrian Wind Energy Symposium with an information stand.

### Financing with a social focus – school financing

Customers include 21 schools in 11 countries (the German Schools in Toronto and London were newly acquired.). The current lending volume is approximately euro 75 million and is partially refinanced in the framework of the KfW global loan.

### International trade in climate protection certificates

Volksbank AG – Investkredit acts as trustee for Austrian companies from the electricity and mineral oil sector as well as from the glass and brick industry that have invested euro 7 million in the KfW banking group's climate protection fund of around euro 83 million. This project purchases emission certificates for fund participants from climate protection projects that reduce greenhouse gases, known as JI/CDM projects.

This enables CO2 certificates from a foreign wind farm to benefit Austrian industry, for example. By the end of 2011, around 258,000 of these emission certificates from the KfW climate protection fund had been allocated to Austrian companies via Volksbank AG – Investkredit. One certificate corresponds to the emission of one tonne of carbon dioxide equivalent. The annual allocation depends on the mode of operation of the plants that generate emission certificates and is therefore subject to fluctuations.

#### Active participation in the international trade in $CO_2$ certificates

Climate protection certificates transferred via Volksbank AG – Investkredit

| Unit | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| 1 certificate = 1 tonne $CO_2$ equivalent | 23,219 | 14,754 | 13,732 | 136,775 |

### Sustainable investment of Volksbank AG – Investkredit

Volksbank AG – Investkredit has its own investment portfolio of shares in companies that have a specific environmental focus. These investments are predominantly in the area of energy clearing and renewable energy settlement and clearing. Volksbank AG – Investkredit is a joint owner (10%) of APCS, Power Clearing and Settlement AG, the corporate objective of which is a liquid and seamlessly functioning balancing energy market. It also holds 20% of the shares in AGCS, Gas Clearing and Settlement GmbH. As a clearing centre for the East Control Zone, AGCS determines the balancing energy for all market participants in the Austrian gas market on the basis of planned network feed-ins and withdrawals. This makes a contribution to sustainable supply security.

Volksbank AG – Investkredit is also joint owner (12.6%) of OeMAG, Abwicklungsstelle für Ökostrom AG. The main tasks of OeMAG are acceptance of renewable energy at the prices determined by the Ökostromgesetz (Austrian Green Electricity Act), calculation of the renewable energy quotas, daily allocation of renewable energy to power traders based on renewable energy quotas, management of the newly created subsidy contingents and processing of subsidy applications. Finally, Volksbank AG – Investkredit holds shares (12.5%) in ECRA, Emission Certificate Registry Austria GmbH. The main task of the Austrian register service centre in the emission certificate market is to operate a standardised and secure registration system in the form of an electronic database that tracks the issue, ownership, transfer and cancellation of emission certificates. The book value of all these investments amounted to euro 1.2 million at the end of 2011.

### Leasing and the promotion of ecological mobility

In 2011, VB Leasing Finanzierungsges.m.b.H. took measures to reduce the CO2 emissions of cars financed by leasing. Cooperation projects with car manufacturers as financing partners in the marketing area have proved successful for VB Leasing and were expanded strategically. Moreover, VB Leasing offers IT customers the opportunity to recycle its obsolete hardware.

### Sale of Volksbank International AG

In individual countries, Volksbank International AG (VBI) remained an important partner for regional enterprises in 2011. Sole proprietorships and small and medium-sized enterprises remained an important focus.

For VBI, 2011 was characterised by negotiations concerning the sale to Sberbank – this also influenced its corporate responsibility activities. Planned activities had to be shelved. This affected the improvement of key figures for renewable energy financing, internal environmental impact and human resources issues. Likewise, the product line aimed at migrants in Austria whose families live in Central and Eastern Europe was not launched in 2011.

### Structural changes in the Real Estate segment

The structural changes within the Group also had a significant impact on the Real Estate segment, with the result that the improvement of key figures relating to sustainability in the segment did not continue.

# CONSOLIDATED FINANCIAL STATEMENTS

## Income statement

| | note | 1-12/2011 Euro thousand | 1-12/2010 Euro thousand | Changes Euro thousand | % |
|---|---|---|---|---|---|
| Interest receivable and similar income | | 1,496,082 | 1,581,409 | –85,327 | –5.40 % |
| Interest payable and similar expense | | –1,055,099 | –1,072,996 | 17,897 | –1.67 % |
| Income from companies measured at equity | | –46,548 | –1,828 | –44,720 | >200.00 % |
| Net interest income | 4 | 394,434 | 506,584 | –112,150 | –22.14 % |
| Risk provisions | 5 | –103,590 | –279,555 | 175,965 | –62.94 % |
| Fee and commission income | | 143,016 | 149,410 | –6,394 | –4.28 % |
| Fee and commission expenses | | –48,696 | –48,494 | –202 | 0.42 % |
| Net fee and commission income | 6 | 94,320 | 100,917 | –6,596 | –6.54 % |
| Net trading income | 7 | 2,927 | 36,805 | –33,879 | –92.05 % |
| General administrative expenses | 8 | –299,339 | –349,820 | 50,481 | –14.43 % |
| Restructuring cost | 9 | –41,450 | 0 | –41,450 | 100.00 % |
| Other operating result | 10 | –365,348 | –874 | –364,474 | >200.00 % |
| Income from financial investments | 11 | –441,138 | –15,368 | –425,769 | >200.00 % |
| Income from discontinued operations | 2 | –132,005 | 40,774 | –172,779 | <–200.00 % |
| **Result before taxes** | | **–891,188** | **39,463** | **–930,651** | **<–200.00 %** |
| Income taxes | 12 | –84,067 | 473 | –84,540 | <–200.00 % |
| Income taxes from discontinued operations | 12 | –14,013 | –28,954 | 14,941 | –51.60 % |
| **Result after taxes** | | **–989,268** | **10,982** | **–1,000,250** | **<–200.00 %** |
| **Result attributable to shareholders of the parent company (Consolidated net result)** | | **–959,305** | **9,919** | **–969,224** | **<–200.00 %** |
| thereof from continued operations | | –813,287 | –1,901 | –811,386 | >200.00 % |
| thereof from discontinued operations | | –146,018 | 11,820 | –157,838 | <–200.00 % |
| Result attributable to non-controlling interest | | –29,963 | 1,063 | –31,026 | <–200.00 % |
| thereof from continued operations | | 26,457 | –11,740 | 38,197 | <–200.00 % |
| thereof from discontinued operations | | –56,420 | 12,803 | –69,223 | <–200.00 % |

| Comprehensive income | 1-12/2011 Euro thousand | 1-12/2010 Euro thousand | Changes Euro thousand | % |
|---|---|---|---|---|
| **Result after taxes** | **–989,268** | **10,982** | **–1,000,250** | **<–200.00 %** |
| **Other comprehensive income** | | | | |
| Currency reserve | 19,033 | –5,480 | 24,513 | <–200.00 % |
| Available for sale reserve (including deferred taxes) | | | | |
| Change in fair value | –90,588 | –13,694 | –76,893 | >200.00 % |
| Net amount transferred to profit or loss | 2,583 | –4,272 | 6,856 | –160.47 % |
| Hedging reserve (including deferred taxes) | | | | |
| Change in fair value (effective hedge) | –4,774 | –4,631 | –143 | 3.08 % |
| Net amount transferred to profit or loss | 3,196 | 15,651 | –12,455 | –79.58 % |
| Change in deferred taxes arising from untaxed reserve | 53 | 77 | –24 | –30.87 % |
| **Other comprehensive income total** | **–70,496** | **–12,349** | **–58,147** | **>200.00 %** |
| **Comprehensive income** | **–1,059,764** | **–1,368** | **–1,058,397** | **>200.00 %** |
| **Comprehensive income attributable to shareholders of the parent company** | **–1,014,223** | **–4,311** | **–1,009,912** | **>200.00 %** |
| thereof from continued operations | –868,204 | –16,131 | –852,074 | >200.00 % |
| thereof from discontinued operations | –146,018 | 11,820 | –157,838 | <–200.00 % |
| Comprehensive income attributable to non-controlling interest | –45,542 | 2,943 | –48,485 | <–200.00 % |
| thereof from continued operations | 10,878 | –9,860 | 20,738 | <–200.00 % |
| thereof from discontinued operations | –56,420 | 12,803 | –69,223 | <–200.00 % |

The comperative figures have been adapted accoring to IAS 8 (see note 3)

## Statement of financial position

| | notes | 31 Dec 2011 Euro thousand | 31 Dec 2010 Euro thousand | Changes Euro thousand | % |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Liquid funds | 13 | 430,943 | 1,982,446 | –1,551,503 | –78.26 % |
| Loans and advances to credit institutions (gross) | 14 | 7,964,310 | 6,431,879 | 1,532,432 | 23.83 % |
| Loans and advances to customers (gross) | 15 | 12,717,062 | 23,614,938 | –10,897,876 | –46.15 % |
| Risk provisions (–) | 16 | –945,744 | –1,522,532 | 576,788 | –37.88 % |
| Trading assets | 17 | 2,102,213 | 2,163,480 | –61,267 | –2.83 % |
| Financial investments | 18 | 6,795,633 | 8,993,767 | –2,198,134 | –24.44 % |
| Assets for operating lease | 19 | 308,412 | 334,771 | –26,360 | –7.87 % |
| Companies measured at equity | 20 | 12,606 | 72,619 | –60,013 | –82.64 % |
| Participations | 21 | 579,583 | 717,920 | –138,338 | –19.27 % |
| Intangible assets | 22 | 13,778 | 125,340 | –111,562 | –89.01 % |
| Tangible fixed assets | 23 | 127,751 | 248,090 | –120,339 | –48.51 % |
| Tax assets | 24 | 133,985 | 210,144 | –76,159 | –36.24 % |
| Current taxes | | 22,870 | 34,319 | –11,449 | –33.36 % |
| Deferred taxes | | 111,116 | 175,825 | –64,709 | –36.80 % |
| Other assets | 25 | 2,019,055 | 1,457,378 | 561,677 | 38.54 % |
| Assets of the disposal group | 2 | 8,874,996 | 1,719,470 | 7,155,525 | >200.00 % |
| **TOTAL ASSETS** | | **41,134,582** | **46,549,710** | **–5,415,128** | **–11.63 %** |
| **Liabilities and Equity** | | | | | |
| Amounts owed to credit institutions | 26 | 11,649,751 | 14,377,129 | –2,727,378 | –18.97 % |
| Amounts owed to customers | 27 | 2,712,738 | 7,311,931 | –4,599,193 | –62.90 % |
| Debts evidenced by certificates | 28 | 13,452,120 | 16,121,510 | –2,669,391 | –16.56 % |
| Trading liabilities | 29 | 1,631,437 | 1,457,430 | 174,007 | 11.94 % |
| Provisions | 30, 31 | 190,310 | 186,147 | 4,163 | 2.24 % |
| Tax liabilities | 32 | 83,693 | 92,373 | –8,681 | –9.40 % |
| Current taxes | | 9,315 | 7,986 | 1,329 | 16.65 % |
| Deferred taxes | | 74,378 | 84,388 | –10,010 | –11.86 % |
| Other liabilities | 33 | 1,927,828 | 1,898,066 | 29,762 | 1.57 % |
| Liabilities of the disposal group | 2 | 7,281,880 | 1,267,024 | 6,014,857 | >200.00 % |
| Subordinated liabilities | 34 | 1,728,658 | 1,863,924 | –135,267 | –7.26 % |
| Equity | 36 | 476,167 | 1,974,175 | –1,498,009 | –75.88 % |
| Shareholders´ equity | | 80,425 | 1,108,761 | –1,028,336 | –92.75 % |
| Non-controlling interest | | 395,742 | 865,415 | –469,673 | –54.27 % |
| **TOTAL LIABILITIES AND EQUITY** | | **41,134,582** | **46,549,710** | **–5,415,128** | **–11.63 %** |

The comperative figures have been adapted accoring to IAS 8 (see note 3)

## Changes in the Group's equity

| Euro thousand | Subscribed capital [1] | Capital reserve | Retained earnings | Currency reserve | IAS 39 [3] valuation: Available for sale reserve | IAS 39 [3] valuation: Hedging reserve | Shareholders' equity | Non-controlling interest | Equity |
|---|---|---|---|---|---|---|---|---|---|
| **As at 1 Jan 2010** | **1,339,346** | **0** | **32,861** | **–41,771** | **–149,393** | **–2,970** | **1,178,072** | **943,243** | **2,121,315** |
| Restatement | | | –63,111 | | 7,102 | | –56,009 | | –56,009 |
| **As at 1 Jan 2010 restated** | **1,339,346** | **0** | **–30,250** | **–41,771** | **–142,291** | **–2,970** | **1,122,063** | **943,243** | **2,065,306** |
| Consolidated net income [2] | | | 9,919 | | | | 9,919 | 1,063 | 10,982 |
| Change in deferred taxes arising from untaxed reserve | | | 64 | | | | 64 | 14 | 77 |
| Currency reserve | | | | –3,447 | | | –3,447 | –2,032 | –5,480 |
| Available for sale reserve (including deferred taxes) | | | | | –16,601 | | –16,601 | –1,365 | –17,966 |
| Hedging reserve (including deferred taxes) | | | | | | 5,756 | 5,756 | 5,264 | 11,019 |
| Comprehensive income | 0 | 0 | 9,983 | –3,447 | –16,601 | 5,756 | –4,311 | 2,943 | –1,368 |
| Dividends paid | | | | | | | 0 | –12,369 | –12,369 |
| Change in treasury stocks | –153 | | –117 | | | | –270 | | –270 |
| Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation | | | –8,722 | | | | –8,722 | –68,403 | –77,124 |
| **As at 31 December 2010 [4]** | **1,339,193** | **0** | **–29,106** | **–45,219** | **–158,893** | **2,785** | **1,108,761** | **865,415** | **1,974,175** |
| Consolidated net income [2] | | | –959,305 | | | | –959,305 | –29,963 | –989,268 |
| Change in deferred taxes arising from untaxed reserve | | | 53 | | | | 53 | | 53 |
| Currency reserve | | | | 31,013 | | | 31,013 | –11,980 | 19,033 |
| Available for sale reserve (including deferred taxes) | | | | | –85,031 | | –85,031 | –2,973 | –88,004 |
| Hedging reserve (including deferred taxes) | | | | | | –952 | –952 | –626 | –1,578 |
| Comprehensive income | 0 | 0 | –959,252 | 31,013 | –85,031 | –952 | –1,014,223 | –45,542 | –1,059,764 |
| Dividends paid | | | | | | | 0 | –4,113 | –4,113 |
| Change in treasury stocks | –355 | | –153 | | | | –508 | | –508 |
| Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation | | | –13,605 | | | | –13,605 | –420,018 | –433,623 |
| **As at 31 December 2011 [4]** | **1,338,838** | **0** | **–1,002,116** | **–14,206** | **–243,924** | **1,833** | **80,425** | **395,742** | **476,167** |

1) Subscribed capital does not correspond to the figures reported in the financial statements of Österreichische Volksbanken-Aktiengesellschaft. In the separate financial statements of VBAG the capital measures (capital reduction and increase) were included as at 31 December 2011. According to IFRS these measures can only be included in the consolidated financial statements after legal effect.
2) Currency translation differences amountig to euro 5,886 thousand (2010: euro –4 thousand) for shareholders' equity and euro 5,825 thousand (2010: euro –22 thousand) for non-controlling interest resulted from the application of average rates of exchange in the income statement.
3) As at 31 December 2011, the available for sale reserve included deferred taxes of euro 60,970 thousand (31 December 2010: euro 51,940 thousand).
The hedging reserve contains deferred taxes in the amount of euro –927 thousand at the balance sheet date (31 December 2010: euro –1,161 thousand).
4) In the figures as at 31 December 2011 the disposal group Banks CEE accounted for an amount of euro –16,765 thousand in the currency reserve, for an amount of euro –3,456 thousand in the available for sale reserve and for an amount of euro 543 thousand in the hedging reserve. At the same time the the disposal group Selini accounted for an amount of euro 746 thousand in the currency reserve.
In the figures as at 31 December 2010 the disposal group Banks CEE accounted for an amount of euro –8,880 thousand in the currency reserve, for an amount of euro –886 thousand in the available for sale reserve and for an amount of euro 2,304 thousand in the hedging reserve. At the same time the disposal group Real Estate accounted for an amount of euro –2,001 thousand and the disposal group Selini for an amount of euro 97 thousand in the currency reserve.

The restatement was done according to IAS 8 (see note 3).

## Cash flow statement

| in Euro thousand | 1-12/2011 | 1-12/2010 |
|---|---|---|
| **Annual result (before non-controlling interest)** | **–989,268** | **10,982** |
| Non-cash positions in annual result | | |
| Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets | 240,549 | 84,893 |
| Allocation to and release of provisions, including risk provisions | 323,020 | 373,954 |
| Gains from the sale of financial investments and fixed assets | –20,436 | –13,536 |
| Non-cash changes in taxes | 71,471 | 9,997 |
| Changes in assets and liabilities from operating activities after adjustments for non-cash positions | | |
| Loans and advances to credit institutions | –2,128,232 | 369,871 |
| Loans and advances to customers | 4,048,612 | 551,269 |
| Trading assets | 159,847 | –328,962 |
| Financial investments | 1,031,981 | 220,588 |
| Assets for operating lease | –21,885 | –22,249 |
| Other assets from operating activities | –281,829 | 268,389 |
| Amounts owed to credit institutions | –570,612 | –1,315,312 |
| Amounts owed to customers | 62,445 | –214,312 |
| Debts evidenced by certificates | –2,552,832 | –1,263,664 |
| Other liabilities | –54,139 | –49,378 |
| Other changes | –190,771 | 324,005 |
| **Cash flow from operating activities** | **–872,078** | **–993,466** |
| Proceeds from the sale or redemption of | | |
| Securities held to maturity | 265,469 | 278,908 |
| Participations | 42,028 | 15,548 |
| Fixed assets | 7,302 | 16,889 |
| Payments for the acquisition of | | |
| Securities held to maturity | –9,238 | –67,159 |
| Participations | –43,175 | –29,901 |
| Fixed assets | –32,198 | –58,015 |
| **Cash flow from investing activities** | **230,187** | **156,270** |
| Change in treasury stocks | –508 | –270 |
| Change in subordinated liabilities | –69,598 | –112,547 |
| Other changes | –13,753 | –77,389 |
| **Cash flow from financing activities** | **–83,859** | **–190,206** |
| | | |
| **Cash and cash equivalents at the end of previous period (= liquid funds)** | **1,982,685** | **3,010,088** |
| Cash flow from operating activities | –872,078 | –993,466 |
| Cash flow from investing activities | 230,187 | 156,270 |
| Cash flow from financing activities | –83,859 | –190,206 |
| **Cash and cash equivalents at the end of period (= liquid funds)** | **1,256,936** | **1,982,685** |
| | | |
| **Payments of taxes, interest and dividends** | | |
| Income taxes paid | –21,473 | –26,678 |
| Interest received | 2,303,533 | 2,062,332 |
| Interest paid | –1,229,065 | –1,314,121 |
| Dividends received | 9,869 | 17,041 |

The comperative figures have been adapted according to IAS 8 (see note 3).

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# NOTES

to the consolidated financial statements of Österreichische Volksbanken-Aktiengesellschaft 2011

## 1) General information

Österreichische Volksbanken-Aktiengesellschaft (VBAG), which has its registered office at Kolingasse 14-16, 1090 Vienna, is the central institution of the Austrian Volksbank sector and concentrates in her responsibility as sector group bank on the domestic market. Busines outside this area (non-core business) should be reduced or saled according to their redemption plan.

Volksbanken Holding e. Gen. (VB Holding), Vienna, is the superior financial holding company of VBAG. As superior institution, VB Holding is obliged to prepare consolidated financial statements. As participation certificates and bonds issued by VBAG are admitted to trading on a regulated market within in the meaning of section 2 no. 37 of the Austrian Banking Act, VBAG is also obliged to prepare consolidated financial statements pursuant to section 245 of the Austrian Commercial Code.

Preparation of VBAG's consolidated financial statements follows the assumption of going concern. VBAG's consolidated financial statements are reported in euros, as this is the Group's functional currency. All figures are indicated in thousands of euros unless specified otherwise. The following tables may contain rounding differences.

### a) Going concern

As the second half of the year progressed, the financial market crisis deepened, for reasons including sovereign risks such as Greece, Portugal and Hungary. This meant it was more difficult for banks to refinance on the money and capital markets. In the 2011 business year, VBAG had to take measures such as issuing covered bonds in order to be able to continue to guarantee liquidity provision.

The VBAG parent company posted significant losses for the 2011 business year in its separate financial statements, giving rise to a medium-term danger of falling short of regulatory solvency limits and doubts about the company's ability to continue as a going concern.

To stabilise VBAG and restructure it as a sustainable Volksbank sector group bank, an agreement was made in a term sheet of 27 February 2012 between the contracting parties (the Republic of Austria, Deutsche Zentral-Genossenschaftsbank AG, ERGO Versicherung AG, Raiffeisen Zentralbank AG, Österreichischer Genossenschaftsverband, Volksbanken Holding eGen, Volksbanks and VBAG) for a capital increase of at least euro 480 million, measures to improve the liquidity situation and subsequently the merger of Investkredit and VBAG.

After VBAG has been recapitalised and merged with Investkredit, the stabilised bank is to take over the function of central organisation under a newly created joint liability scheme (Haftungsverbund) with the Volksbanks in an association modelled on the Dutch Rabobank ("Rabobank Model"). The legal basis in the form of section 30a Austrian Banking Act was declared in BGBl 20/2012 as at 27 March 2012. The regulatory requirements must thus be met jointly by the Volksbanks in the association. The new model secures VBAG and the Association of Volksbanks a sustainable and solid liquidity position and capital base.

Based on this term sheet the managing board assumes that the going concern is justified. For the assumption of going concern on which the consolidation financial statements are based it is essential that all measures of the term sheet are implemented:

- Merger of Investkredit with VBAG as at 31 December 2011
- Establishment of a associated bank in accordance with section 30a Austrian Banking Act
- Agreement of a capital reduction effective 31 December 2011 by Deutsche Zentral-Genossenschaftsbank AG, ERGO Versicherung AG, Raiffeisen Zentralbank AG, Österreichischer Genossenschaftsverband and Volksbanken Holding eGen with the restriction that the holding accounted for by the participation capital of the Austrian government is reduced to not more than 70%
- Capital reduction and simultaneous capital increase of at least euro 480 million
- Obligation of the Volksbanks and Volksbanken Holding eGen to subscribe shares in line with the agreed capital increase of at least euro 230 million
- Subscribtion of shares by the Republic of Austria in line with the agreed capital increase in the amount of euro 250 million
- Assumption of the portfolio of the Frankfurt branch of Investkredit by Deutsche Zentral-Genossenschaftsbank in the amount of euro 400 million risk weighted assets and the commitment concerning the remaining portfolios to find a solution in line with the market
- Obligation of Raiffeisen Zentralbank AG (RZB) to implement adequate measures to assure that VBAG will get at least till 31 August 2012 euro 100 million increasing own resources and at least euro 500 million liquidity on a sustained basis and to undertake best effort to assist VBAG in its disposal of RZB shares
- Optional further measures of RZB which lead to positive effects on own resources and/or to provide liquidity
- Buyback of parts of own resources by VBAG in the amount up to euro 300 million at a quotation which is not critical according to government grants
- Best and fastest possible sale of the shares of VB Leasing International GmbH
- Best and fastest possible sale of the shares of VB Romania S.A.
- An opinion of Austrian National Bank and Financial Authority that the agreed measures ensure a sustainable restructuring of VBAG and that the condition of the FinStaG are met by the agreed measures of the Austrian Republic

- Asset guarantee from the Rupublic of Austria for VBAG in the amount of euro 100 million with a fee of 10% from the time of a legally binding resolution by the Volksbanks to form a cooperative bank in accordance with section 30a Austrian Banking Act expiring 31 December 2017 at the latest
- Obligation of the Volksbanks and Volksbanken Holding eGen to ensure and pay the fee for the asset guarantee issued by the Republic of Austria for VBAG

In addition the following accompanying measures were agreed:
- Presentation of a restructuring and reorganisation concept by the Managing Board of VBAG.
- Granting power of appointment to bodies in VBAG to the Austrian government to achieve their objectives and purposes.
- Agreement of requirements and conditions pursuant to the Financial Market Stability Act in favour of the Austrian government.
- Limitation of distribution from the association of Volksbanks while the Austrian government is not fully served as a shareholder, guarantor or participant or if liability fees are outstanding without authorisation.
- The Volkbanks are to ensure the repayment of the Austrian government's participation capital from the 2009 issue after the capital reduction of 31 December 2011 with the accession of Volksbanken Holding eGen.
- The liquidity lines are to be left in VB Romania S.A. and VB Leasing International GmbH by the Deutsche Zentral-Genossenschaftsbank as long and as far as VBAG is not released from its obligations to the relevant company.
- ERGO Versicherung AG liquidity lines to be left in VBAG as long and as far as the Austrian government is obligated to VBAG or on behalf of VBAG
- Deutsche Zentral-Genossenschaftsbank and ERGO Versicherung AG are to support and contribute to the best and fastest possible sale of VB Romania S.A. and VB Leasing International GmbH.
- Waiver of all rights to tender and economically equivalent rights to which Deutsche Zentral-Genossenschaftsbank is entitled with regard to VBAG and its Group companies
- ERGO Versicherung AG is not to sell the financial instruments of VBAG and the Volksbanks held by Victoria Volksbanken Versicherungs AG in and outside the asset pool.

At the group day of 27 February 2012 the Volksbanks as a major group of shareholders, approved the agreement, and thus the capital increase and the joint liability scheme, in a policy resoulution. This has been implemented to a large extent in the boards of the individual Volksbanks.

The legal and contractual implementation of the measures, especially of the shareholders' contributions to improving medium-term liquidity, had not yet been completed at the time the consolidated financial statements were prepared for procedural reasons.

The intended merger of Investkredit with VBAG is to be carried out with retroactive effect from 31 December 2011 once the accounting is completed and Investkredit's annual financial statements are adopted.

The agreed corporate actions are presented in the annual financial statements of VBAG and the plan is to approve them retroactively to 31 December 2011 in the Annual General Meeting of 26 April 2012.

If the other requirements are fulfilled, it is assumed that the financial market authorities will approve the individual measures (particularly the merger).

The restructuring plan to be prepared by the Managing Board including the stabilisation measures authorised by the Republic of Austria were sent to the European Commission in mid-March 2012. It is expected that the Commission will approve the restructuring plan by June 2012.

The VBAG managing board assumes that the stabilisation measures are very likely to be taken and that the preparation of these consolidated financial statements on the assumption that the company shall remain a going concern is justified.

In view of the equity ratio requirements to be complied with from 2013 in accordance with Basel III, the Managing Board defined a non-core portfolio for the Group, which provides for actions including reducing significant parts of the investment book and the sale of holdings such as VB Romania S.A. and VB-Leasing International Holding GmbH.

A redundancy programme as a human resources measure was also taken into account in the preparation of the consolidated financial statements as at 31 December 2011. The assets affected by the reduction are accounted for on the basis of an assumed controlled reduction corresponding to the underlying terms of the assets and no deductions for accelerated sales of assets or groups of assets prior to the end of the agreed or contractual terms are accounted for.

## 2) Presentation and changes in the scope of consolidation

In the disposal group Banks CEE shares of a little account were acquired from free float of two subsidiaries. Furthermore shares from Italian Banks were aquired by Volksbank International AG (VBI) in five subsidiaries. The takeover of these non-controlling interest in the amount of euro 2,288 thousand was recognised directly in equity.

In September 2011, Volksbank Hungary founded one subsidiary to purchase real estate collateral. One company in the disposal group Banks CEE was newly included into the scope of consolidation, as the company is no longer immaterial for the presentation of the consolidated financial statements. As this company was founded in 2010 and did not carry out any business operations in 2010, no results were recognised from previous years directly in equity.

In the course of the preparation of the sale of VBI shares of companies of VB Leasing International group (VBLI) were sold from VBI to VB-Leasing International Holding GmbH. Thereby the shares of the Group in these companies changed insignificantly. The taekover of these non-controlling interest was recognised directly in equity.

Backdated with 1 January 2011 Immoconsult Leasing GmbH was merged with PREMIUMRED Real Estate Development GmbH. The merged companies are trading under the name VB Real Estate Services GmbH. This change in legal form has not affected the consolidated financial statments.

Im Segment Immobilien In Real Estate segment twentyone companies were newly included into the scope of consolidation, as these company are no longer immaterial for the presentation of the consolidated financial statements. The results from previous years in the amount of euro -14,936 thousand were recognised directly in equity. Furthermore two companies were founded. In one of these companies a property ws brought in from an existing real estate financing of Investkredit as is displayed as investment property. The assessment of the transferred assets and liabilities was carried out at fair value.

Through the inclusion of these companies in the scope of consolidation, loans and advances to customers from finance leases increased by the amount of euro 138,943 thousand, investment property assets by the amount of euro 95,631 thousand as well as participations by the amount of euro 40,720 thousand. These assets offset in addition with Group-internal funding amounts owed to credit institutions and customers totalling euro 37,163 thousand.

In a contract dated 29 June 2010, the shares in Europolis AG were sold to CA Immo CEE Beteiligungs GmbH and CA Immobilien Anlagen AG. The closing was on 31 December 2010; the right of disposal over the shares was transferred to the buyers at the end of 31 December 2010. Therefore the deconsolidation took place as at 1 January 2011. The purchase price consists of a fixed amount of euro 272 million and a variable component based on the development of the net asset value (NAV) in 2010 as well as based on a tax adjustment of the dissolution of the tax group. In the calculation of the NAV, some assets and liabilities have been specified at their amounts as at 31 December 2009. This includes, among other things, investment property assets and fixed assets. As the purchase price was fixed in mid 2011, a deconsolidation result at the amount of euro –3,924 thousand was recognised in 2011 in income from discontinued operations.

### Calculation of deconsolidation result of Europolis

| Euro thousand | |
|---|---|
| Assets proportional | 1,719,470 |
| Liabilities proportional | 1,412,324 |
| Currency reserve proportional | –2,001 |
| **Disposal of net assets proportional** | **–309,148** |
| Revenues | 305,224 |
| **Deconsolidation result** | **–3,924** |

### Profit and loss of discontinued operation segment Real Estate

| Euro thousand | 2010 |
|---|---|
| Net interest income | 63,818 |
| Risk provisions | –2,153 |
| Net fee and commission income | 3,058 |
| Net trading income | 367 |
| General administrative expenses | –20,206 |
| Other operating result of which impairment of goodwill | –37,765 |
| Income from financial investments | –799 |
| **Annual result before taxes** | **6,320** |
| Income taxes | –3,081 |
| **Annual result after taxes** | **3,239** |
| **Profit attributable to shareholders of the parent company** | **1,983** |
| Profit attributable to non-controlling interest | 1,257 |

### Assets of disposal group segment Real Estate

| Euro thousand | 31 Dec 2010 |
|---|---|
| Liquid funds | 239 |
| Loans and advances to credit institutions (gross) | 141,033 |
| Loans and advances to customers (gross) | 26,999 |
| Risk provisions (–) | –5,623 |
| Financial investments | 5 |
| Assets for operating lease (including investment property) | 1,501,743 |
| Participations | 20,127 |
| Intangible assets | 4,292 |
| Tangible fixed assets | 15,053 |
| Tax assets | 11,100 |
| Other assets | 4,502 |
| **Total assets** | **1,719,470** |

### Liabilities of disposal group segment Real Estate

| Euro thousand | 31 Dec 2010 |
|---|---|
| Amounts owed to credit institutions | 1,003,561 |
| Amounts owed to customers | 28,765 |
| Provisions | 10,596 |
| Tax liabilities | 79,547 |
| Other liabilities | 23,821 |
| Subordinated liabilities | 120,734 |
| **Liabilities** | **1,267,024** |

### Cash flow of discontinued operation segment Real Estate

| Euro thousand | 2010 |
|---|---|
| **Cash and cash equivalents at the end of previous period (= liquid funds)** | **10** |
| Cash flow from operating activities | –4,484 |
| Cash flow from investing activities | –1,820 |
| Cash flow from financing activities | 6,533 |
| **Cash and cash equivalents at the end of period (= liquid funds)** | **239** |

### Number of staff wich was employed in disposal group segment Real Estate

| | Average number of staff 2010 | Number of staff at reporting date 31 Dec 2010 |
|---|---|---|
| Domestic | 30 | 27 |
| Foreign | 77 | 70 |
| **Total number of staff** | **107** | **97** |

As at 15 March 2012, a contract concerning the sale of the shares of Bonifraterska Development Sp.zoo (project „North Gate") was concluded. The result of deconsolidation in the amount of euro 9,761 thousand is shown in other operating result. The result of the period 1 January to 15 March 2011 is shown in the respective positions in income statement.

### Calculation deconsolidation result Bonifraterska

| Euro thousand | |
|---|---|
| Assets proportional | 106,665 |
| Liabilities proportional | 71,508 |
| **Disposal of net assets proportional** | **–35,157** |
| Revenues | 44,918 |
| **Deconsolidation result** | **9,761** |

In the course of the sale of VBI the shares of Volksbank Romania S.A. (VB RO) were demerged from VBI to VBI Beteiligungs GmbH (VBI Bet). Shares in VBI Bet are hold by VBAG with 51%, DZ Bank AG/WGZ Bank AG and Banque Populaire Caisse d'Epargne each with 24,5%. In a shareholder agreement the shareholders stipulated a joint control of VB RO. Therefore VBI Bet as well as VB RO and its subsidiary VBRO Services SRL were deconsolidated as at 30 September 2011 and VBI Bet as well as VB RO are measured at equity starting on this date. As at 30 September 2011, the fair value of the companies were assessed with nil therefore no income is offsetting the disposal of the proportional net assets. The result of deconsolidation which reflects the disposal of the proportional net assets is recognised in other opering result. The result for the period 1 January to 30 September 2011 is shown in the respective positions in income statement. The measurement of equity in the forth quarter 2011 is recognised in net interest income in the position income from companies measured at equity.

### Calculation of deconsolidation result VBI Beteiligungs GmbH, Volksbank Romania S.A. and VBRO Services SRL

| Euro thousand | |
|---|---|
| Assets proportional | 2,370,891 |
| Liabilities proportional | 2,119,516 |
| Currency reserve proportional | –42,579 |
| Available for sale reserve proportional | –454 |
| **Disposal of net assets proportional** | **–294,407** |

As at 8 September 2011 the contract of sale of VBI to the Russian Sberbank was signed. The sale was concluded with various conditions precedent, which must be fulfilled by the time the deal is closed. The closing took place as at 15 February 2012. The purchase price consists of a fixed amount of euro 585 million reduced by an amount of euro 80 million as a take over of losses for the fourth quarter 2011 as well as a variable component based on the changes of equity of VBI group for the first three quarters of 2011. VB RO is not included in this transaction. Starting with 8 September 2011, VBI group is shown as a disposal group or dicontinued operation as the VBI group represents a major line of business of the Group. The comparative figures in the income statement were restated accordingly. The balance sheet figures of previous years were diclosed in the notes in both way including and excluding figures of disposal group. Amounts included in the continuous text are without disposal group unless otherwise noted. The restated values are marked as pro forma figures and were not audited as this information is not required according to IFRS 5.

### Profit and loss of discontinued operation Banks CEE

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Net interest income | 272,775 | 265,359 |
| Risk provisions | –196,875 | –84,753 |
| Net fee and commission income | 73,071 | 70,101 |
| Net trading income | 3,128 | 5,371 |
| General administrative expenses | –225,365 | –205,367 |
| Other operating result | –46,803 | –20,415 |
| thereof impairment of goodwill | –10,895 | –7,573 |
| Income from financial investments | –13,064 | 6,795 |
| **Result for the period before taxes** | **–133,132** | **37,090** |
| thereof consolidation | 1,607 | –9,647 |
| Income taxes | –11,180 | –28,638 |
| **Result for the period after taxes** | **–144,313** | **8,453** |
| **Profit attributable to shareholders of the parent company** | **–87,893** | **–3,074** |
| Profit attributable to non-controlling interest | –56,420 | 11,527 |

### Assets of disposal group Banks CEE

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| Liquid funds | 825,992 | 749,659 |
| Loans and advances to credit institutions (gross) | 591,255 | 517,362 |
| Loans and advances to customers (gross) | 6,863,031 | 6,731,023 |
| Risk provisions (–) | –375,661 | –260,030 |
| Trading assets | 9,766 | 7,195 |
| Financial investments | 668,908 | 561,227 |
| Assets for operating lease (including investment property) | 20,135 | 20,407 |
| Participations | 3,699 | 6,785 |
| Intangible assets | 41,706 | 53,585 |
| Tangible fixed assets | 88,920 | 97,176 |
| Tax assets | 13,991 | 14,065 |
| Other assets | 55,423 | 83,895 |
| **Assets** | **8,807,166** | **8,582,350** |
| thereof consolidation | –1,298,362 | –4,092,497 |

### Liabilities of disposal group Banks CEE

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| Amounts owed to credit institutions | 2,077,630 | 3,850,595 |
| Amounts owed to customers | 4,689,536 | 4,269,585 |
| Debts evidenced by certificates | 239,487 | 252,061 |
| Debts evidenced by certificates | 1,185 | 241 |
| Provisions | 13,634 | 9,115 |
| Tax liabilities | 5,722 | 4,777 |
| Other liabilities | 111,480 | 88,180 |
| Subordinated liabilities | 66,735 | 78,012 |
| **Liabilities** | **7,205,410** | **8,552,567** |
| thereof consolidation | –2,519,567 | –3,529,726 |

### Cash flow of dicontinued operation Banks CEE

| Euro thousand | 2011 | 2010 |
|---|---|---|
| **Cash and cash equivalents at the end of previous period (= liquid funds)** | **749,659** | **844,930** |
| Cash flow from operating activities | 67,112 | –117,953 |
| Cash flow from investing activities | 20,976 | 23,389 |
| Cash flow from financing activities | –11,756 | –706 |
| **Cash and cash equivalents at the end of period (= liquid funds)** | **825,992** | **749,659** |

### Number of staff which was employed in disposal group Banks CEE

| | Average number of staff | | Number of staff at reporting date | |
|---|---|---|---|---|
| | 2011 | 2010 | 31 Dec 2011 | 31 Dec 2010 |
| Domestic | 63 | 64 | 72 | 63 |
| Foreign | 3,968 | 3,936 | 4,086 | 3,929 |
| **Total number of staff** | **4,031** | **4,000** | **4,158** | **3,992** |

As at 22 December 2011 the contract of sale of shares in Selini Holding GmbH was signed. Closing should take place beginning of April 2012. The sale was concluded with various conditions precedent, which must be fulfilled by the time the deal is closed. The purchase price consists of a base price which represents the proportional value of investment property as well as adjustments for other assets and liabilites in Selini Holding Gmbh itself and the holdings in between. Starting with 22 December 2011 Selini Holding GmbH and Trastona Holding Ltd. which is measured at equity are shown as disposal group or discontinued operation, as they represent a major line of business of the Group as part of the Europolis group which was deconsolidated at the beginning of the year. The comparative figures in the income statement were restated accordingly. The balance sheet figures of previous years were diclosed in the notes in both way including and excluding figures of disposal group. Amounts included in the continuous text are without disposal group unless otherwise noted. The restated values are marked as pro forma figures and were not audited as this information is not required according to IFRS 5.

### Profit and loss of discontinued operation Selini

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Net interest income | 5,353 | 4,400 |
| Risk provisions | 0 | –2 |
| Net trading income | –157 | –2,522 |
| General administrative expenses | –145 | –436 |
| **Result for the period before taxes** | **5,051** | **1,441** |
| Income taxes | –2,833 | 3,016 |
| **Result for the period after taxes** | **2,218** | **4,457** |
| **Profit attributable to shareholders of the parent company** | **2,218** | **4,457** |
| Profit attributable to non-controlling interest | 0 | 0 |

### Assets of a disposal group Selini

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| Loans and advances to credit institutes | 3,232 | 62 |
| Companies measured at equity | 58,457 | 54,495 |
| Other Assets | 6,141 | 8,974 |
| **Assets** | **67,830** | **63,531** |

### Liabilities of a disposal group Selini

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| Amounts owed to credit institutions | 64,469 | 77,608 |
| Amounds owed to customers | 11,984 | 6,115 |
| Other liabilities | 18 | 15 |
| **Liabilities** | **76,471** | **83,738** |

### Cash flow of discontinued operation Selini

| Euro thousand | 2011 | 2010 |
|---|---|---|
| **Cash and cash equivalents at the end of previous period (= liquid funds)** | **0** | **0** |
| Cash flow from operating activities | **–2,076** | 766 |
| Cash flow from investing activities | **2,076** | –7,660 |
| **Cash and cash equivalents at the end of period (= liquid funds)** | **0** | **0** |

The disposal group Selini does not employ any staff.

The sale of VB Linz+Mühlviertel concluded as at 25 June 2010 is included in the income of discontinued operation. The deconsolidation took place on 6 August 2010.

### Profit and loss of discontinued operation segment Retail

| Euro thousand | 1 Jan - 6 Aug 2010 |
|---|---|
| Net interest income | 3,513 |
| Risk provisions | 678 |
| Net fee and commission income | 1,344 |
| Net trading income | 28 |
| General administrative expenses | –4,632 |
| Other operating result of which impairment of goodwill | –51 |
| Income from financial investments | 25 |
| **Annual result before taxes** | **–4,077** |
| Income taxes | –252 |
| **Annual result after taxes** | **–4,329** |
| **Profit attributable to shareholders of the parent company** | **–4,348** |
| Profit attributable to non-controlling interest | 19 |

### Cash flow of discontinued operation segment Retail

| Euro thousand | 2010 |
|---|---|
| **Cash and cash equivalents at the end of previous period (= liquid funds)** | **2,036** |
| Cash flow from operating activities | –8,331 |
| Cash flow from investing activities | 6,295 |
| **Cash and cash equivalents at the end of period (= liquid funds)** | **0** |

### Number of staff which was employed in disposal group segment Retail

| | Average number of staff 2010 | Number of staff at reporting date 31 Dec 2010 |
|---|---|---|
| **Total number of staff** | **43** | **0** |

### Number of consolidated companies

| | 31 Dec 2011 | | | 31 Dec 2010 | | |
|---|---|---|---|---|---|---|
| | Domestic | Foreign | Total | Domestic | Foreign | Total |
| **Fully consolidated companies** | | | | | | |
| Credit institutions | 6 | 11 | 17 | 5 | 12 | 17 |
| Financial institutions | 26 | 22 | 48 | 23 | 17 | 40 |
| Other enterprises | 35 | 31 | 66 | 53 | 82 | 135 |
| **Total** | **67** | **64** | **131** | **81** | **111** | **192** |
| **Companies consolidated at equity** | | | | | | |
| Credit institutions | 0 | 1 | 1 | 0 | 0 | 0 |
| Other enterprises | 3 | 1 | 4 | 3 | 1 | 4 |
| **Total** | **3** | **2** | **5** | **3** | **1** | **4** |

As a result of the deconsolidation of VB Romania and the subsequent measurement at equity one fully consolidated credit institution is shifted to companies consolidated at equity. The reduction within other fully consolidated enterprises is due to the deconsolidation of Europolis.

### Number of unconsolidated companies

| | 31.12.2011 | | | 31.12.2010 | | |
|---|---|---|---|---|---|---|
| | Domestic | Foreign | Total | Domestic | Foreign | Total |
| Affiliates | 51 | 84 | 135 | 61 | 120 | 181 |
| Associated companies | 44 | 31 | 75 | 46 | 38 | 84 |
| **Companies total** | **95** | **115** | **210** | **107** | **158** | **265** |

The unconsolidated companies in their entirety were deemed immaterial to the presentation of a true and fair view of the net assets, liabilities, financial position and profit or loss of the Group. The total assets of unconsolidated companies amounted to 1.3% (2010: 2.0%) of consolidated total assets, while the annual result after taxes corresponds to 2.6% (2010: 4.6%) of the Group's annual result after taxes (excluding income from discontinued operation). This calculation was based on the latest available financial statements of the companies and the Group's consolidated financial statements for 2011. Beside quantitative criteria like total assets and result after taxes also the effect of consolidation on specific positions as well as on the true and fair view of the consolidated financial statements is taking into account for the assessment of materiality.

The complete list of companies included in the consolidated financial statements, including detailed information, can be found at the end of the notes.

## 3) Accounting principles

The accounting principles described below have been consistently applied to all reporting periods covered by these financial statements and have been followed by all consolidated companies without exception.

The VBAG Group's consolidated financial statements for 2011 and the comparative figures for 2010 have been prepared in accordance with the International Financial Reporting Standards (IFRS; previously International Accounting Standards, IAS) and thus comply in full with the provisions set out in section 245a of the Austrian Commercial Code and section 59a of the Austrian Banking Act governing consolidated financial statements prepared in accordance with internationally recognised accounting principles.

The consolidated financial statements have been prepared in accordance with all IFRS/IAS published by the International Accounting Standards Board (IASB) in force on the balance sheet date as well as all interpretations (IFRIC/SIC) of the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee as endorsed by the European Union.

The consolidated financial statements have been prepared on the basis of cost excluding the following items:

- Derivative financial instruments – measured at fair value
- Financial instruments in the category at fair value through profit or loss and available for sale – measured at fair value
- Investment property assets – measured at fair value
- Financial assets and liabilities which constitute underlying instruments for fair value hedges – amortised cost is adjusted for changes in fair value, which are to be allocated to hedged risks
- Employee benefit provisions – recognised at net present value less unrecognised actuarial gains or losses and less the net present value of plan assets

The two following chapters present altered and new accounting standards that are of significance to the consolidated financial statements of VBAG.

## a) Changes to accounting principles

Due to the actual development of interpretations of accounting standards and the volatility on capital and financial markets the management of VBAG decided to recognise instruments which where so far classified as financial guarantees with their market value through profit or loss. These instruments are now recognised as derivatives in the investment book in other assets (31.12.2010: euro 84,866 thousand) and other liabilities (31.12.2010: euro 168,800 thousand). In income statement the change in market value is recognised in income from financial investments (2010: euro –27,924 thousand).

Furthermore the disclosure of credit linked notes whose market values are linked to baskets of various country risks was changed. These instruments which were so far classified as available for sale financial instruments are now recognised as financial instruments at fair value through profit or loss (31.12.2010: euro 55,586 thousand). Accordingly changes in fair value are recognised in income statement in the position income from financial investments (2010: euro –23,437 thousand) and no any longer in the available for sale reserve. Deferred taxes were also reclassified from the available for sale reserve to income statement (2010: euro 5,859 thousand). According to IAS 8 comparative figures have been restated due to the changes in accounting policy.

## b) Changes to accounting standards

In October 2009, the IASB published an amendment to IAS 32 Financial Instruments: Presentation. According to this, subscription rights, options and warrants for the acquisition of equity instruments that are in a currency other than the issuer's functional currency and have been issued to the company's existing shareholders are to be classified as equity for issuers. This applies provided that the subscription rights are issued at a defined currency amount. The amended standard is required to be applied for financial years beginning on or after 1 February 2010. Since the VBAG Group has not issued any subscription rights, options or warrants of this kind, this amendment does not affect VBAG's consolidated financial statements.

In November 2009, IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments was published. This explains how financial reporting is to be performed if a company extinguishes all or part of a financial liability by issuing shares or other equity instruments. According to this, the equity instruments issued for the purpose of repayment are consideration paid for this financial liability and are therefore to be measured at the respective fair value. Any resulting difference between the carrying amount of the financial liability to be extinguished and the initial carrying value of the equity instruments issued must be recognised in profit or loss. This interpretation is required to be applied for financial years beginning on or after 1 July 2010. The initial application of IFRIC 19 does not affect VBAG's consolidated financial statements.

In November 2009, the IASB resolved upon the amendment of IAS 24 Related Party Disclosures. The amendment includes a simplification of disclosure requirements for companies with close links to governments. Related companies and persons are also clearly defined. The amended standard is required to be applied for financial years beginning on or after 1 January 2011. The amendment does not affect VBAG's consolidated financial statements.

IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, published by the IASB in November 2009, is required to be applied for financial years beginning on or after 1 January 2011. The new IFRIC does not affect VBAG's consolidated financial statements.

In May 2010 the IASB published its third collective standard for amending various IFRS with the objective of removing inconsistencies and clarifying formulations. The collective standard includes an individual transition rule for each amended IFRS. These improvements shall apply to financial years beginning on or after 1 July 2010 or 1 January 2011.

The measurement option available for non-controlling interests was limited. Only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, may be measured at fair value or at the proportionate share of the acquiree's identifiable net assets. Other components are measured at their acquisition date fair value. Clarification was made that contingent consideration arising from business combinations whose acquisition dates precede the application of IFRS 3 (revised 2008) has to be accounted for in agreement with IFRS 3 (2004).

The changes to IFRS 7 relate to enhanced disclosure requirements for the transfer of financial assets. This is to make the relationships more understandable between financial assets, which shall not be entirely de-recognised, and the corresponding financial liabilities. Furthermore, the nature, as well as in particular the risk of continuing involvement, should be better assessable for de-recognised financial assets. With the changes additional disclosures are required if there is a disproportionately large number of transfers with continuing involvement, e.g. aproximately at the end of reporting period.

The amendment to IAS 1 Presentation of the Financial Statements clarifies that the analysis of the other results for individual comoponents of capital shall either be reflected in the statement of changes in equity or in the notes to the financial statements.

## c) New accounting standards

### New accounting standards already endorsed by the European Union

In October 2010, the IASB published amendments to IFRS 7 Financial Instruments: Disclosures. The amendments lead to an extensive standardisation of the corresponding disclosure requirements in accordance with IFRS and the US Generally Accepted Accounting Principles (US-GAAP). Extended disclosure requirements are stipulated for the transfer of financial assets to enable balance sheet addressees to better understand the impact of the remaining risks at the company. These amendments are required to be applied for financial years beginning on or after 1 July 2011. It will not be adopted prematurely in the VBAG Group. From today's perspective, there will be no major changes to VBAG's consolidated financial statements.

### New accounting standards not yet endorsed by the European Union

IFRS 9 Financial Instruments was published in November 2009, regulating the classification and measurement of financial assets, and is to replace IAS 39 Financial Instruments: Recognition and Measurement in future. There will only be two categories in future – amortised cost and fair value. A financial asset is measured at amortised cost if it is held in the context of a business model with the objective of holding financial assets and collecting the contractual cash flows resulting from these financial assets. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets that do not satisfy these criteria are to be measured at fair value through profit or loss. For an investment in an equity instrument that is not held for trading, an entity may elect irrevocably at initial recognition to present all fair value changes from the investment directly in equity in other comprehensive income. Sales or impairments are not reclassified to profit or loss. If embedded derivatives are contained in a financial instrument, these are not separated. Instead, the financial instrument is measured in its entirety at fair value through profit or loss.

In addition to measurement of financial instruments, the measurement of financial liabilities in line with IFRS 9 was published in October 2010. The main changes to the former guideline in IAS 39 is the representation of changes in fair value, caused by the requirements of the own credit amounts, for financial liabilities measured at fair value through profit or loss. In future those changes in the fair value should be recognised directly in equity in other comprehensive income, except it would create an accounting mismatch. The rules for measurement at amortised costs and derivatives are unchanged. On 16 December 2011, the IASB issued the mandatory effective date of the initial application of IFRS 9 for 1 January 2015. The standard is not endorsed by the European Union yet. This standard was not adopted prematurely in the VBAG Group. The effect of IFRS 9 on the income statement and the balance sheet is currently being evaluated in the VBAG Group. Based on the business activities of the Group, this standard will have a considerable impact on the consolidated financial statements.

In December 2010, the IASB published amendments to IAS 12 Income Taxes. These will also lead to changes in the scope of application of SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets. The amendment includes a partial clarification of the treatment of taxable temporary differences in connection with the application of the fair value model from IAS 40. In the case of real estate held as financial investments, it is often difficult to judge whether existing differences will reverse during continued use or in the course of a sale. The amendment works on the basic assumption that a sale will trigger the reversal. The amendment is to be applied retrospectively for financial years beginning on or after 1 January 2012. The amendment has not yet been adopted by the EU. It will not be adopted prematurely in the VBAG Group. From today's perspective, there will be no major changes to VBAG's consolidated financial statements.

In June 2011 the IASB published IAS 19 Employee Benefits. The amended IAS 19 has abolished the so/called corridor method and prescribes accounting directly for actuarial gains and losses in other comprehensive income. Furthermore, under the amended IAS 19 expected income from plan assets and the interest expense from the pension obligation are replaced by a uniform net interest component. The service cost to be calculated later will, in future, be recorded fully in the period of the related change in the plan. The revision of IAS 19 also changes the requirements for benefits from termination of the employment relationship and enhanced presentation and disclosure obligations. The pronouncement – subject to still being adopted under EU law – is applicable to all financial years beginning on or after 1 January 2013. Earlier application is permitted. Due to the fact that VBAG Group applies the corridor-method, a change of application as at 31 December 2011 would lead to an increase in provision for pensions amounting to euro 8,588 thousand and in provisions for severance payments amounting to euro 1,708 thousand. This standard was not adopted prematurely in the VBAG Group.

In May 2011 with IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities as well as subsequent amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures the IASB published its improvements to accounting and disclosure requirements on the topics of consolidation, off-balance sheet activities and joint arrangements.

IFRS 10 replaces the rules for consolidated financial statements in IAS 27 Concolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. Based on the currently applicable principles IFRS 10 sets out, using a comprehensive controlling concept, which companies are to be included in the consolidated financial statements. The pronouncement additionally offers guidelines on the interpretation of the principle of control in doubtful cases. Accordingly, an investor controls another entity when it has rights to variable returns from its involvement with the investee and has the ability to influence the business activities of the investee which are significant for economic success. Sub-

stantial changes to the current rules can occur in situations in which an investor holds less than half of the voting rights in an entity, but due to other methods has the possibility to determine the significant business activities of the other entity. The influence of this rule on the consolidated financial statement of VBAG Group is currently being examined.

IFRS 11 deals with the accounting of joint arrangements and relates this to the type of rights and obligations within the arrangement rather than to its legal form. IFRS 11 classifies joint arrangements in two groups: joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. In accordance with IFRS 11 a party to a joint operation shall account for the assets and liabilities (and corresponding income and expenditure) appropriate to his interest. A party to a joint venture accounts for his investment using the equity method. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. The influence of this rule on the consolidated financial statement of VBAG Group is currently being examined.

As a new and comprehensive pronouncement IFRS 12 deals with the disclosure requirements for all types of interests in other entities including joint arrangements, associated, structured entities and off-balance sheet units. It requires the disclosure of information to enable users of financial statements to evaluate the nature of and risks associated with the interest in other entities and the effects of those interests on its financial position, net assets and results. IFRS 12 replaces disclosure requirements from IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures.

As part of the adoption of IFRS 10 the rules for the controlling principle and the requirements for the preparation of consolidated financial statements were removed from IAS 27 and subsequently dealt with by IFRS 10. As a result, in future IAS 27 will only contain the rules for accounting for subsidiaries, joint ventures and associates in IFRS separate financial statements.

In accordance with the amended IAS 28 an entity shall account for investments or parts of investments in associates or in joint ventures as held for sale to the extent the relevant criteria are fulfilled. A remaining part of an associate or joint venture which is not classified as held for sale shall be accounted for under the equity method until the part classified as held for sale is disposed of.

IFRS 10, 11, 12 and the subsequent amendments to IAS 27 and IAS 28 apply to financial years beginning on or after 1 January 2013 – subject to adoption according to EU law is still outstanding. The new or amended pronouncements may be applied earlier, whereby in this case there is a common application date for all of the new rules. The exception to this is only IFRS 12, the disclosure requirements of which may be applied early, independent of the other pronouncements. VBAG Group is currently reviewing the effects on the consolidated financial statements and the time of initial application.

In May 2011 the IASB published IFRS 13 Fair Value Measurement. The new pronouncement does not determine to what extent certain assets and liabilities are to be measured at fair value but only determines the term fair value and standardises the disclosure requirements for measurement at fair value. The new pronouncement is applicable to financial years beginning on or after 1 January 2013. Earlier application is permitted. IFRS 13 has not yet been adopted by the EU in European law. Most changes resulting from IFRS 13 relating to financial instruments have already been introduced, above all through changes to IFRS 7 Financial Instruments: Disclosures. Consequently, VBAG Group only expects minor effects with regard to financial assets and liabilities.

## d) Application of estimates and assumptions

All assumptions, estimates and assessments required as part of recognition and measurement in line with IFRS are carried out in accordance with the relevant standard, are re-evaluated on an ongoing basis and are based on historical experience and other factors including expectations with regard to future events that appear reasonable in the particular circumstances. These estimates and assumptions have an influence on the amounts shown for assets and liabilities in the statement of financial positions and income and expenses in the income statement.

In the case of the following assumptions and estimates, there is the inherent possibility that the development of overall conditions contrary to expectations as at the balance sheet date may lead to considerable adjustments of assets and liabilities in the next business year.

- Alternative investment measurement methods are used to assess the recoverability of financial instruments for which no active market is available. Some of the parameters taken as a basis when determining fair value are based on assumptions concerning the future.
- The assessment of the recoverability of intangible assets, goodwill, investment properties and property, plant and equipment is based on assumptions concerning the future. The calculation of recoverable amounts in the course of the impairment tests is based on assumptions such as future surplus funds and the discount rate. Surplus funds correspond to the values shown in the most recent business plan for the following three to five years as at the date the financial statements are prepared. The discount rate is based on the industry, corporate risk and the respective market environment and lies between 7% and 21%. The underlying development factor is between 2% and 9%.
- The recognition of deferred tax assets is based on the assumption that sufficient tax income will be generated in future in order to realise existing tax loss carryforwards.
- Assumptions regarding the interest rate, retirement age, life expectancy and future salary increases are applied when measuring existing long-term employee provisions.
- Provisions are measured on the basis of cost estimates from contractual partners, past experience and investment calculation methods.

- Assessments are regularly carried out for liabilities and impairment not recognised in the balance sheet due to guarantees and contingencies in order to determine whether on-balance sheet recognition in the financial statements is to be carried out.

If estimates were required to a greater extent, the assumptions made are shown with the note on the corresponding item. Actual values may deviate from the assumptions and estimates made if overall conditions develop contrary to expectations as at the balance sheet date. Amendments are recognised in profit or loss and assumptions adjusted accordingly once better information is obtained.

## e) Consolidation principles

The consolidated financial statements of VBAG are based on the separate financial statements of all fully consolidated companies prepared in accordance with IFRS. The figures reported in the individual financial statements of associated companies measured at equity have been adjusted to group accounting principles where the effects on the consolidated financial statements were significant.

The financial statements of the fully consolidated companies and the companies consolidated using the equity method were prepared on the basis of the Group's balance sheet date of 31 December 2011.

Business combinations with a contract date on or after 31 March 2004 are accounted for using the purchase method set out in IFRS 3. Accordingly, all identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date. If the cost of acquisition exceeds the fair value of the identifiable assets, liabilities and contingent liabilities, goodwill is recognised as an asset. The full goodwill methode is not in use. Goodwill is not amortised over the estimated useful life, but instead is tested for impairment annually in accordance with IAS 36. Negative goodwill arising on an acquisition is recognised directly in income in accordance with IFRS 3. Any change in contingent consideration recognised as a liability at the acquisition date is recognised in profit or loss. Transactions, which do not lead to a loss of control are recognised directly in equity.

Subsidiaries under the direct or indirect control of VBAG are fully consolidated if these are material for a true and fair view of the net assets, liabilities, financial position and profit or loss of the Group. Proportionate consolidation is not applied in VBAG's consolidated financial statements. Companies in which VBAG holds an equity interest of between 20% and 50% and for which controlling agreements do not exist are consolidated using the equity method; they are not consolidated if they are not significant for the Group. The Group does not have any interests in joint ventures.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.Grundlage des vorliegenden Konzernabschlusses bilden nach IFRS erstellte Einzelabschlüsse aller vollkonsolidierten Unternehmen. Im Rahmen der Bewertung at equity wurden die Wertansätze in den lokalen Abschlüssen assoziierter Unternehmen an die konzerneinheitlichen Rechnungslegungsgrundsätze angepasst, sofern die Auswirkungen auf den Konzernabschluss wesentlich waren.

## f) Currency translation

In accordance with IAS 21, foreign currency monetary assets and debts, non-monetary positions stated at fair value and unsettled spot transactions are translated using the spot exchange mean rate, whereas unsettled forward transactions are translated at the forward exchange mean rate prevailing on the balance sheet date. Non-monetary assets and liabilities carried at amortised cost are recognised at the prevailing rate on the acquisition date.

The individual financial statements of fully consolidated companies prepared in currencies other than the euro are translated using the modified closing rate method set out in IAS 21. Under this method, all assets and liabilities are translated at the spot exchange mean rate effective on the balance sheet date, while the historical rate is applied for the translation of equity. Differences resulting from the translation of the financial statements of foreign subsidiaries are recognised in the currency reserve in equity. Any goodwill, disclosed hidden reserves and liabilities arising from the initial consolidation of foreign subsidiaries prior to 1 January 2005 have been translated at historical rates. Any goodwill, disclosed hidden reserves and liabilities arising from business combinations after 1 January 2005 are translated at the spot exchange mean rate on the Group's balance sheet date.

Income and expense items are translated at the average spot exchange mean rate for the reporting period, calculated on the basis of the end-of-month rates. Exchange differences between the closing rate applied for the translation of balance sheet items and the average rate used for translating income and expense items are recognised in the currency reserve in equity.

## g) Net interest income

Interest income and interest expenses are recognised on an accrual basis in the income statement. Current or non-recurring income or expenses similar to interest, such as commitment fees, overdraft commissions or handling fees, are reported in net interest income in accordance with the effective interest method. Premiums and discounts are allocated over the term of the financial instrument using the effective interest method and reported in net interest income.

If it appears more unlikely than likely that a customer will be able to pay the agreed interest, the relevant asset is treated as non-interest-bearing. The unwinding effect resulting from the calculation of the risk provision is therefore shown in interest income.

Net interest income consists of:
- Interest and similar income from credit and money market transactions (including unwinding effect from risk provision)
- Interest and similar income from debt securities
- Income from equities and other variable-yield securities
- Income from affiliated companies and other participations
- Income from companies measured at equity
- Rental income from operating lease contracts and investment property assets, as well as depreciation of operating lease assets
- Interest and similar expenses for deposits
- Interest and similar expenses for debts evidenced by certificates and subordinated liabilities
- The interest component of derivatives reported in the investment book

Interest income and expenses from trading assets and liabilities and changes in their fair value are recognised in net trading income.

The result of the valuation and disposal of securities, shares, companies measured at equity and participations is reported in income from financial investments.

## h) Risk provisons

Risk provisions reflect the allocation to and release of provisions for impairments of loans and advances on individual and portfolio basis. Loans and advances directly written off and receipts from loans and advances already written off are also recognised in this item. Furthermore, this item contains additions to and releases of provisions for risks.

## i) Net fee and commission income

This item contains all income and expenditure relating to the provision of services in the VBAG Group as accrued within the respective reporting period.

## j) Net trading income

All realised and unrealised results from securities, foreign currency and derivatives allocated to the trading book (trading assets and trading liabilities) are reported in this item. This includes changes in market value as well as all interest income, dividend payments and refinancing expenses for trading assets.

Results from the daily measurement of foreign currencies are also reported in net trading income.

## k) General administrative expenses

General administrative expenses contain all expenditure incurred in connection with the Group's operations.

Staff expenses include wages and salaries, statutory social security contributions and fringe benefits, payments to pension funds and internal pension plans as well as all expenses resulting from severance and pension payments.

Administrative expenses include expenses for premises, communications, public relations and marketing, costs for legal advice and other consultancy, as well as training and EDP expenditure.

Amortisation of intangible assets – excluding impairment of goodwill – and depreciation of tangible fixed assets is also reported in this item.

## l) Restructuring cost

In this position expenses for the already started restructuring of the VBAG Group is recognised.

## m) Other operating result

In addition to impairment of goodwill and the deconsolidation result from the disposal of subsidiaries, this item contains all results from the Group's other operating activities.

## n) Income from financial investments

This item contains all realised and unrealised results from financial investments at fair value through profit or loss and all derivatives reported in the investment book.

In addition, the results of disposals of securitised financial investments classified as available for sale (including participations), loans & receivables and held to maturity are included in this item. Remeasurement results attributable to material or lasting impairment are also reported in this item as well as the increase of the fair value, which can be objectively related to an event occurring after the impairment loss was recognised, up to a maximum of amortised cost.

Results from the daily measurement of foreign currencies are reported in net trading income.

## o) Financial assets and liabilities

### Recognition

A financial asset or a financial liability is initially recognised in the balance sheet when the Group becomes party to a contract on the financial instrument and thus acquires the right to receive or assumes a legal obligation to pay liquid funds. A financial instrument is deemed to be added or disposed of at the trade date. The trade date is relevant for the initial recognition of a financial instrument in the balance sheet, its measurement in the income statement and the accounting treatment of its sale.

### Derecognition

A financial asset is derecognised on the date on which the contractual rights to its cash flows expire or the transfer criteria set out in IAS 39.18 are met. A financial liability is derecognised once it has been redeemed.

The Group conducts transactions in which financial assets are transferred but the risks or rewards incident to the ownership of the asset remain with the Group. If the Group retains all or substantially all risks and rewards, the financial asset is not derecognised, but instead continues to be reported in the balance sheet. Such transactions include, for example, securities lending and repurchase agreements.

### Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions, such as in the Group's trading activities.

### Amortised cost

The amortised cost of financial assets and liabilities is defined as the amount consisting of the original purchase price adjusted for account redemptions, the allocation of premiums or discounts over the term of the instrument in accordance with the effective interest method, and value adjustments or depreciation due to impairment or uncollectibility.

### Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

For calculation of fair values, the following hierarchy is used and shows the meaning of the single parameters.

Level 1: Quoted prices in active markets of identical assets or liabilities. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable data – either directly as prices or indirectly derived from prices. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties, as well as reference to the current fair value of other instruments that are substantially the same. For discounted cash flow analyses and option pricing models all important parameters are derived either directly or indirectly observable market data. All factors that market participants would consider in setting prices are taken into account, and are consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observables data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

### Impairment

There is a monthly procedure for the evaluation of lending under which the organisational units responsible for risk are required to make a proposal for risk provisioning on the basis of current developments. An impairment is recognised if, subsequent to the initial recognition of a financial instrument, there is objective evidence of an event that will have an effect on the future cash flows from the financial instrument and reliable assumptions can be made with regard to the extent of such an effect.

The Group recognises impairments at both individual asset and portfolio level. All significant assets are individually tested for impairment. Financial assets that are not individually significant are grouped together on the basis of similar risk profiles and assessed collectively. In the case of assets for which there is no objective indication of impairment, impairment is recognised in the form of portfolio-based allowances to reflect impairment that has occurred but not yet been detected.

Objective evidence that financial assets are impaired includes, for example, financial difficulties of the debtor; the rescheduling of receivables on terms which would otherwise not be granted; indications that the debtor will enter bankruptcy; the disappearance of securities from an active market and other observable data in connection with a group of financial assets, such as changes in the payment status of borrowers or economic conditions correlating with defaults on the assets in the group.

In calculating the level of risk provisioning required, all significant assets are individually analysed if there is objective evidence of impairment. All customers with an internal rating of 4C to 4E (watch list loans) and all other customers for which other indications show a risk of default, i.e. the contractual redemption is at risk, are examined more intensively in accordance with the Group credit risk manual. A corresponding risk provision is recognised for uncollateralised or partly collateralised exposures. For non-performing loans (rating category 5A – 5E), the appropriateness of the level of risk provisioning is examined.

The amount of impairment for assets carried at amortised cost is calculated as the difference between the carrying amount and the net present value of the future cash flows, taking any collateral into account, discounted using the effective interest rate of the asset. The impairment amount is reported in the income statement. In the event that the reason for impairment ceases to exist at a later date, the impairment loss is reversed through profit or loss.

Portfolio-based allowances are calculated for homogeneous portfolios. The parameters listed below are used in assessing the amounts of these value adjustments:

- Historical loss experience with non-performing loans
- The estimated period between the occurrence of the loss and its identification (30 – 180 days)
- Management's experienced judgment as to whether the expected losses in the current period are greater or lower than suggested by historical data.

In the case of available for sale financial assets, impairment corresponds to the difference between amortised cost and fair value and is recognised immediately as a write-down in the income statement. If the reason for impairment ceases to exist, the impairment loss is reversed through profit or loss in the case of debt instruments or recognised directly in equity taking into account deferred taxes in the case of equity instruments.

### Financial instruments designated at fair value through profit or loss

The Group makes use of the option to irrevocably designate financial instruments at fair value through profit or loss. Allocation to this category is performed if one of the three following criteria is met:

- Groups of financial assets and financial liabilities are managed on a fair value basis in accordance with a documented risk management and investment strategy.
- Fair value measurement can be demonstrated to prevent inconsistencies in the valuation of financial assets and liabilities.
- A financial instrument contains an embedded derivative that is generally required to be reported separately from the host agreement at fair value.

Financial liabilities which are measured at fair value through profit or loss, are customer deposits which are tied to the performance of the underlying. For calculation of fair value of these financial liabilities, the performance of the underlying is considered, therefore it does not contain any changes in value due to the own credit risk.

In note 38) Financial assets and liabilities, the amounts allocated to the at fair value through profit or loss category are indicated for each class of financial asset and liability. The reasons for the designation are described in the notes on the individual financial assets and liabilities.

### Derivatives

Derivatives are always recognised in income at their fair value.

Changes in the fair value of derivatives used in fair value hedges are recognised in income immediately under income from financial investments. Changes in the market value of the underlying instruments are also reported in income from financial investments, irrespective of their allocation to the individual IAS 39 categories. The Group uses fair value hedges with a view to hedging fixed-interest financial assets and liabilities, assets and liabilities denominated in foreign currency and structured issues.

In the case of cash flow hedges, the change in the fair value of the derivative is recognised in the hedging reserve in equity, taking into account deferred taxes. The measurement of the host instrument is performed on the basis of its allocation to one of the individual IAS 39 categories. The Group uses cash flow hedges with a view to hedging the interest risk from variable-yield financial instruments and the currency risk from assets and liabilities denominated in foreign currencies.

If a derivative is used as a hedge of a net investment in a foreign operation, the effective portion of the hedge is recognised directly in the currency reserve in equity, while the ineffective portion is recognised immediately in income. The amount contained in the currency reserve is transferred to income at the disposal date of the foreign operation.

Embedded derivatives are reported and measured separately, irrespective of the financial instrument in which they are embedded, unless the structured investment has been designated and allocated to the at fair value through profit or loss category.

### Own equity and debt instruments

Own equity instruments are carried at cost and deducted from equity on the liabilities side of the balance sheet. Own issues are deducted from issues at their redemption amounts on the liabilities side of the balance sheet, with the difference between the redemption amount and cost reported in net interest income.

## p) Loans and advances to credit institutions and customers

Loans and advances represent non-derivative financial assets with fixed or determinable redemption amounts which are not traded on an active market and are not securitised.

Loans and advances to credit institutions and customers are recognised at their gross amounts before deductions for impairment losses, including deferred interest. The total amount of risk provisions for balance sheet receivables is recognised as a reduction on the asset side of the balance sheet under loans and advances to credit institutions and loans and advances to customers. Risk provisions for off-balance sheet transactions are included in provisions.

Receivables are initially measured at fair value plus incremental direct transaction costs. Subsequent measurement is performed at amortised cost using the effective interest method unless the receivables are designated to the at fair value through profit or loss category.

### Finance lease

The group concludes finance lease contracts for real estate and for movable goods. In these contracts it acts as a lessor in a leasing transaction in which significantly all the risks and rewards are transferred to the lessee, who hence becomes the owner of the leased asset, this transaction is reported in receivables. In this case, instead of the leased asset, the present value of future payments is recognised, taking into account any residual value.

Real Estate leasing contracts have a basically maturity of 10 to 20 years. Concerning property leasing there is a distinction between volume equipment leasing (e.g. container leasing), with basically maturity of 7 to 10 years, and movable goods for the retail section with a basically maturity of 3 to 5 years. The interest rate of the customer for the lease agreement is fixed for the whole maturity at the time the contract is closed. The effective interest rate can be adapted to changes on capital markets through an interest adjustment clause. Property leasing contracts are mostly based on part-amortisation, while movable goods leasing are basically full pay out contracts. Car leasing contracts are placed as part amortisation contracts as well as full pay out contracts.

## q) Risk provisions

Provisions for individual and portfolio-based impairment are recognised in order to cover the specific risks inherent to banking. Provisions are also recognised for potential losses from investments in high-risk countries; these are based on the standard international valuations for such types of investments. For further details, see section o) Financial assets and liabilities.

## r) Trading assets and liabilities

Trading assets include all financial assets acquired with a view to short-term sale or forming part of a portfolio which is intended to yield short-term profits. Trading liabilities consist of all negative fair values of derivative financial instruments used for trading purposes. In this position there are no financial assets and liabilities reported which are designated to the at fair value through profit and loss category.

Both initial recognition and subsequent measurement are performed at fair value. Transaction costs are expensed as incurred. All changes in fair value as well as all interest and dividend payments and refinancing allocable to the trading portfolio are reported in net trading income.

## s) Financial investments

Financial investments comprise all securitised debt and equity instruments not classified as participations. Financial investments are initially recognised at fair values plus incremental direct transaction cost. Subsequent measurement depends on whether the financial assets are allocated to the at fair value through profit or loss, available for sale, loans & receivables or held to maturity categories.

### At fair value through profit or loss

The Group allocates some securities to this category and records changes in the fair value of such securities directly in the income statement as described in section o) Financial assets and liabilities.

### Available for sale

This category comprises all financial instruments which are not allocated to the at fair value through profit or loss, loans & receivables or held to maturity categories. It also includes all equity instruments with no maturity date, provided that they have not been classified as at fair value through profit or loss. Shares which are not traded on a stock exchange and whose fair value cannot be reliably determined are carried at cost less any impairment losses. All other available for sale assets are measured at fair value. Changes in fair value are taken directly to equity until these financial investments are sold or impaired and the remeasurement result is transferred from equity to the income statement. With regard to debt securities, the difference between cost including transaction cost and the redemption amount is amortised in accordance with the effective interest method and recognised in income. Accordingly, only the difference between amortised cost and fair value is recognised in the available for sale reserve, taking into account deferred taxes.

### Loans & receivables

All securitised financial investments with fixed or determinable payments that are not quoted in an active market and which the Group does not intend to sell immediately or in the near term are classified as loans & receivables. These financial instruments are recognised at amortised cost in accordance with the effective interest method.

### Held to maturity

The Group allocates financial instruments to this category if it has the positive intention and ability to hold them to maturity and they have fixed or determinable payments and a fixed maturity.

These financial instruments are recognised at amortised cost in accordance with the effective interest method. Any sale or reallocation of a substantial part of these financial instruments which does not occur on a date that is close to the redemption date or is attributable to a non-recurring isolated event that is beyond the Group's control and that could not have been reasonably anticipated, results in the reallocation of all held to maturity financial investments to the available for sale category for the two subsequent fiscal years. In 2011 and 2010, no such reallocations took place.

## t) Assets for operating lease (inclusive investment property)

Assets used in operating lease transactions are allocated to the VBAG Group and reported in the balance sheet item assets for operating lease.

All land and buildings that meet the definition of investment property set out in IAS 40 are reported at fair value. In the case of domestic and foreign land and buildings, the annual measurement is based on the standards of the RICS (Royal Institution of Chartered Surveyors) basically. The gross rental method is based on yields which are defined by the appraisers and reflect the current market situation and the individual strengths and weaknesses of each investment property. For properties under construction residual value methods are used. Colliers International, CBRE, GVA Robertson and Spiller Farmer are mandated to act as independent experts for assessing the value of foreign investment properties. The fee basis for external appraisers is a fixed amount and independent of the appraised value.

Leasing and rental income is recognised on a straight-line basis in accordance with the term of the respective lease and rental contracts and reported in interest and similar income. Depreciation of other operating lease assets is calculated in accordance with the principles applying to the respective item and is also reported in interest and similar income.

## u) Participations

The Group establishes subsidiaries and acquires participations for strategic reasons and as financial investments. Strategic participations relate to companies operating in the Group's lines of business or companies supporting the Group's business activities.

Companies over which the Group exercises significant control are measured at equity. All other participations are recognised at their respective fair values. Participations whose fair value cannot be determined without an unreasonable amount of effort are carried at cost. Write-downs have been recognised for impairment. If the reason for impairment ceases to exist, the impairment loss is reversed and recognised directly in equity taking into account deferred taxes.

## v) Intangible and tangible fixed assets

Intangible assets are carried at cost less straight-line amortisation and impairment. This item primarily comprises acquired goodwill, brand rights and software.

Goodwill is not depreciated on a straight-line basis, but instead is tested for impairment at least once a year in accordance with IAS 36, or more frequently if events or changes in circumstances indicate that impairment may have occurred. Impairment testing is performed for the cash-generating units (CGUs) to which goodwill is allocated in a two phase discounted cash flow model. In the first phase the expected cash flows are calculated on the basis of the forecast result of the respective CGU for the following five years, discounted using a risk-adjusted interest rate which is between 7% and 21%. This corresponds to a long-term, risk-free interest rate which is increased by an equity premium, multiplied by a branch beta and adjusted for any country risk premiums. In phase two future cash flows are determined based on the return on equity adjusted by future capital requirements. The discount rate used for calculation of the perpetuity value is based on those of phase one and adjusted by a development factor. The underlying development factor lies between 2% and 9%.

The proportionate enterprise value determined according to the principles listed above is offset against the proportionate equity of the CGU plus any goodwill. If the proportionate enterprise value is lower than the sum of the proportionate equity and any goodwill, an impairment loss is recognised in the amount of the difference.

Due to impairment tests which were done on 31 December 2011 the goodwill of Investkredit Bank AG as well as goodwill of Volksbank Banja Luka, Volksbank Ukraine, Volksbank Hungary and Volksbank Serbia were partly impaired. On balance sheet date, all other impairment tests which took place, did not led to further impairment requirements.

In the course of the acquisition of Investkredit Bank AG in 2005, the Investkredit brand was recognised as intangible asset. In line with IAS 38, an intangible asset is considered as having an unlimited useful life if, based on an analysis of all relevant factors, there is no foreseeable limit on the period in which the asset is likely to generate net cash flows for an entity. The factors considered as relevant in determining the expected useful life of the Investkredit brand primarily include the probable use of this asset by the VBAG Group, changes in the overall demand for services which can be produced using this asset, as well as the level of expenditure for retention necessary to attain the probable future economic benefits derived from the asset and the ability and intention of VBAG to achieve this level.

As a result of the restructuring of VBAG Group which include amongst others also the reduction of business in Investkredit and threfore delimit the usage of the Investkredit brand the brand Investkredit was impaired in 2011 in full.

Tangible fixed assets are carried at cost and depreciated on a straight-line basis over their estimated life in the case of depreciable assets.

Write-downs are recognised for permanent impairment. If the circumstances resulting in the recognition of a write-down cease to exist, the write-down is reversed up to a maximum of amortised cost.

The useful life is the period of time during which an asset is expected to be used by the Group and is calculated as follows:

| | | |
|---|---|---|
| Office furniture and equipment | up to | 10 years |
| EDP hardware (including calculators, etc.) | up to | 5 years |
| EDP software | up to | 4 years |
| Vehicles | up to | 5 years |
| Strongrooms and safes | up to | 20 years |
| Buildings, reconstructed buildings, rental rights | up to | 50 years |

## w) Tax assets and liabilities

This item is used to report current and deferred tax assets and liabilities.

According to the balance sheet liability method set out in IAS 12, deferred taxes are derived from all temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet prepared in accordance with IFRS. Deferred taxes are calculated for subsidiaries on the basis of the tax rates that apply or have been announced in the individual countries on the balance sheet date. Deferred tax assets are offset against deferred tax liabilities for each individual subsidiary.

Deferred tax assets in respect of unutilised tax loss carryforwards are recognised to the extent that it is probable that future taxable profit will be available at the same company against which the unused tax losses can be utilised or if sufficient taxable temporary differences exist. The appraisal period is up to 5 years. Deferred tax assets from tax loss carryforwards are impaired, if it is unlikely that the tax benefit can be realised. Deferred taxes are not discounted.

## x) Other assets

Deferred items are used for accruing income and expenses and are shown in this item together with other assets. Value adjustments are recognised for impairment. This item also includes all positive fair values of derivatives that are reported in the investment book and carried at fair value. With the exception of derivatives used in cash flow hedges and hedges of a net investment, which are taken directly to equity, changes in fair value are reported in income from financial investments.

## y) Liabilities

The initial recognition of amounts owed to credit institutions and customers as well as debts evidenced by certificates is performed at fair value plus directly attributable transaction cost. Subsequent measurement is performed at amortised cost in accordance with the effective interest method, unless these liabilities were designated as liabilities at fair value through profit or loss.

## z) Employee benefits

Payments to defined contribution plans are expensed as incurred. Irregular payments are allocated to the respective reporting period.

VBAG Group has made defined benefit commitments for individual staff members for the amounts of future benefits. All of these plans are partly unfunded, i.e. the funds required as cover are retained and the VBAG Group recognises the necessary provisions. In the Investkredit and Europolis sub-groups, staff pension entitlements were transferred to a pension fund in previous years and are shown as plan assets.

In accordance with the projected unit credit method, provisions for pensions and severance payments are calculated on the basis of generally recognised actuarial principles for determining the present value of the overall entitlement and additional claims acquired in the reporting period. For severance payments, this procedure takes into account retirement due to attainment of pensionable age, occupational incapacity, disability or death, as well as the vested rights of surviving dependents.

Actuarial gains and losses are treated in accordance with the so-called corridor method, meaning that contributions are recognised in income when the cumulative unrecognised actuarial gains or losses exceed 10% of the present value of the defined benefit obligation for pensions or severance payments or the fair value of any available external plan assets. In 2011 and 2010, actuarial gains and losses exceeding the corridor were recognised in income in full.

Principal actuarial assumptions

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Discount rate | 4.50 % | 4.25 % | 5.25 % | 5.75 % | 5.00 % |
| Expected return on plan assets | 4.25 % | 4.25 % | 5.50 % | 5.50 % | 5.00 % |
| Future salary increase | 3.50 % | 3.50 % | 3.50 % | 3.50 % | 3.50 % |
| Future pension increase | 2.00 % | 2.00 % | 2.00 % | 2.00 % | 2.00 % |
| Fluctuation rate | none | none | none | none | none |

The fundamental biometric actuarial assumptions of the latest Austrian scheme by Pagler and Pagler for calculating pension insurance for salaried employees are applied as the basis of calculation (AVÖ 2008 P- Rechnungsgrundlagen für die Pensionsversicherung – Pagler&Pagler, Angestelltenbestand). As the defined benefit obligations for staff not employed in Austria are immaterial, the principal actuarial assumptions were not adjusted to reflect the circumstances in the countries where the respective subsidiaries are domiciled.

The current retirement age limits are generally taken into account in these calculations. It is assumed that, as a rule, men will retire at the age of 65 years and women at the age of 60 years. Any transitional arrangements are disregarded. For staff not employed in Austria, the standard retirement age stipulated in the respective country is applied.

Pension obligations comprise claims of employees who were in active service for the Group on the valuation date as well as entitlements of pension recipients. These entitlements are defined in special agreements and in the Group's Articles of Association, and represent legally binding and irrevocable claims.

## aa) Other provisions

Other provisions are recognised if a past event has given rise to a present obligation and it is likely that meeting such an obligation will result in an outflow of resources. They are built to the amount of the most probable future claims, taking into account cost estimates of contractual partners, experienced data and financial mathematical methods. A contingent liability is reported if an eventual obligation exists and an outflow of resources does not appear probable or no reliable estimate of the amount of the obligation can be made.

## bb) Other liabilities

Deferred items are used for accruing income and expenses and are shown in this item together with other liabilities. This item also includes all negative market values of derivatives that are reported in the investment book and carried at fair value. With the exception of derivatives used in cash flow hedges and hedges of a net investment, which are taken directly to equity, changes in fair value are reported in income from financial investments.

## cc) Subordinated Liabilities

Initial recognition of subordinated liabilities is carried out at fair value plus directly attributable transaction cost. Subsequent measurement is performed at amortised cost in accordance with the effective interest method, unless these liabilities were designated as liabilities at fair value through profit or loss.

In case of bankruptcy or the winding up of the enterprise, all amounts accounted for as subordinated liabilities may be satisfied after having met the demands of all other non subordinated creditors. Securitised and non-securitised liabilities of VBAG Group are classified as subordinated liabilities if the rank order described above is applicable.

Additionally to subordination, terms of contract of supplementary capital imply a performance-related interest payment. Payment of interest only will take place, as far as this payment is covered by the result before changes in reserves of the company issuing the supplementary capital.

## dd) Equity

Financial instruments issued by the VBAG Group which do not involve a contractual obligation to transfer cash or another financial asset to another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially unfavourable to the issuer are reported in equity.

Capital management in VBAG Group is done on the basis of the supervisory capital. For further details see chapter gg) Own funds in accordance with the Austrian Banking Act (BWG) and chapter 53)c) Risk strategy and internal capital adequacy assessment process.

## ee) Capital reserves

In accordance with IAS 32, the transaction cost of an equity transaction are accounted for as a deduction from equity, taking into account deferred taxes, to the extent that they constitute incremental costs that are directly attributable to the equity transaction. Furthermore the difference between face value and repurchase value of own shares, as far as it is covered in capital reserves, is shown there. If the difference exceeds capital reserves, this amount is deducted from retained earnings.

## ff) Retained earnings

All legal and statutory reserves as well as other reserves, provisions against a specific liability as defined by section 23 (6) of the Austrian Banking Act, untaxed reserves and all other undistributed profits are reported in retained earnings.

## gg) Own funds in accordance with the Austrian Banking Act (BWG)

The Group is subject to external provisions governing its equity requirements based on the EU directives 2006/48/EC and 2006/49/EC which have been implemented in national law. The rules regarding capital ratios specified here constitute the central management variable in the VBAG Group. These ratios reflect the relationship between regulatory own funds and credit, market and operational risk. Accordingly, the risk/return management of VBAG is based on the capital allocated to one business or, ultimately, one organisational unit and the income to be generated from this, taking into account the corresponding risk considerations.

Credit risk is determined by multiplying on-balance sheet and off-balance sheet exposures on the basis of their relative risks by the risk weighting to be allocated to a counterparty. The procedure for determining risk-relevant parameters (exposure, risk weighting) is based on either percentages specified by regulatory requirements (standard approach) or internal procedures (IRB approach). The market risk component of the Group is a multiple of the computed value at risk, which is calculated for banking supervisory purposes on the basis of the Group's internal calculation models. The capital requirements for operational risk are calculated by multiplying the revenues by the respective percentages for the divisions.

Regulatory own funds can be broken down into three elements:

- Core capital or tier I capital
- Supplementary capital or tier II capital
- Short-term subordinated liabilities or tier III capital.

Core capital or tier I capital consists of subscribed capital, capital reserves and retained earnings as well as hybrid capital components less intangible assets.

Supplementary capital or tier II capital consists of non-current subordinated liabilities, unrealised profits from listed securities and provisions for risks inherent in lending operations.

Tier III capital consists of current subordinated liabilities.

The minimum equity ratio (based on the total of tier I, tier II and tier III capital) corresponds to 8%, and the minimum core capital ratio 4%, of total risk exposure. The total tier II capital is limited to 100% of tier I capital. Depending on the configuration of tier II capital, subordinated liabilities may be included only up to a maximum of 50% of tier I capital. Tier III capital may only be used to cover market risks.

The VBAG Group's own funds are described in note 37) Own funds in accordance with the Austrian Banking Act (BWG).

The VBAG Group complied with these relevant supervisory requirements in the reporting period and its own funds exceeded the minimum requirements.

## hh) Trustee transactions

Transactions in which an affiliate of the VBAG Group acts as a trustee or in any other trusteeship function and thus manages or places assets on a third-party account are not shown in the balance sheet. Commission payments from such transactions are reported in net fee and commission income.

## ii) Repurchase transactions

Under genuine repurchase agreements, the Group sells assets to a contractual partner and simultaneously undertakes to repurchase these assets at the agreed price on a predefined date. The assets remain in the consolidated balance sheet and are measured in accordance with the rules applying to the respective balance sheet items. At the same time, the received payment is recognised as a liability.

## jj) Contingent liabilities

Possible obligations for which an outflow of resources does not appear probable or no reliable estimate of the amount of the obligation can be made are reported under contingent liabilities. Provisions are recognised for acceptances and endorsements as part of provisions for risks if there are likely to be future claims.

Obligations arising from financial guarantees are recognised as soon as the VBAG Group becomes a contracting party, i.e. when the guarantee offer is accepted. Initial measurement is performed at fair value. Considered in its entirety, the fair value of a financial guarantee at the time of contract conclusion is nil because, for standard market contracts, the value of the premium agreed generally corresponds to the value of the guarantee obligation.

Guaranteed amounts of members in the case of participations in cooperatives are reported under other contingent liabilities.
A follow-up check is regularly performed in order to determine whether on-balance sheet recognition in the consolidated financial statements is necessary.

## kk) Cash flow statement

The cash flow statement is calculated in accordance with the indirect method. Here, the net cash flow from operating activities is calculated based on the annual result after taxes and before non-controlling interests, whereby non-cash expenses and income during the business year are included and deducted respectively first of all. Moreover, all expenses and income which did serve as cash, but were not allocated to operating activities, are eliminated. These payments are recognised under the cash flow from investing activities or financing activities. The interest, dividend and tax payments, which are stated separately, are solely from operating activities.

Cash flows from non-current assets such as held to maturity securities, participations and fixed assets are assigned to the cash flow from investing activities. The cash flow from financing activities includes all cash flows of the owners as well as changes to subordinated liabilities and non-controlling interests. Liquid funds have been defined as cash and cash equivalents and comprise balances with central banks as well as cash in hand. These balances are composed of the minimum reserve to be held according to statutory provisions and current investments with various central banks.

As the business activity of the VBAG Group mainly comprises financing activities, the informative value of the cash flow statement is rather limited.

## 4) Net interest income

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Interest and similar income | 1,449,533 | 1,579,580 |
| Interest and similar income from | 1,456,514 | 1,539,364 |
| liquid funds | 12,549 | 18,881 |
| credit and money market transactions with customers | 85,986 | 74,045 |
| credit and money market transactions with customers | 793,819 | 782,901 |
| debt securities | 245,035 | 261,060 |
| derivatives in the investment book | 319,124 | 402,477 |
| Current income from | –30,413 | 18,186 |
| equities and other variable-yield securities | 11,900 | 4,243 |
| other affiliates | –186 | 10,797 |
| companies measured at equity | –46,548 | –1,828 |
| investments in other companies | 4,421 | 4,974 |
| Income from operating lease and investment property | 23,432 | 22,030 |
| rental income investment property | 15,014 | 10,878 |
| income from operating lease contracts | 8,419 | 11,152 |
| rental income | 36,535 | 43,522 |
| depreciations | –28,116 | –32,370 |
| Interest and similar expenses of | –1,055,099 | –1,072,996 |
| deposits from credit institutions (including central banks) | –330,091 | –235,349 |
| deposits from customers | –119,362 | –123,264 |
| debts evidenced by certificates | –547,257 | –590,873 |
| subordinated liabilities | 3,482 | –48,133 |
| derivatives in the investment book | –61,871 | –75,377 |
| **Net interest income** | **394,434** | **506,584** |

### Net interest income according to IAS 39 categories:

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Interest and similar income | 1,449,533 | 1,579,580 |
| Interest and similar income from | 1,456,514 | 1,539,364 |
| financial investments at fair value through profit or loss | 14,939 | 16,483 |
| derivatives in the investment book | 319,124 | 402,477 |
| financial investments not at fair value through profit or loss | 1,122,451 | 1,120,404 |
| financial investments available for sale | 140,484 | 144,044 |
| financial investments at amortised cost | 925,802 | 913,148 |
| of which financial lease | 206,360 | 214,417 |
| of which unwinding | 997 | 172 |
| financial investments held to maturity | 56,165 | 63,212 |
| Current income from | –30,413 | 18,186 |
| financial investments at fair value through profit or loss | 2,520 | 821 |
| financial investments available for sale | 13,615 | 19,194 |
| companies measured at equity | –46,548 | –1,828 |
| Operating lease operations (including investment property) | 23,432 | 22,030 |
| Interest and similar expenses of | –1,055,099 | –1,072,996 |
| derivatives in the investment book | –61,871 | –75,377 |
| financial investments at amortised cost | –993,228 | –997,620 |
| **Net interest income** | **394,434** | **506,584** |

## 5) Risk provisions

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Allocation to risk provisions | –403,910 | –515,811 |
| Release of risk provisions | 317,753 | 237,135 |
| Allocation to provisions for risks | –8,222 | –6,655 |
| Release of provisions for risks | 1,665 | 15,618 |
| Direct write-offs of loans and advances | –14,779 | –10,757 |
| Income from loans and advances previously written off | 3,903 | 914 |
| **Risk provisions** | **–103,590** | **–279,555** |

For more details concerning risk provisions and provisions for risks we refer to chapter 16) Risk provisions and chapter 30) Provisions.

## 6) Net fee and commission income

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Fee and commission income from | 143,016 | 149,410 |
| lending operations | 42,856 | 40,864 |
| securities businesses | 54,970 | 62,824 |
| payment transactions | 6,777 | 6,904 |
| foreign exchange, foreign notes and coins transactions | 15,982 | 17,617 |
| other banking services | 22,432 | 21,201 |
| Fee and commission expenses from | –48,696 | –48,494 |
| lending operations | –23,866 | –22,469 |
| securities businesses | –12,471 | –13,724 |
| payment transactions | –620 | –500 |
| foreign exchange, foreign notes and coins transactions | –10,555 | –9,976 |
| other banking services | –1,184 | –1,825 |
| **Net fee and commission income** | **94,320** | **100,917** |

Net fee comission income does not include any income or expenses from financial investments designated at fair value through profit or loss.

Management fees for trust agreements were recognised in fee and commission income in the amount of euro 247 thousand (2010: euro 258 thousand).

## 7) Net trading income

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Equity related transactions | –30,862 | –28,143 |
| Exchange rate related transactions | 13,471 | 35,594 |
| Interest rate related transactions | 20,318 | 29,354 |
| **Net trading income** | **2,927** | **36,805** |

## 8) General administrative expenses

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Staff expenses | –167,141 | –195,082 |
| Wages and salaries | –119,022 | –142,775 |
| Expenses for statutory social security | –30,231 | –33,510 |
| Fringe benefits | –3,908 | –3,372 |
| Expenses for retirement benefits | –4,385 | –3,997 |
| Allocation to provision for severance payments and pensions | –9,594 | –11,427 |
| Other administrative expenses | –116,815 | –137,167 |
| Depreciation of fixed tangible and intangible assets | –15,383 | –17,571 |
| Scheduled depreciation (–) | –14,622 | –15,397 |
| Impairment (–) | –761 | –2,174 |
| **General administrative expenses** | **–299,339** | **–349,820** |

Staff expenses include payments for defined contribution plans totalling euro 6,840 thousand (2010: euro 3,256 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 256 thousand (2010: euro 478 thousand).

For the business year, expenses for the auditor KPMG Austria GmbH amounted to euro 2,577 thousand (2010: euro 2,641 thousand). Thereof euro 2,328 thousand (2010: euro 1,896 thousand) fall upon the audit of the consolidated financial statements (including financial statements fo fully consolidated companies and joint enterprises) and euro 249 thousand (2010: euro 744 thousand) upon other audit services.

### Information on compensation to board members

| Euro thousand | 2011 | 2010 |
|---|---|---|
| **Total compensation** | | |
| Supervisory board | 96 | 90 |
| Managing board | 2,266 | 2,192 |
| Former board members and their surviving dependents | 350 | 698 |
| | | |
| **Expenses for severance paymants and pensions** | | |
| Managing board | 680 | 692 |

The figures for the managing board include employees of the parent company.

The total compensation of the managing board consists of a fixed basic salary, a performance related bonus and other remuneration. In general, external comparisons are carried out at regular intervals in order to asses wether remuneration of the managing board is reasonable and normal for the market.

Performance related bonuses are connected to the achievement of the following goals: result of the consolidated financial statement according to IFRS, payments of dividends, cost-income-ratio as well as the achievement of personal targets. The bonus is limited by 75% of the annual gross salary. Since 2008, however, these bonus regulations have become inoperative: no bonus payments have been made on this basis for either in the business year 2008, 2009 nor 2010. No performance related bonus are to be paid out to members of the managing board for the business year 2011 either.

The board of management participate in the defined business contribution pension scheme of the group, like employees. Additionally a D&O insurance policy (directors and officers insurance)is in place.

Expenses for severance payments and pensions for the senior management of the parent company amounted to euro 809 thousand (2010: euro 357 thousand).

Number of staff employed, including disposal group

| | Average number of staff | | Number of staff at year end | |
|---|---|---|---|---|
| | 2011 | 2010 | 31.12.2011 | 31.12.2010 |
| Domestic | 1,378 | 1,499 | 1,325 | 1,443 |
| Foreign | 5,773 | 6,257 | 4,871 | 6,186 |
| **Total number of staff** | **7,151** | **7,756** | **6,196** | **7,629** |

The number of staff employed in disposal group is as follows

| | Average number of staff | | Number of staffl at year end | |
|---|---|---|---|---|
| | 2011 | 2010 | 31.12.2011 | 31.12.2010 |
| **Disposal group Real Estate Segment** | | | | |
| Domestic | 0 | 30 | 0 | 27 |
| Foreign | 0 | 77 | 0 | 70 |
| **Employees Real Estate** | **0** | **107** | **0** | **97** |
| **Disposal group Retail Segment** | | | | |
| Domestic | 0 | 43 | 0 | 0 |
| **Employees Retail** | **0** | **43** | **0** | **0** |
| **Disposal group Banks CEE** | | | | |
| Domestic | 63 | 64 | 72 | 63 |
| Foreign | 3,968 | 3,936 | 4,086 | 3,929 |
| **Employees Banks CEE** | **4,031** | **4,000** | **4,158** | **3,992** |
| **Total Employees disposal groups** | **4,031** | **4,150** | **4,158** | **4,089** |

The deconsolidation of VB Linz+Mühlviertel took place on 6 August 2010. The deconsolidation of Europolis AG took place on 1 January 2011.

## 9) Restructuring cost

In 2011, VBAG Group started to restructure and reduce its business. As expenses related to this restructuring are assumed to be material they are recognised in a seperate line.

In this item expenses for the redundancy programme which consist only of staff expenses are included. The redundancy programme includes support for employees concerning job hunting, assumption of costs in case of hardship and voluntary severance payments.

## 10) Other operating result

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Other operating income | 59,717 | 49,364 |
| Proceeds from deconsolidation of subsidiaries | –286,451 | 0 |
| Other operating expenses | –41,141 | –48,481 |
| Other taxes | –41,050 | –1,756 |
| Impairment of goodwill | –56,423 | 0 |
| **Other operating result** | **–365,348** | **–874** |

Hire purchase transactions as well as operating expenses and insurance contributions which are passed on to customers are netted and recognised in other operating income to the amount of euro 177,710 thousand (2010: euro 114,783 thousand), as this procedure presents a fairer view of the economic nature of these transactions.

Other operating expenses do not include expenses for vacancy of investment property assets (2010: euro 97 thousand).

Details of impairment of goodwill can be found in chapter 22) Intangible assets.

## 11) Income from financial investments

| Euro thousand | 2011 | 2010 |
|---|---|---|
| **Result from financial investments at fair value through profit or loss** | **–23,428** | **4,054** |
| Result from financial investments at fair value through profit or loss | –23,428 | 4,054 |
| Debt securities | –19,544 | 4,674 |
| Amounts owed to credit institutions and customers | –3,855 | –620 |
| **Result from fair value hedges** | **–34,874** | **–32** |
| Result from revaluation of underlying instruments | –25,777 | –24,165 |
| Loans and advances to credit institutions and customers | 12,232 | 12,381 |
| Debt securities | 111,201 | 52,563 |
| Amounts owed to credit institutions and customers | –25,214 | –32,978 |
| Debts evidenced by certificates | –122,928 | –56,510 |
| Subordinated liabilities | –1,066 | 378 |
| Result from revaluation of derivates | –9,097 | 24,133 |
| **Result from valuation of other derivates in the investment book** | **–51,632** | **–32,153** |
| Equity related transactions | –691 | –587 |
| Exchange rate related transactions | 28,387 | –12,874 |
| Interest rate related transactions | –21,057 | –6,984 |
| Credit related transactions | –59,547 | –15,201 |
| Other transactions | 1,275 | 3,494 |
| **Result from available for sale financial investments (including participations)** | **–280,604** | **–10,779** |
| Realised gains / losses | 4,961 | 6,532 |
| Income from revaluation | 470 | 3,795 |
| Impairments | –286,036 | –21,106 |
| **Result from available for sale financial investments (including participations)** | **1,697** | **11,729** |
| Realised gains / losses | 7,055 | 8,188 |
| Income from revaluation | 0 | 6,830 |
| Impairments | –5,358 | –3,288 |
| **Result from held to maturity financial investments** | **–17,390** | **5,056** |
| Realised gains / losses | 11,937 | 4,885 |
| Income from revaluation | 0 | 265 |
| Impairments | –29,328 | –94 |
| **Result from assets for operating lease and investment property assets as well as other financial investments** | **–34,907** | **6,757** |
| Realised gains / losses | 1,954 | 10,802 |
| Change in value investment property | –36,861 | –4,045 |
| **Income from financial investments** | **–441,138** | **–15,368** |

In 2011, an amount of euro -2,583 thousand (2010: euro 4,272 thousand) previously recognised in the avialable for sale reserve was reclassified and shown in the income statement.

| Euro thousand | 2011 | 2010 |
|---|---|---|
| **Result from financial investments, which are measured at fair value through profit and loss** | **–146,795** | **–32,176** |
| Financial instruments at fair value through profit or loss | –23,428 | 4,054 |
| Fair value hedges | –34,874 | –32 |
| Other derivatives in investment book | –51,632 | –32,153 |
| Investment property assets | –36,861 | –4,045 |
| **Result from financial investments, which are not measured at fair value through profit and loss** | **–294,343** | **16,808** |
| Realised gains/losses | 25,909 | 30,407 |
| Available for sale financial investments | 4,961 | 6,532 |
| Loans & receivables financial investments | 7,055 | 8,188 |
| Held to maturity financial investments | 11,937 | 4,885 |
| Operating lease assets and other financial investments | 1,954 | 10,802 |
| Income from revaluation | **470** | 10,890 |
| Available for sale financial investments | 470 | 3,795 |
| Loans & receivables financial investments | 0 | 6,830 |
| Held to maturity financial investments | 0 | 265 |
| Impairments | –320,722 | –24,489 |
| Available for sale financial investments | –286,036 | –21,106 |
| Loans & receivables financial investments | –5,358 | –3,288 |
| Held to maturity financial investments | –29,328 | –94 |
| **Income from financial investments** | **–441,138** | **–15,368** |

## 12) Income taxes

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Current income taxes | –11,201 | 4,054 |
| Deferred income taxes | –70,812 | 8,290 |
| Income taxes of disposal group | –12,754 | –36,846 |
| **Income taxes for the current fiscal year** | **–94,766** | **–24,502** |
| Income taxes from previous periods continued operations | –2,055 | –11,871 |
| Income taxes from previous periods disposal group | –1,260 | 7,892 |
| Income taxes from previous periods | –3,314 | –3,979 |
| **Income taxes** | **–98,080** | **–28,481** |

The reconciliation below shows the relationship between the imputed and reported tax expenditure.

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Annual result before taxes - continued operations | –759,183 | –1,311 |
| Annual result before taxes - discontinued operations | –132,005 | 40,774 |
| **Annual result before taxes - total** | **–891,188** | **39,463** |
| Imputed income tax 25 % | –222,797 | 9,866 |
| Tax relief resulting from | | |
| tax-exempt investment income | –609 | –31,969 |
| investment allowances | –84 | –81 |
| other tax-exempt earnings | 23 | –597 |
| non-tax deductible impairment of goodwill | 10,614 | 1,893 |
| measurement of participation including outside basis differences | 54,935 | 84,640 |
| adjustment of deferred taxes | 77,679 | 16,029 |
| non-inclusion of deferred taxes | 171,884 | 7,512 |
| re-inclusion of deferred taxes | 0 | –66,301 |
| changes in tax rates | –984 | 612 |
| different foreign tax rates | –10,692 | –17,280 |
| other differences | 14,795 | 20,177 |
| **Reported income taxes** | **94,766** | **24,502** |
| of which discontinued operations | 12,754 | 36,846 |
| **Effective tax rate - continued operations** | **–10.81 %** | **n.a.** |
| Effective tax rate - including discontinued operations | –10.63 % | 62.09 % |

Due to high allowances of deferred taxes and the re-inclusion of deferred tax assets particularly for taxable loss carryforwards in previous years the effective tax rates differ strongly from the legal tax rate in Austria or is not presentable.

Deferred taxes totalling euro –42,255 thousand (2010: euro –31,617 thousand) were taken directly to equity. In 2011, tax loss carryforwards and deferred tax assets to the amount of euro 310,715 thousand (2010: euro 64,116 thousand) were impaired. Furthermore, no deferred taxes were recognised for taxable loss carryforwards and for deferred tax assets to the amount of euro 687,538 thousand (2010: euro 30,047 thousand) as, in the opinion of the management, the realisation of these tax loss carryforwards and deferred tax assets does not appear to be probable over an adequate period of time (up to 5 years). Therefore no deferred taxes were recognised for tax loss carryforwards to the amount of euro 1,946,915 thousand (2010: euro 1,020,583 thousand). Of these taxable loss carryforwards euro 1,829,088 thousand (2010: euro 944,912 thousand) are without limitation.

**Notes to the consolidated statement of financial positions**

## 13) Liquid funds

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Cash in hand | 1,166 | 22,524 | 104,156 |
| Balances with central banks | 429,777 | 1,210,263 | 1,878,290 |
| **Liquid funds** | **430,943** | **1,232,787** | **1,982,446** |

## 14) Loans and advances to credit institutions

Loans and advances to credit institutions amounting to euro 7,964,310 thousand (2010 pro forma: euro 5,914,454 thousand, published: euro 6,431,879 thousand) are measured at amortised cost.

Breakdown by residual term

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| on demand | 213,021 | 869,498 |
| up to 3 months | 4,883,328 | 4,901,355 |
| up to 1 year | 763,412 | 138,900 |
| up to 5 years | 759,790 | 111,041 |
| more than 5 years | 1,344,760 | 411,085 |
| **Loans and advances to credit institutions** | **7,964,310** | **6,431,879** |

## 15) Loans and advances to customers

Loans and advances to customers amounting to euro 12,717,062 thousand (2010 pro forma: euro 16,883,920 thousand, published: euro 23,614,938 thousand) are measured at amortised cost.

Breakdown by residual term

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| on demand | 1,709,307 | 2,692,003 |
| up to 3 months | 836,106 | 1,508,906 |
| up to 1 year | 1,958,343 | 2,991,839 |
| up to 5 years | 5,130,236 | 7,895,029 |
| more than 5 years | 3,083,070 | 8,527,160 |
| **Loans and advances to customers** | **12,717,062** | **23,614,938** |

Finance lease disclosures

| Euro thousand | bis 1 Jahr | bis 5 Jahre | über 5 Jahre | Gesamt |
|---|---|---|---|---|
| **2011** | | | | |
| Total gross investment | 1,065,515 | 1,745,237 | 572,078 | 3,382,830 |
| Less paid non-interest-bearing deposits | –1,040 | –2,085 | –12,839 | –15,964 |
| Less unearned financial income | –140,762 | –199,300 | –99,446 | –439,507 |
| **Present value of minimum lease payments** | **923,713** | **1,543,852** | **459,794** | **2,927,358** |
| **Total unguaranteed residual value** | | | | **24,612** |
| | | | | |
| **2010** | | | | |
| Total gross investment | 1,137,643 | 1,753,307 | 471,324 | 3,362,274 |
| Less paid non-interest-bearing deposits | –4,906 | –1,550 | –7,669 | –14,126 |
| Less unearned financial income | –140,677 | –171,550 | –71,520 | –383,747 |
| **Present value of minimum lease payments** | **992,060** | **1,580,207** | **392,134** | **2,964,402** |
| **Total unguaranteed residual value** | | | | **24,765** |

The net present value of minimum lease payments is measured at amortised cost and reported in loans and advances to credit institutions and customers.

The net present value of minimum lease payments corresponds to the fair value of financial leasing transactions, as such contracts are based on variable interest rates.

## 16) Risk provisions

| Euro thousand | Individual impairment credit institutions | Individual impairment customers | Portfolio based allowance | Total | of which disposal group pro forma | of which disposal group published |
|---|---|---|---|---|---|---|
| **As at 1 Jan 2010** | **539** | **1,177,271** | **79,237** | **1,257,047** | **226,752** | **23,355** |
| Changes in the scope of consolidation | 0 | –10,099 | –495 | –10,594 | –11,063 | –11,063 |
| Currency translation | 0 | 27,121 | 421 | 27,542 | 4,995 | 182 |
| Reclassification | 0 | 3,780 | –3,444 | 336 | –6,905 | –6,905 |
| Unwinding | 0 | –9,755 | 0 | –9,755 | –9,583 | 0 |
| Utilisation | 0 | –101,379 | 0 | –101,379 | –24,825 | –1,368 |
| Release | 0 | –248,578 | –32,000 | –280,578 | –43,443 | –2,001 |
| Addition | 333 | 632,043 | 13,160 | 645,536 | 129,725 | 3,423 |
| **As at 31 Dec 2010** | **872** | **1,470,404** | **56,880** | **1,528,155** | **265,653** | **5,623** |
| Changes in the scope of consolidation | 0 | –300,962 | –10,948 | –311,910 | –5,623 | |
| Currency translation | 0 | –23,687 | –983 | –24,670 | –18,693 | |
| Reclassification | 0 | 6,153 | –242 | 5,912 | 0 | |
| Unwinding | 0 | –9,941 | 0 | –9,941 | –8,944 | |
| Utilisation | –116 | –139,325 | 0 | –139,441 | –43,875 | |
| Release | –53 | –353,223 | –16,859 | –370,135 | –52,382 | |
| Addition | 0 | 612,026 | 31,409 | 643,435 | 239,525 | |
| **As at 31 Dec 2011** | **703** | **1,261,444** | **59,258** | **1,321,405** | **375,661** | |

The additions include an amount of euro 8,229 thousand (2010: euro 14,201 thousand), which is caused by allocation due to interest past-due. Loans and advances to customers include non-interest-bearing receivables amounting to euro 358,949 thousand (2010 pro forma: euro 303,129 thousand and published: euro 660,866 thousand). The line reclassification includes beside reclassifications from provisions also a reclassification from the position loans and advances to customers.

## 17) Trading assets

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Debt securities | 268,359 | 343,131 | 349,050 |
| Equity and other variable-yield securities | 32,697 | 150,678 | 151,655 |
| Positive fair value from derivatives | 1,801,156 | 1,666,477 | 1,662,775 |
| exchange rate related transactions | 45,424 | 45,470 | 44,274 |
| interest related transactions | 1,755,732 | 1,412,596 | 1,410,090 |
| other transactions | 0 | 208,411 | 208,411 |
| **Trading assets** | **2,102,213** | **2,160,285** | **2,163,480** |

Breakdown by residual term

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| up to 3 months | 2,010 | 51 |
| up to 1 year | 7,156 | 498 |
| up to 5 years | 74,432 | 172,096 |
| more than 5 years | 184,761 | 176,405 |
| **Debt securities** | **268,359** | **349,050** |

## 18) Financial investments

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Financial investments at fair value through profit or loss | 495,578 | 818,834 | 763,764 |
| Debt securities | 419,614 | 754,694 | 699,625 |
| Equity and other variable-yield securities | 75,964 | 64,140 | 64,140 |
| Financial investments available for sale | 3,467,590 | 4,287,596 | 4,655,391 |
| Debt securities | 3,348,293 | 4,023,948 | 4,391,013 |
| Equity and other variable-yield securities | 119,297 | 263,648 | 264,377 |
| Financial investments loans & receivables | 1,456,567 | 1,713,847 | 1,837,891 |
| Financial investments held to maturity | 1,375,899 | 1,628,387 | 1,736,721 |
| **Financial investments** | **6,795,633** | **8,448,662** | **8,993,767** |

Financial investments held to maturity also include deferred interest of euro 26,613 thousand (2010 pro forma: euro 30,411 thousand, published: euro 34,660 thousand).

Breakdown by residual term

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| up to 3 months | 397,774 | 1,062,365 |
| up to 1 year | 403,213 | 621,116 |
| up to 5 years | 2,709,368 | 3,405,290 |
| more than 5 years | 3,090,017 | 3,576,479 |
| **Debt securities** | **6,600,372** | **8,665,250** |

Breakdown of debt securities in accordance with the Austrian Banking Act, including disposal group

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| Listed securities | 6,033,793 | 7,674,314 |
| Debt securities | 6,017,861 | 7,650,920 |
| Equity and other variable-yield securities | 15,932 | 23,395 |
| Securities allocated to fixed assets | 9,003,353 | 7,671,646 |
| Securities eligible for rediscounting | 4,594,584 | 4,217,422 |

All securities held with the intention of belonging more than one year to the Group are shown in position securities allocated to fixed assets.

### Financial investments measured at fair value through profit or loss

Financial investments have been designated at fair value through profit or loss as the Group manages these investments on a fair value basis in accordance with its investment strategy. Internal reporting and performance measurement for these investments are conducted on a fair value basis.

### Reclassification from available for sale to loans & receivables

In accordance with the amendments to IAS 39 and IFRS 7, available for sale financial investments were reclassified to the loans & receivables category in 2008. On initial recognition, these securities met the definition for the loans & receivables category but were instead designated as available for sale. The reclassification to the loans & receivables category was performed with retrospective effect from 1 July 2008. The fair value at the reclassification date was applied as the new carrying amount of these securities.

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 | 1 Jul 2008 |
|---|---|---|---|
| Carrying amount | 599,185 | 773,727 | 1,140,363 |
| Fair value | 543,225 | 733,487 | 1,140,363 |
| Available for sale reserve with reclassification | –40,663 | –47,416 | –79,177 |
| Available for sale reserve without reclassification | –88,891 | –84,884 | –79,177 |

The amounts of the available for sale reserve take deferred taxes into account. The reclassification did not have any effect on the income statement.

## 19) Assets for operating lease (including investment property)

| Euro thousand | Investment properties | Other operating lease assets | Total | of which disposal group pro forma | of which disposal group published |
|---|---|---|---|---|---|
| Cost as at 1 Jan 2010 | 1,573,554 | 191,857 | 1,765,411 | 1,435,571 | 1,413,887 |
| Changes in the scope of consolidation | 22,574 | 0 | 22,574 | 0 | 0 |
| Currency translation | 3,928 | –1,759 | 2,169 | 3,928 | 4,281 |
| Additions, including transfers | 14,241 | 30,132 | 44,373 | 5,832 | 5,253 |
| Disposals, including transfers | –4,671 | –45,908 | –50,580 | –1,176 | –1,035 |
| Cost as at 31 Dec 2010 | **1,609,626** | **174,322** | **1,783,948** | 1,444,154 | 1,422,387 |
| Changes in the scope of consolidation | –1,350,026 | 270 | –1,349,756 | –1,422,387 | |
| Currency translation | –2,434 | –3,437 | –5,870 | –2,248 | |
| Additions, including transfers | 29,062 | 27,648 | 56,711 | 18,254 | |
| Disposals, including transfers | –18,680 | –47,268 | –65,948 | –17,380 | |
| **Cost as at 31 Dec 2011** | **267,549** | **151,536** | **419,084** | **20,394** | |

| Euro thousand | Investment properties | Other operating lease assets | Total | of which disposal group pro forma | of which disposal group published |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Cost as at 31 Dec 2010 | 1,609,626 | 174,322 | 1,783,948 | 1,444,154 | 1,422,387 |
| Cumulative write-downs and write-ups | 122,544 | –69,978 | 52,566 | 77,996 | 79,356 |
| **Carrying amount as at 31 Dec 2010** | **1,732,170** | **104,344** | **1,836,514** | 1,522,150 | 1,501,743 |
| Impairments in fiscal year | –15,651 | –32,370 | –48,021 | –1,111 | 0 |
| Revaluations in fiscal year | 10,500 | 0 | 10,500 | 5 | 0 |
| Carrying amount as at 1 Jan 2010 | 1,711,416 | 124,916 | 1,836,332 | 1,526,329 | 1,504,908 |
| **2011** | | | | | |
| Cost as at 31 Dec 2011 | 267,549 | 151,536 | 419,084 | 20,394 | |
| Cumulative write-downs and write-ups | –24,247 | –66,291 | –90,538 | –259 | |
| **Carrying amount as at 31 Dec 2011** | **243,301** | **85,245** | **328,546** | 20,135 | |
| Impairments in fiscal year | –38,953 | –28,433 | –67,387 | –898 | |
| Revaluations in fiscal year | 2,142 | 317 | 2,459 | 948 | |

In the disposal group Real Estate, impairments amounting to euro -41,643 thousand and revaluations amounting to euro 32,051 thousand were not recognised in profit and loss in the business year 2010, due to the provisions in the purchase contract.

In 2011, carrying amount of investment property assets to the amount of euro 1,300 thousand (2010 pro forma: euro 3,446 thousand, published: euro 3,586 thousand) was disposed of.

Investment properties contain 14 completed properties (2010 pro forma: 9, published: 11) as well as three property under construction with a carrying amount of euro 44,938 thousand (2010 pro forma and published: one property under construction with a carrying amount of euro 10,525 thousand). These properties are located in Austria as well as in countries of Central and Eastern Europe. At balance sheet date, the properties under construction are measured at fair value.

Investment properties of the disposal group contain three completed properties (2010 pro forma: 28, published: 26) as well as none property under construction (2010: 9 properties under construction with a carrying amount of euro 92,543 thousand). These properties are primarily located in the countries of Central and Eastern Europe. In 2010, an amount of euro 62,042 thousand of properties under construction are measured at amortised cost as fair value cannot be reliably determined for these items.

The Group has committed itself to maintain investment property refunded by a third party. Apart from that, there are no other obligations to purchase, construct, develop or maintain investment property.

Future minimum lease payments under non-callable leases

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| up to 3 months | 10,889 | 10,083 |
| up to 1 year | 29,858 | 30,169 |
| up to 5 years | 62,001 | 70,469 |
| more than 5 years | 40,247 | 36,565 |
| **Future minimum lease payments** | **142,996** | **147,286** |

## 20) Companies measured at equity

Additional information on companies measured at equity

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Cumulative total assets as at 31 Dec | 4,341,496 | 42,518 |
| Cumulative equity as at 31 Dec | 467,043 | 26,367 |
| Cumulative net income | –135,474 | –4,615 |

Companies measured at equity in the disposal group

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Cumulative total assets as at 31 Dec | 303,960 | 275,649 |
| Cumulative equity as at 31 Dec | 146,143 | 136,237 |
| Cumulative net income | 18,016 | 15,773 |

## 21) Participations

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Investments in unconsolidated affiliates | 437,236 | 568,201 | 569,758 |
| Participating interests | 91,978 | 69,799 | 73,175 |
| Investments in other companies | 50,369 | 73,136 | 74,987 |
| **Participations** | **579,583** | **711,136** | **717,920** |

Companies measured at equity and participations with a carrying amount of euro 28,507 thousand (2010: euro 4,630 thousand) were disposed of. The proceeds from these divestments amounted to euro 7,545 thousand (2010: euro 8,631 thousand) and are reported in income from financial investments.

All investments and participations which are not listed are measured at acquisition costs, as their fair value cannot be determined without an ureasonable amount of effort. One of the Group's participations is listed on a stock exchange and is measured at fair value.

In December 2011, the contract of sale of the participations of VICTORIA-VOLKSBANKEN Versicherungsgesellschaften was signed. The closing took place on 16 February 2012. The carrying amount of these participations as at balance sheet date amounted to euro 20,778 thousand. Both parties agreed to maintain silence about the purchase price.

According to the planned restructuring of the Group business outside of the new core area (non-core business) will be redeemded or saled. This also includes participations.

## 22) Intangible assets

| Euro thousand | Software | Goodwill | Other | Total | of which disposal group pro forma | of which disposal group published |
|---|---|---|---|---|---|---|
| Cost as at 1 Jan 2010 | 101,253 | 255,309 | 28,949 | 385,511 | 109,306 | 5,691 |
| Changes in the scope of consolidation | –80 | 0 | –5 | –86 | –17 | –17 |
| Currency translation | –41 | 1,051 | –47 | 963 | 942 | 9 |
| Additions, including transfers | 16,133 | 0 | 203 | 16,336 | 10,043 | 12 |
| Disposals, including transfers | –2,600 | 0 | –108 | –2,707 | –352 | –1 |
| Cost as at 31 Dec 2010 | **114,664** | **256,360** | **28,992** | **400,016** | 119,920 | 5,694 |
| Changes in the scope of consolidation | –6,830 | –5,309 | –97 | –12,237 | –5,694 | |
| Currency translation | –3,371 | –25 | –151 | –3,547 | –3,281 | |
| Additions, including transfers | 13,685 | 0 | 163 | 13,848 | –8,108 | |
| Disposals, including transfers | –6,033 | –1,598 | –514 | –8,145 | –3,520 | |
| **Cost as at 31 Dec 2011** | **112,115** | **249,428** | **28,393** | **389,936** | 115,533 | |

| Euro thousand | Software | Goodwill | Other | Total | of which disposal group pro forma | of which disposal group published |
|---|---|---|---|---|---|---|
| Cost as at 31 Dec 2010 | 114,664 | 256,360 | 28,992 | 400,016 | 119,920 | 5,694 |
| Cumulative write-downs and reversals | –75,651 | –191,244 | –3,490 | –270,385 | –62,044 | –1,402 |
| **Carrying amount as at 31 Dec 2011** | **39,013** | **65,117** | **25,502** | **129,631** | **57,877** | **4,292** |
| of which unlimited useful life | 0 | 65,117 | 24,860 | 89,977 | 32,084 | 4,194 |
| of which limited useful life | 39,013 | 0 | 642 | 39,655 | 25,792 | 97 |
| Amortisation in fiscal year | –10,482 | 0 | –593 | –11,075 | –7,219 | –2 |
| Impairments in fiscal year | – 109 | –7,573 | 0 | –7,682 | –7,682 | 0 |
| Carrying amount as at 1 Jan 2010 | 33,783 | 72,114 | 25,926 | 131,824 | 62,311 | 4,793 |
| **2011** | | | | | | |
| Cost as at 31 Dec 2011 | 112,115 | 249,428 | 28,393 | 389,936 | 115,533 | |
| Cumulative write-downs and reversals | –74,661 | –231,708 | –28,083 | –334,452 | –73,826 | |
| **Carrying amount as at 31 Dec 2011** | **37,455** | **17,720** | **310** | **55,484** | **41,706** | |
| of which unlimited useful life | 0 | 17,720 | 0 | 17,720 | 16,970 | |
| of which limited useful life | 37,455 | 0 | 310 | 37,764 | 24,736 | |
| Amortisation in fiscal year | –10,825 | 0 | –425 | –11,250 | –7,280 | |
| Impairments in fiscal year | 0 | –42,458 | –24,860 | –67,318 | –10,895 | |

In position software no internally developed software is included.

### Composition of goodwill

| Euro thousand | Carrying amount 31 Dec 2011 | Impairment 2011 | Carrying amount 31 Dec 2010 | Impairment 2010 |
|---|---|---|---|---|
| Investkredit sub-group | | | | |
| Investement Book / Other Operation Segement | 0 | 31,563 | 31,563 | 0 |
| Real Estate segment | 750 | 0 | 750 | 0 |
| VBI sub-group | | | | |
| Retail segment | 16,970 | 10,895 | 28,610 | 7,573 |
| Europolis sub-group | | | | |
| Real Estate segment | 0 | 0 | 4,194 | 475 |
| **Total** | **17,720** | **42,458** | **65,117** | **8,048** |

Impairments in 2011 are made in the segement Investment Book/Other Operations for Investkredit and in the segment Retail for VBI subsidiaries in Hungary, Banja Luka, Serbia and in the Ukraine. In Investkredit subgroup the segment Corporates corresponds to a cash generating unit. For all other segments, the cash generating units, which are consistent with the subsidiaries, are summed up to sub-groups, as the single values are not significant for the Group.

## 23) Tangible fixed assets

| Euro thousand | Land and buildings | EDP-equipment | Office furniture and equipment | Other | Total | of which disposal group pro forma | of which disposal group published |
|---|---|---|---|---|---|---|---|
| Cost as at 1 Jan 2010 | 263,749 | 59,575 | 102,136 | 32,909 | 458,368 | 244,587 | 29,961 |
| Changes in the scope of consolidation | –5,180 | –393 | –3,632 | 10 | -9,195 | –9,205 | –9,205 |
| Currency translation | 1,125 | –157 | –161 | 131 | 938 | 801 | 541 |
| Additions, including transfers | 26,038 | 3,493 | 10,652 | 3,107 | 43,290 | 7,662 | 1,336 |
| Disposals, including transfers | –9,926 | –7,405 | –6,659 | –3,482 | –27,471 | –10,300 | –340 |
| Cost as at 31 Dec 2010 | 275,806 | 55,112 | 102,336 | 32,675 | 465,930 | 233,544 | 22,294 |
| Changes in the scope of consolidation | –25,238 | –5,954 | –12,285 | –11,460 | –54,937 | –22,294 | |
| Currency translation | –3,260 | –1,581 | –1,278 | –952 | –7,072 | –5,999 | |
| Additions, including transfers | 3,639 | 6,108 | 6,021 | 4,692 | 20,461 | 10,124 | |
| Disposals, including transfers | –3,728 | –7,235 | –7,347 | –4,607 | –22,916 | –12,159 | |
| **Cost as at 31 Dec 2011** | **247,219** | **46,451** | **87,448** | **20,348** | **401,466** | 203,218 | |

| Euro thousand | Land and buildings | EDP-equipment | Office furniture and equipment | Other | Total | of which disposal group pro forma | of which disposal group published |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| Cost as at 31 Dec 2010 | 275,806 | 55,112 | 102,336 | 32,675 | 465,930 | 233,544 | 22,294 |
| Cumulative write-downs and reversals | –70,791 | –45,584 | –71,116 | –15,296 | –202,787 | –121,315 | –7,241 |
| **Carrying amount as at 31 Dec 2010** | **205,015** | **9,529** | **31,220** | **17,379** | **263,144** | 112,229 | 15,053 |
| Depreciation in fiscal year | –8,489 | –6,422 | –7,897 | –3,493 | –26,301 | –14,760 | –231 |
| Impairments in fiscal year | –2,280 | –84 | –119 | –2 | –2,485 | –310 | 0 |
| Carrying amount as at 1 Jan 2010 | 202,129 | 13,196 | 32,326 | 19,705 | 267,356 | 126,882 | 19,485 |
| **2011** | | | | | | | |
| Cost as at 31 Dec 2011 | 247,219 | 46,451 | 87,448 | 20,348 | 401,466 | 203,218 | |
| Cumulative write-downs and reversals | –68,681 | –38,006 | –65,028 | –13,080 | –184,795 | –114,297 | |
| **Carrying amount as at 31 Dec 2011** | **178,539** | **8,445** | **22,419** | **7,268** | **216,671** | 88,920 | |
| Depreciation in fiscal year | –8,338 | –4,957 | –6,299 | –3,761 | –23,354 | –12,702 | |
| Impairments in fiscal year | –800 | –31 | –183 | –76 | –1,090 | –329 | |

## 24) Tax assets

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31.12.2010 |
|---|---|---|---|
| Current tax assets | 22,870 | 25,969 | 34,319 |
| Deferred tax assets | 111,116 | 170,110 | 175,825 |
| **Tax assets** | **133,985** | **196,079** | **210,144** |

The table below shows the differences resulting from the balance sheet figures reported in accordance with Austrian tax legislation and IFRS giving rise to deferred tax assets.

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Loans and advances to credit institutions | 12 | 2 | 2 |
| Loans and advances to customers, including risk provisions | 43,263 | 40,222 | 44,320 |
| Trading assets | 1,799 | 1,790 | 1,987 |
| Financial investments | 19,249 | 35,521 | 35,894 |
| Assets for operating lease (including investment property) | 1,312 | 837 | 837 |
| Participations | 10,384 | 2,086 | 2,453 |
| Intangible and tangible fixed assets | 86 | 104 | 284 |
| Amounts owed to credit institutions | 25,831 | 23,777 | 23,777 |
| Amounts owed to customers | 28,679 | 22,643 | 22,643 |
| Debts evidenced by certificates and subordinated liabilities | 115,091 | 83,700 | 83,700 |
| Trading liabilities | 0 | 0 | 48 |
| Provisions for pensions, severance payments and other provisions | 17,699 | 11,370 | 12,688 |
| Other assets and liabilities | 230,082 | 132,587 | 134,878 |
| Tax loss carryforwards | 79,715 | 135,026 | 139,457 |
| Deferred taxes before netting | 573,203 | 489,664 | 502,968 |
| Offset against liabilities side deferred taxes | –462,087 | –319,554 | –327,143 |
| **Reported deferred tax assets** | **111,116** | **170,110** | **175,825** |

Deferred tax assets and deferred tax liabilities can only be offset to the extent that they relate to the same company.

For verification of the usability of tax loss carryforwards a period up to 5 years was taken as a basis according to the Group's tax planning.

## 25) Other assets

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Deferred items | 11,138 | 11,314 | 24,524 |
| Other receivables and assets | 456,519 | 174,746 | 202,451 |
| Positive fair value from derivatives in the investment book | 1,551,398 | 1,218,974 | 1,145,537 |
| **Other assets** | **2,019,055** | **1,405,034** | **1,372,512** |

The table below shows the fair values of derivatives used in hedge accounting in accordance with IFRS.

| | 31 Dec 2011 | | 31 Dec 2010 pro forma | | 31 Dec 2010 | |
|---|---|---|---|---|---|---|
| Euro thousand | Fair value hedge | Cash flow hedge | Fair value hedge | Cash flow hedge | Fair value hedge | Cash flow hedge |
| Exchange rate related transactions | 739 | 0 | 8,546 | 0 | 8,546 | 0 |
| Interest rate related transactions | 730,854 | 2,384 | 656,061 | 2,723 | 656,061 | 13,208 |
| Positive fair value from derivatives | 731,594 | 2,384 | 664,607 | 2,723 | 664,607 | 13,208 |

## 26) Amounts owed to credit institutions

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Central banks | 652,075 | 570,036 | 570,042 |
| Other credit institutions | 10,997,676 | 9,879,024 | 13,807,088 |
| **Amounts owed to credit institutions** | **11,649,751** | **10,449,060** | **14,377,129** |

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| on demand | 4,178,088 | 3,862,774 |
| up to 3 months | 3,232,318 | 2,505,355 |
| up to 1 year | 996,818 | 645,322 |
| up to 5 years | 1,931,819 | 3,889,460 |
| more than 5 years | 1,310,708 | 3,474,218 |
| **Amounts owed to credit institutions** | **11,649,751** | **14,377,129** |

## 27) Amounts owed to customers

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Measured at fair value through profit or loss | 0 | 0 | 21,934 |
| Measured at amortised cost | 2,712,738 | 3,036,231 | 7,289,998 |
| Saving deposits | 198 | 196 | 125,718 |
| Other deposits | 2,712,540 | 3,036,036 | 7,164,280 |
| **Amounts owed to customers** | **2,712,738** | **3,036,231** | **7,311,931** |

Amounts owed to customers have been designated at fair value through profit or loss as the Group manages these financial liabilities on a fair value basis in accordance with its investment strategy. Internal reporting and performance measurement for these liabilities are conducted on a fair value basis.

In 2010, the carrying amount of the amounts owed to customers designated at fair value through profit or loss exceeded the redemption amount at maturity by euro 84 thousand. As the amount of fair value is geared to the performance of the underlying, there were no fair value changes in year 2010 that can be traced back to a change of the own credit risk.

Breakdown by residual term

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| on demand | 839,290 | 2,641,027 |
| up to 3 months | 212,497 | 1,728,492 |
| up to 1 year | 118,696 | 980,258 |
| up to 5 years | 361,545 | 573,541 |
| more than 5 years | 1,180,710 | 1,388,613 |
| **Amounts owed to customers** | **2,712,738** | **7,311,931** |

## 28) Debts evidenced by certificates

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Mortgage and local authority bonds | 0 | 0 | 233,244 |
| Bonds | 13,452,120 | 15,885,571 | 15,888,266 |
| **Debts evidenced by certificates** | **13,452,120** | **15,885,571** | **16,121,510** |

Debts evidenced by certificates are measured at amortised cost.

Breakdown by residual term

| EUR Tsd. | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| up to 3 months | 1,506,748 | 780,327 |
| up to 1 year | 2,134,860 | 2,128,394 |
| up to 5 years | 5,577,159 | 8,603,261 |
| more than 5 years | 4,233,352 | 4,609,528 |
| **Debts evidenced by certificates** | **13,452,120** | **16,121,510** |

## 29) Trading liabilities

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Negative fair value from derivatives | | | |
| Exchange rate related transactions | 36,828 | 40,975 | 41,095 |
| Interest rate related transactions | 1,594,609 | 1,206,644 | 1,203,412 |
| Other transactions | 0 | 212,923 | 212,923 |
| **Trading liabilities** | **1,631,437** | **1,460,542** | **1,457,430** |

## 30) Provisions

| EUR Tsd. | Provisions for risk | Other provisions | Total | of which disposal group pro forma | of which disposal group published |
|---|---|---|---|---|---|
| As at 1 Jan 2010 | 54,108 | 75,199 | 129,307 | 16,892 | 12,286 |
| Changes in the scope of consolidation | –1,073 | –122 | –1,196 | –1,196 | –1,196 |
| Currency translation | 420 | –50 | 371 | 22 | –66 |
| Reclassification | –16,802 | 9,369 | –7,434 | –21 | –21 |
| Utilisation | –134 | –14,387 | –14,520 | –2,459 | –1,697 |
| Release | –16,808 | –15,812 | –32,621 | –3,329 | –1,884 |
| Addition | 8,032 | 44,541 | 52,574 | 6,001 | 2,956 |
| As at 31 Dec 2010 | 27,743 | 98,738 | 126,481 | 15,910 | 10,378 |
| Changes in the scope of consolidation | –202 | –14,619 | 14,822 | –10,378 | |
| Currency translation | –14 | –855 | –869 | –835 | |
| Reclassification | –2,306 | 6,564 | 4,258 | 0 | |
| Utilisation | –3,120 | –24,677 | –27,796 | –1,675 | |
| Release | –3,633 | –38,148 | –41,781 | –2,090 | |
| Addition | 9,966 | 72,471 | 82,436 | 8,527 | |
| **As at 31 Dec 2011** | **28,433** | **99,474** | **127,907** | **9,460** | |

Provisions for risk include provisions for off-balance transactions particularly for commitments and guarantees.

Other provisions consist of provisions recognised for obligations that are likely to lead to an outflow of resources in the future. In 2011, a provision for restructuring costs in the amount of euro 41,450 thousand was built. Beside provisions for risk from real estate project and other participations the other provisions include provisions for pending legal proceedings

## 31) Long-term employee provisions

| Euro thousand | Provisions for pension | Provisions for severance payments | Provisions for anniversary bonuses | Total | of which disposal group pro forma | of which disposal group published |
|---|---|---|---|---|---|---|
| Long-term employee provisions as at 1 Jan 2010 | 71,462 | 27,968 | 4,643 | 104,073 | 4,928 | 1,441 |
| Changes in the scope of consolidation | –169 | –753 | –128 | –1,050 | –1,203 | –1,203 |
| Current service costs | 537 | 1,824 | 467 | 2,829 | 536 | 33 |
| Interest costs | 3,789 | 1,345 | 247 | 5,382 | 236 | 16 |
| Payments | –4,203 | –1,765 | –312 | –6,280 | –238 | –20 |
| Actuarial gains or losses | 14,886 | –409 | –338 | 14,140 | 287 | 92 |
| Net present value as at 31 Dec 2010 | 86,302 | 28,211 | 4,581 | 119,094 | 4,545 | 359 |
| Unrecognised actuarial gains or losses | –8,630 | 408 | 0 | –8,222 | –691 | –89 |
| Long-term employee provisions as at 31 Dec 2010 | 77,672 | 28,619 | 4,581 | 110,872 | 3,854 | 270 |
| Changes in the scope of consolidation | 0 | –467 | 4 | –463 | –220 | |
| Current service costs | 483 | 1,994 | 419 | 2,895 | 488 | |
| Interest costs | 3,600 | 1,229 | 202 | 5,031 | 185 | |
| Payments | –3,226 | –1,514 | –231 | –4,971 | -61 | |
| Actuarial gains or losses | 7,348 | 1,708 | –319 | 8,737 | 96 | |
| Net present value as at 31 Dec 2011 | 85,877 | 31,569 | 4,655 | 122,101 | 4,342 | |
| Unrecognised actuarial gains or losses | –8,588 | –1,708 | 0 | –10,296 | –168 | |
| **Long-term employee provisions as at 31 Dec 2011** | **77,289** | **29,861** | **4,655** | **111,805** | **4,174** | |

Net present value of plan assets

| Euro thousand | Provisions for pensions | of which disposal group pro forma | of which disposal group published |
|---|---|---|---|
| Net present value of plan assets as at 1 Jan 2010 | 40,067 | 51 | 51 |
| Return on plan assets | 2,163 | 2 | 2 |
| Contributions | 546 | 0 | 0 |
| Payments | –2,047 | 0 | 0 |
| Actuarial gains or losses | –91 | 0 | 0 |
| Net present value of plan assets as at 31 Dec 2010 | 40,611 | 52 | 52 |
| Changes in the scope of consolidation | 0 | –52 | |
| Return on plan assets | 1,692 | 0 | |
| Contributions | 581 | 0 | |
| Payments | –2,144 | 0 | |
| Actuarial gains or losses | –4,971 | 0 | |
| **Net present value of plan assets as at 31 Dec 2011** | **35,769** | 0 | |

| Euro thousand | Provisions for pensions | Provisions for severanve payments | Provisions for anniversary bonuses | Total |
|---|---|---|---|---|
| 31 Dec 2010 | | | | |
| Long-term employee provisions | 77,672 | 28,619 | 4,581 | 110,872 |
| Net present value of plan assets | –40,611 | 0 | 0 | –40,611 |
| **Net liability recognised in balance sheet** | **37,061** | **28,619** | **4,581** | **70,261** |
| of which disposal group | –1 | 3,301 | 500 | 3,800 |
| 31 Dec 2011 | | | | |
| Long-term employee provisions | 77,289 | 29,861 | 4,655 | 111,805 |
| Net present value of plan assets | –35,769 | 0 | 0 | –35,769 |
| **Net liability recognised in balance sheet** | **41,521** | **29,861** | **4,655** | **76,036** |
| of which disposal group | 0 | 3,700 | 475 | 4,175 |

Historical information

| Euro thousand | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Net present value of obligation | 122,101 | 119,094 | 103,928 | 112,923 | 142,524 |
| Net present value of plan assets | 35,769 | 40,611 | 40,067 | 33,042 | 43,848 |

## 32) Tax liabilities

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Current tax liabilities | 9,315 | 5,676 | 7,986 |
| Deferred tax liabilities | 74,378 | 81,920 | 84,388 |
| **Tax liabilities** | **83,693** | **87,596** | **92,373** |

The table below shows the differences resulting from the balance sheet figures reported in accordance with Austrian tax legislation and IFRS giving rise to deferred tax liabilities..

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Loans and advances to credit institutions | 474 | 680 | 680 |
| Loans and advances to customers, including risk provisions | 53,352 | 71,610 | 75,918 |
| Financial investments | 9,402 | 14,355 | 14,364 |
| Assets for operating lease (including investment property) | 8,177 | 14,038 | 14,049 |
| Participations | 95,099 | 49,406 | 49,722 |
| Intangible and tangible fixed assets | 5,352 | 11,550 | 14,037 |
| Amounts owed to credit institutions | 4,555 | 5,395 | 5,395 |
| Amounts owed to customers | 16 | 67 | 67 |
| Debts evidenced by certificates and subordinated liabilities | 8,082 | 7,482 | 7,561 |
| Provisions for pensions, severance payments and other provisions | 8,233 | 13 | 158 |
| Other assets and liabilities | 328,710 | 211,984 | 214,685 |
| Other balance sheet items | 15,013 | 14,895 | 14,895 |
| Deferred taxes before netting | 536,465 | 401,474 | 411,531 |
| Offset against asset-side deferred taxes | –462,087 | –319,554 | –327,143 |
| **Reported deferred tax liabilities** | **74,378** | **81,920** | **84,388** |

## 33) Other liabilities

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Deferred items | 19,714 | 30,293 | 39,154 |
| Other liabilities | 540,009 | 467,504 | 495,650 |
| Negative fair value from derivatives in the investment book | 1,368,106 | 1,353,114 | 1,194,463 |
| **Other liabilities** | **1,927,828** | **1,850,911** | **1,729,266** |

The table below shows the fair values of derivatives used in hedge accounting in accordance with IFRS

| | 31 Dec 2011 | | 31 Dec 2010 pro forma | | 31 Dec 2010 | |
|---|---|---|---|---|---|---|
| Euro thousand | Fair value hedge | Cash flow hedge | Fair value hedge | Cash flow hedge | Fair value hedge | Cash flow hedge |
| Exchange rate related transactions | 63,625 | 0 | 50,969 | 433 | 50,969 | 433 |
| Interest rate related transactions | 357,417 | 1,801 | 408,164 | 15,854 | 408,121 | 10,261 |
| **Negative fair value from derivatives** | **421,042** | **1,801** | **459,133** | **16,287** | **459,090** | **10,694** |

## 34) Subordinated liablities

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 |
|---|---|---|---|
| Subordinated liabilities | 844,523 | 858,453 | 936,458 |
| Supplementary capital | 884,135 | 927,462 | 927,466 |
| **Subordinated liabilities** | **1,728,658** | **1,785,916** | **1,863,924** |

Subordinated liabilities are measured at amortised cost.

Subordinated liabilities comprise hybrid tier I capital in the amount of euro 300,000 thousand (2010 pro forma and published: euro 300,000 thousand).

Breakdown by residual term

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| up to 3 months | 28,533 | 62 |
| up to 1 year | 5,293 | 46,508 |
| up to 5 years | 720,792 | 450,029 |
| more than 5 years | 974,040 | 1,367,325 |
| **Subordinated liabilities** | **1,728,658** | **1,863,924** |

## 35) Cash flows on the liability side

The table below presents the future cash flows on the liabilities side classified according to their maturity

| Euro thousand | Amounts owed to credit institutions | Amounts owed to customers | Debt evidenced by certificates | Subordinated liabilities | Derivatives trading book | Derivatives investments book |
|---|---|---|---|---|---|---|
| **31 Dec 2011** | | | | | | |
| Carrying amount | 11,649,751 | 2,712,738 | 13,452,120 | 1,728,658 | 1,631,437 | 1,368,106 |
| **Undiscouned cash flows** | **12,273,992** | **3,467,343** | **15,768,246** | **2,054,954** | **2,822,607** | **1,245,940** |
| up to 3 months | 7,480,082 | 1,134,275 | 1,517,555 | 31,271 | 0 | 6,206 |
| up to 1 year | 1,301,967 | 180,344 | 2,483,201 | 18,959 | 99,418 | 200,126 |
| up to 5 years | 1,960,778 | 600,637 | 6,732,370 | 989,587 | 585,867 | 408,222 |
| more than 5 years | 1,531,165 | 1,552,086 | 5,035,119 | 1,015,137 | 2,137,323 | 631,386 |
| **31 Dec 2010** | | | | | | |
| Carrying amount | 14,377,129 | 7,311,931 | 16,121,510 | 1,863,924 | 1,457,430 | 1,194,463 |
| **Undiscouned cash flows** | **16,131,840** | **8,149,018** | **19,471,931** | **2,472,365** | **1,832,287** | **1,316,061** |
| up to 3 months | 6,464,231 | 4,389,648 | 829,713 | 8,678 | 222 | 2,557 |
| up to 1 year | 819,885 | 1,056,047 | 2,569,492 | 66,149 | 105,884 | 411,699 |
| up to 5 years | 5,187,707 | 829,605 | 9,726,921 | 505,872 | 418,030 | 298,827 |
| more than 5 years | 3,660,018 | 1,873,719 | 6,345,806 | 1,891,667 | 1,308,151 | 602,977 |

The values of 2010 include the disposal group Retail and Real Estate, the amounts in 2011 are shown without the disposal group.

Cash flows for contingent liabilities are displayed in chapter 46) Contingent liabilities and credit risks.

## 36) Equity

Till 31 December 2011, the subscribed capital of VBAG before deduction of treasury stocks amounted to euro 311,095 thousand. It consists of individual no-par value shares as follows:

| | | Euro thousand |
|---|---|---|
| 10 | registered shares | 0 |
| 40,124,990 | bearer shares | 291,709 |
| 2,666,666 | non-voting prefered bearer shares | 19,386 |
| | | **311,095** |

To implement the stabilisation package agreed on 27 February 2012, the following resolutions concerning a capital reduction are intended to be passed at the Annual General Meeting on 26 April 2012:

- 70% capital reduction – Resolution on reducing capital with retroactive effect from 31 December 2011 in accordance with sections 188 and 189 of the Austrian Stock Corporation Act by 70% of share capital and participation capital as part of a simplified capital reduction.
- Euro 484 million capital increase – Resolution on increasing the reduced share capital by euro 483,999,999.91 by issuing 221,916,552 new shares. These shares are to be subscribed by the Republic of Austria and Volksbanken Holding eGen.
- Conversion of VBAG preferred shares into ordinary shares – Resolution on removing the preference dividend for all non-voting pre ferred bearer shares. When this is implemented, these shares would become voting ordinary shares.

After the above mentioned capital measures the subscribed capital will consist of 264,708,218 shares with a nominal value of euro 577,328,623.46 zusammen.

On 7 April 2009, participation capital in the amount of euro one billion was subscribed by the Austrian Republic. The participation capital has tranches per euro 50 millions. Regarding interest we refer to chart Group issues in chapter 37) Own resources according to Austrian Banking Act. VBAG has the possibility, through an exercise of call options, to decrease the participation capital in its tranches anytime. At balance sheet date, the participation capital was totally held by the Austrian Republic. The participation capital issued in 2008 amounting to euro 500 thousand is reported in position subordinated liabilities.

In addition to its equity, VBAG reported participation capital with a nominal value of euro 1,034,078 thousand at 31 December 2011 (2010: euro 1,034,078 thousand). The participation certificates are made out to bearers and their terms of issue and the contributions paid correspond to the provisions of section 23 (4) of the Austrian Banking Act. After the above descrige capital measures VBAG will report participation capital with a nominal value of euro 460,223 thousand.

### Changes in subscribed capital

| | 31 Dec 2011 | | 31 Dec 2010 | |
|---|---|---|---|---|
| Number of units | Shares | Participations certificates | Shares | Participation certificates |
| Shares and participation certificates outstanding as at 1 Jan | 42,096,395 | 167,710 | 42,098,314 | 169,625 |
| Disposal of treasury stocks and participation certificates | -1,156 | –4,772 | 0 | 50 |
| Addition of treasury stocks and participation certificates | 0 | 2 | –1,919 | –1,965 |
| Shares and participations certificates outstanding as at 31 Dec | 42,095,239 | 162,940 | 42,096,395 | 167,710 |
| Treasury stocks and participation certificates | 696,427 | 17,509 | 695,271 | 12,739 |
| **Shares and participation certificates as at 31 Dec** | **42,791,666** | **180,449** | **42,791,666** | **180,449** |

20,449 pieces (2010: 20,449 pieces) of circulating and of total issued participation certificates have a face value of euro 50 thousand per certificate. The remaining participation certificates have a face value of euro 72.67 per certificate.

At the extraordinary general meeting on 15 December 2008, a contingent capital increase of up to euro 156 million through the issue of ordinary shares was resolved. This capital increase may only be carried out to the extent that the bearers of the participation capital issued in line with the resolution of the general meeting on 15 December 2008 make use of their conversion rights (authorised capital).

### Dividend payment including participation capital

| Euro thousand | 2011 | 2010 |
|---|---|---|
| Dividend voting capital | 0 | 0 |
| Dividend non-voting capital | 0 | 0 |
| **Total** | **0** | **0** |

In the business year 2012 there will be no dividends on shares or participation capital paid.

## 37) Own resources according to Austrian Banking Act

The own funds of the VBAG Group of credit institutions which were calculated pursuant to the Austrian Banking Act can be broken down as follows (the amounts include the disposal group)

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| Subscribed capital (less treasury stocks) | 1,031,217 | 1,839,193 |
| Open reserves (including differential amounts and non-controlling interests) | 1,833,768 | 983,086 |
| Funds for general banking risks | 10,667 | 10,821 |
| Intangible assets | –40,207 | –39,379 |
| Net loss | –484,287 | –101,975 |
| Core capital (tier I capital) before deductions | 2,351,158 | 2,691,746 |
| Deductions from core capital (50% deduction pursuant to section 23 (13) Austrian Banking Act) | –46,119 | –79,112 |
| Core capital (tier I capital) after deductions | 2,305,040 | 2,612,634 |
| Supplementary capital | 220,573 | 382,080 |
| Eligible subordinated liabilities | 648,281 | 564,841 |
| Hidden reserves persuant to section 57 (1) Austrian Banking Act | 39,064 | 64,092 |
| IRB risk provision surplus | 62,684 | 0 |
| Supplementary capital (tier II capital) before deductions | 970,602 | 1,011,013 |
| Deductions from supplementary capital (50% deduction pursuant to section 23 (13) Austrian Banking Act) | –46,119 | –79,112 |
| Supplementary capital (tier II capital) after deductions | 924,483 | 931,901 |
| Deductions from own funds pursuant to section 103e no. 13 Austrian Banking Act | –24,297 | -23,385 |
| Short-term subordinated liabilities (tier III capital) | 120,866 | 41,844 |
| **Eligible qualifying capital** | **3,326,092** | **3,562,994** |
| Capital requirement | 2,100,985 | 2,230,461 |
| Surplus capital | 1,225,107 | 1,332,533 |
| | | |
| Core capital ratio (tier I) (in relation to the assessment base pursuant to section 22 Austrian Banking Act - credit risk) | 10.05% | 10.26% |
| Equity ratio (solvency ratio) (in relation to credit risk after deduction of capital requirements for market and operational risk) | 13.34% | 13.24% |
| Core capital ratio (in relation to the risks pursuant to section 22 (1) no. 1 - 5 Austrian Banking Act ) | 8.78% | 9.37% |
| Equity ratio ( in relation to the risks pursuant to section 22 (1) no. 1 - 5 Austrian Banking Act) | 12.66% | 12.78% |

The capital measures (capital reduction and increase) agreed in the term sheet as at 27 February 2012 are included in the own funds calculated pursuant to the Austrian Banking Act. According to IFRS these measures can only be included in the consolidated financial statements after legal effect.

Open reserves include hybrid tier I capital totalling euro 300,000 thousand (2010 pro forma and published: euro 300,000 thousand). Due to consolidation activities hybrid tier I capital of euro 53,123 thousand is not accounted anymore as eligible tier I capital since March 2010.

The risk-weighted assessment base as defined by the Austrian Banking Act and the ensuing capital requirements changed as follows

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| Risk-weighted assessment base pursuant to section 22 Austrian Banking Act - credit risk | 22,946,850 | 25,453,573 |
| Of which 8% minimum capital requirement for credit risk | 1,835,748 | 2,036,286 |
| Capital requirement for position risk in debt instruments, equities, foreign exchange and commodities - market risk | 120,866 | 53,595 |
| Capital requirement for operational risk | 144,371 | 140,580 |
| **Total capital requirement** | **2,100,985** | **2,230,461** |

## Group issues which are included in Tier I or Tier II

| Name | Identification IFRS | Redemption date | Conditions | Nominal value in euro thousand |
|---|---|---|---|---|
| **Tier I issues** | | | | |
| Participation certificate 1986 | equity | perpetual | Dividends | 11,628 |
| Participation certificate 2006 | equity | perpetual | Average 3m Euribor + 130 bp | 22,450 |
| Participation certificate 2008 | subordinated liabilities | perpetual | 10.00% p.a.; from 18 Jun 2018: 6m Euribor + 100 bp + initial spread (or remarketing) | 500,000 |
| Participation certificate 2009 | equity | perpetual | Dividends: 9.30% p.a., in year 6 of duration: 9.80% p.a., in year 7 of duration: 10.30% p.a., in year 8 of duration: 11.05% p.a., from year 9 of duration: respectively interest rate of previous year + 100 bp p.a., max, 12m Euribor + 1000 bp | 1,000,000 |
| VBAG Fixed/Floating Rate Perpetual Preferred Securities 2004 | subordinated liabilities | perpetual | 6.00% p.a.; from 22 Sep 2005 10Y-Mid Swap + 10 bp p.a., Cap 9.00% p.a. | 250,000 |
| Subordinated non-cumulative Limited Recourse Note | subordinated liabilities | perpetual | 3m Euribor + 165 bp p.a. | 50,000 |
| **Tier II issues** | | | | |
| Supplementary bond capital 04/14 | subordinated liabilities | 22.04.2014 | 2005: 4.00% p.a.; 2006: 4.13% p.a.; 2007: 4.25% p.a.; 2008: 4.50% p.a.; 2009: 4.75% p.a.; 2010: 5.00% p.a.; 2011: 5.25% p.a.; 2012: 5.50% p.a.; 2013: 6.00% p.a.; 2014: 7.00% p.a. | 59,000 |
| Supplementary bond capital 04/24 | subordinated liabilities | 16.04.2024 | 5.5% p.a.; from 16 April 2014: 6.375% | 33,000 |
| Supplementary bond capital 04/24 | subordinated liabilities | 29.04.2024 | 5.65% p.a.; from 29 April 2014: 6.375% p.a. | 21,000 |
| Supplementary bond capital 04/19 | subordinated liabilities | 02.08.2019 | 5.45% p.a. | 5,400 |
| Supplementary bond capital 05/15 | subordinated liabilities | 29.07.2015 | 6m Euribor + 70 bp | 17,600 |
| Supplementary bond capital 05/15 | subordinated liabilities | 29.07.2015 | 4.17% p.a. | 21,000 |
| Supplementary bond capital 05/25 | subordinated liabilities | 29.07.2025 | 4.81% p.a. | 34,700 |
| Supplementary bond capital 05/18 | subordinated liabilities | 29.07.2018 | 6m Euribor + 72 bp; from 29 July 2015: 6m Euribor + 180 bp | 63,400 |
| Supplementary bond capital 05/20 | subordinated liabilities | 07.09.2020 | 2006: 3.00% p.a.; 2007: 3.125% p.a.; 2008: 3.25% p.a.; 2009: 3.375% p.a.; 2010: 3.50% p.a.; 2011: 3.625% p.a.; 2012: 3.75% p.a.; 2013: 3.875% p.a.; 2014: 4.00% p.a.; 2015: 4.25% p.a.; 2016: 4.50% p.a.; 2017: 5.00% p.a.; 2018: 6.00% p.a.; 2019: 7.00% p.a.; 2020: 8.00% p.a. | 7,000 |
| Supplementary bond capital 05/25 | subordinated liabilities | 18.08.2025 | 4.90% p.a. | 7,500 |
| Supplementary bond capital 05/18 | subordinated liabilities | 16.11.2018 | 4.35% p.a. | 10,000 |
| Supplementary bond capital 06/19 | subordinated liabilities | 09.08.2019 | 6m Euribor + 72 bp; from 09 Aug 2016: 6m Euribor + 150 bp | 12,000 |
| Supplementary bond capital 01/21 | subordinated liabilities | 08.03.2021 | 7.00% p.a. | 15,000 |
| Supplementary bond capital 02/22 | subordinated liabilities | 20.06.2022 | 6.7% p.a.; from 20 Jun 2012: 7.00% | 11,000 |
| Supplementary bond capital 02/22 | subordinated liabilities | 24.07.2022 | 10Y CMS, at least 6.00% p.a.; from 24 July 2012: 7.00% p.a. | 5,000 |
| Supplementary bond capital 02/12 | subordinated liabilities | 24.09.2012 | 107.25% from 10Y CMS, max. 7.00% | 5,000 |
| Supplementary bond capital 01-21 | subordinated liabilities | 06.03.2021 | 7.00% p.a. | 30,000 |
| ERP Fonds | subordinated liabilities | 31.12.2018 | 1.00% p.a. | 3,339 |
| ERP Fonds | subordinated liabilities | 31.12.2012 | 2.00% p.a. | 763 |
| ERP Fonds | subordinated liabilities | 31.12.2013 | 2.00% p.a. | 1,370 |
| ERP Fonds | subordinated liabilities | 31.12.2014 | 2.00% p.a. | 1,442 |
| Subordinated zero bond liability 06/16 | subordinated liabilities | 03.10.2016 | 0% p.a. | 20,000 |
| Subordinated CMS Floater to Fix 07/17 | subordinated liabilities | 30.03.2017 | 10Y CMS; from 30 Mar 2012: 6.00% p.a. | 4,000 |
| Subordinated Merkur Best of Life II Garant 08-20 | subordinated liabilities | 01.12.2020 | 0% p.a. | 3,000 |

| Name | Identification IFRS | Redemption date | Conditions | Nominal value in euro thousand |
|---|---|---|---|---|
| Subordinated bond liability 03/23 | subordinated liabilities | 25.09.2023 | 5.72% p.a.; from 25 Sep 2013: 6.00% p.a. | 12,000 |
| Subordinated bond liability 01/21 | subordinated liabilities | 15.03.2021 | 6.50% p.a.; from 15 Mar 2011: 6.75% p.a. | 15,000 |
| Subordinated Lower Tier II Notes due November 2016 | subordinated liabilities | 28.11.2016 | 3m Euribor + 35 bp; from 28 Nov 2011: 3m Euribor + 85 bp | 238,250 |
| Subordinated bond liability 02/22 | subordinated liabilities | 25.01.2022 | 6.35% p.a.; from 25 Jan 2012: 7% p.a. | 30,000 |
| Subordinated zero bond liability 07/17 | subordinated liabilities | 03.04.2017 | 0% p.a. | 20,000 |
| Subordinated bond liability 07/27 | subordinated liabilities | 08.02.2027 | 5.27% p.a. | 14,000 |
| Subordinated bond liability 06/26 | subordinated liabilities | 19.01.2026 | 4.05% p.a.; from 19 Jan 2016: 5.00% p.a. | 25,000 |
| Subordinated bond liability 02/22 | subordinated liabilities | 18.01.2022 | 6.35% p.a.; from 18 Jan 2012: 7% p.a. | 3,000 |
| Subordinated zero bond liability 06/16 | subordinated liabilities | 01.06.2016 | 0% p.a. | 12,600 |
| Subordinated bond liability 03/13 | subordinated liabilities | 10.09.2013 | 80.00% from 10Y CMS + 75 bp, at least 4.00% p.a., max. 7.25% p.a. | 8,000 |
| Promissory note bond | subordinated liabilities | 18.01.2017 | 5.00% p.a. | 3,000 |
| Promissory note bond | subordinated liabilities | 15.05.2017 | 4.87% p.a. | 10,000 |
| Promissory note bond | subordinated liabilities | 30.05.2017 | 5.01% p.a. | 10,000 |
| Promissory note bond | subordinated liabilities | 30.05.2017 | 5.01% p.a. | 10,000 |
| Subordinated Investkredit bond 97/12 | subordinated liabilities | 07.01.2012 | 6.50% | 21,802 |
| Subordinated Investkredit-Floater 99/14 | subordinated liabilities | 14.05.2014 | 93,00% from 10Y-Swapinterests, | 18,000 |
| Subordinated Investkredit FRN 00/20 | subordinated liabilities | 14.03.2020 | 3m Euribor + 53 bp | 5,000 |
| Subordinated Investkredit bond 01/16 | subordinated liabilities | 12.02.2016 | 6.40% p.a. | 20,000 |
| Subordinated Investkredit Fix-Reverse-Floater 02/12 | subordinated liabilities | 22.03.2012 | 7.50% p.a.; from 22 Mar 2004: 10.75% p.a. – 12m Euribor | 5,000 |
| Subordinated Euro CMS linked Floating Rate Notes 02/22 | subordinated liabilities | 12.04.2022 | if 10Y CMS < or = 4.50%, then 10Y CMS + 300 bp; then 10Y CMS > 4.50%, then 10Y CMS; then 10Y CMS > 7.00%, then 7.00% p.a. | 4,000 |

In accordance with IFRS reporting, the scope of consolidation differs from the group of consolidated companies under the Austrian Banking Act as the IFRS provides for the inclusion of other entities not belonging to the banking sector. According to the Austrian Banking Act, credit institutions, financial institutions and subsidiaries providing banking-related auxiliary services that are under the control of the parent are fully consolidated. Therefore VB RO and VBI Beteiligungs GmbH are still included in the group of credit institutions and are fully consolidated for the purpose of calculation of own resources and capital requirements. The carrying amount of financial institutions that are controlled by the parent but that are not significant for the presentation of the group of credit institutions according to section 24 (3a) of the Austrian Banking Act is deducted from own funds. Subsidiaries providing banking-related auxiliary services that are controlled by the parent but that are not consolidated in accordance with section 24 (3a) of the Austrian Banking Act are included in the assessment base at their carrying amounts. Subsidiaries which are managed jointly with non-Group companies are proportionately consolidated. Investments in credit and financial institutions with a share of between 10% and 50% that are not jointly managed are also deducted from own funds unless they are voluntarily consolidated on a pro rata basis. Investments in credit and financial institutions of less than 10% are deducted from own funds only if the exemption threshold is exceeded. All other participating interests are included in the assessment base at their carrying amounts.

All credit institutions under control are considered in the scope of consolidation according to the Austrian Banking Act.

In 2011, no substantial, practical or legal obstacles existed which would have prevented the transfer of equity or the repayment of liabilities between the parent institution and institutions subordinated to the former.

## 38) Financial assets and liabilities

The table below shows financial assets and liabilities in accordance with their individual categories and their fair values.

| Euro thousand | Note | Held for trading | At fair value through profit or loss | Held to maturity | Available for sale | Amortised cost | Carrying amount-total | Fair value |
|---|---|---|---|---|---|---|---|---|
| **31 Dec 2011** | | | | | | | | |
| Liquid funds | 13 | 0 | 0 | 0 | 0 | 430,943 | 430,943 | 430,943 |
| Loans and advances to credit institutions | 14 | 0 | 0 | 0 | 0 | 7,964,310 | 7,964,310 | 7,963,608 |
| Loans and advances to customers | 15 | 0 | 0 | 0 | 0 | 12,717,062 | 12,717,062 | 11,817,152 |
| Trading assets | 17 | 2,102,213 | 0 | 0 | 0 | 0 | 2,102,213 | 2,102,213 |
| Financial investments | 18 | 0 | 495,578 | 1,375,899 | 3,467,590 | 1,456,567 | 6,795,633 | 6,537,627 |
| Participations | 21 | 0 | 0 | 0 | 579,583 | 0 | 579,583 | 579,583 |
| Derivatives – investment book | 25 | 1,551,398 | 0 | 0 | 0 | 0 | 1,551,398 | 1,551,398 |
| **Financial assets – total** | | **3,653,610** | **495,578** | **1,375,899** | **4,047,172** | **22,568,882** | **32,141,142** | **30,982,522** |
| Financial assets of the disposal group | 2 | 24,866 | 10,377 | 78,011 | 447,578 | 8,420,150 | 8,980,983 | 8,313,780 |
| Amounts owed to credit institutions | 26 | 0 | 0 | 0 | 0 | 11,649,751 | 11,649,751 | 11,649,751 |
| Amounts owed to customers | 27 | 0 | 0 | 0 | 0 | 2,712,738 | 2,712,738 | 2,712,738 |
| Debst evidenced by certificates | 28 | 0 | 0 | 0 | 0 | 13,452,120 | 13,452,120 | 13,110,818 |
| Trading liabilities | 29 | 1,631,437 | 0 | 0 | 0 | 0 | 1,631,437 | 1,631,437 |
| Derivatives – investment book | 33 | 1,368,106 | 0 | 0 | 0 | 0 | 1,368,106 | 1,368,106 |
| Subordinated liabilities | 34 | 0 | 0 | 0 | 0 | 1,728,658 | 1,728,658 | 1,120,473 |
| **Financial liabilities – total** | | **2,999,543** | **0** | **0** | **0** | **29,543,267** | **32,542,810** | **31,593,324** |
| Financial liabilities of the disposal group | 2 | 21,676 | 20,052 | 0 | 0 | 7,129,790 | 7,171,517 | 7,111,776 |

| Euro thousand | Note | Held for trading | At fair value through profit or loss | Held to maturity | Available for sale | Amortised cost | Carrying amount-total | Fair value |
|---|---|---|---|---|---|---|---|---|
| **31 Dec 2010** | | | | | | | | |
| Liquid funds | 13 | 0 | 0 | 0 | 0 | 1,232,787 | 1,232,787 | 1,232,787 |
| Loans and advances to credit institutions | 14 | 0 | 0 | 0 | 0 | 5,914,454 | 5,914,454 | 5,914,454 |
| Loans and advances to customers | 15 | 0 | 0 | 0 | 0 | 16,883,920 | 16,883,920 | 15,695,276 |
| Trading assets | 17 | 2,160,285 | 0 | 0 | 0 | 0 | 2,160,285 | 2,160,285 |
| Financial investments | 18 | 0 | 818,834 | 1,628,387 | 4,287,595 | 1,713,847 | 8,448,662 | 8,260,572 |
| Participations | 21 | 0 | 0 | 0 | 711,136 | 0 | 711,136 | 711,136 |
| Derivatives – investment book | 25 | 1,218,974 | 0 | 0 | 0 | 0 | 1,218,974 | 1,218,974 |
| **Financial assets – total** | | **3,379,260** | **818,834** | **1,628,387** | **4,998,731** | **25,745,008** | **36,570,219** | **35,193,485** |
| Financial assets of the disposal group | 2 | 33,340 | 12,195 | 111,415 | 340,489 | 8,290,442 | 8,787,862 | 8,340,645 |
| Amounts owed to credit institutions | 26 | 0 | 0 | 0 | 0 | 10,449,060 | 10,449,060 | 10,449,060 |
| Amounts owed to customers | 27 | 0 | 0 | 0 | 0 | 3,036,231 | 3,036,231 | 3,036,231 |
| Debst evidenced by certificates | 28 | 0 | 0 | 0 | 0 | 15,885,571 | 15,885,571 | 15,544,167 |
| Trading liabilities | 29 | 1,460,542 | 0 | 0 | 0 | 0 | 1,460,542 | 1,460,542 |
| Derivatives – investment book | 33 | 1,353,114 | 0 | 0 | 0 | 0 | 1,353,114 | 1,353,114 |
| Subordinated liabilities | 34 | 0 | 0 | 0 | 0 | 1,785,916 | 1,785,916 | 1,248,510 |
| **Financial liabilities – total** | | **2,813,656** | **0** | **0** | **0** | **31,156,779** | **33,970,435** | **33,091,625** |
| Financial liabilities of the disposal group | 2 | 26,075 | 21,934 | 0 | 0 | 9,665,102 | 9,713,111 | 9,708,706 |

Financial investments contain securities classified as held to maturity and loans & receivables with a carrying amount of euro 1,745,416 thousand (2010 pro forma and published: euro 1,842,225 thousand), a total of euro 270,577 thousand (2010 pro forma and published: euro 245,614 thousand) above their fair value, as there is no objective evidence of impairment.

Some financial investments and liabilities are assigned to categories in which they are not carried at fair value through profit or loss. However, such financial instruments are underlying instruments for fair value hedges of interest rate and foreign exchange risk, meaning that these instruments are measured at fair value with respect to the hedged interest rate and foreign exchange risk.

Carrying amounts of underlyings of fair value hedges

| | Interest rate risk | | Foreign currency risk | |
|---|---|---|---|---|
| Euro thousand | Available for sale | Amortised cost | Available for sale | Amortised cost |
| **31 Dec 2011** | | | | |
| Loans and advances to credit institutions | 0 | 14,347 | 0 | 0 |
| Loans and advances to customers | 0 | 658,501 | 0 | 90,216 |
| Financial investments | 1,547,263 | 150,471 | 132,210 | 0 |
| **Financial assets** | **1,547,263** | **823,319** | **132,210** | **90,216** |
| Financial assets of the disposal group | 0 | 16,050 | 0 | 0 |
| | | | | |
| Amounts owed to credit institutions | 0 | 1,365,663 | 0 | 0 |
| Amounts owed to customers | 0 | 817,132 | 0 | 0 |
| Debts evidenced by certificates | 0 | 9,574,901 | 0 | 90,845 |
| Subordinated liabilities | 0 | 95,000 | 0 | 0 |
| **Financial liabilities** | **0** | **11,852,696** | **0** | **90,845** |
| Financial liabilities of the disposal group | 0 | 0 | 0 | 0 |
| | | | | |
| **31 Dec 2010** | | | | |
| Loans and advances to credit institutions | 0 | 15,676 | 0 | 0 |
| Loans and advances to customers | 0 | 704,638 | 0 | 81,715 |
| Financial investments | 1,384,512 | 205,592 | 93,504 | 0 |
| **Financial assets** | **1,384,512** | **925,906** | **93,504** | **81,715** |
| Financial assets of the disposal group | 0 | 2,555 | 0 | 0 |
| | | | | |
| Amounts owed to credit institutions | 0 | 1,697,940 | 0 | 0 |
| Amounts owed to customers | 0 | 918,410 | 0 | 0 |
| Debts evidenced by certificates | 0 | 14,377,186 | 0 | 169,715 |
| Subordinated liabilities | 0 | 95,000 | 0 | 0 |
| **Financial liabilities** | **0** | **17,088,536** | **0** | **169,715** |
| Financial liabilities of the disposal group | 0 | 0 | 0 | 0 |

The table below shows all assets and liabilities which are measured at fair value classified according to their fair value hierarchy.

| Euro thousand | Level 1 | Level 2 | Total |
|---|---|---|---|
| **31 Dec 2011** | | | |
| Trading assets | 92,003 | 2,010,210 | 2,102,213 |
| Financial investments | 3,460,652 | 502,516 | 3,963,168 |
| at fair value through profit or loss | 301,572 | 194,007 | 495,578 |
| available for sale | 3,159,080 | 308,509 | 3,467,590 |
| Derivatives – investment book | 0 | 1,551,398 | 1,551,398 |
| **Total** | **3,552,655** | **4,064,124** | **7,616,778** |
| Financial assets of the disposal group | 403,231 | 75,891 | 479,123 |
| | | | |
| Amounts owed to customers | 0 | 1,631,437 | 1,631,437 |
| Derivatives – investment book | 0 | 1,368,106 | 1,368,106 |
| **Total** | **0** | **2,999,543** | **2,999,543** |
| Financial liabilities of the disposal group | 0 | 41,727 | 41,727 |
| | | | |
| **31 Dec 2010** | | | |
| Trading assets | 362,761 | 1,797,524 | 2,160,285 |
| Financial investments | 4,553,522 | 552,907 | 5,106,429 |
| at fair value through profit or loss | 635,594 | 183,239 | 818,834 |
| available for sale | 3,917,927 | 369,668 | 4,287,595 |
| Derivatives – investment book | 0 | 1,218,974 | 1,218,974 |
| **Total** | **4,916,283** | **3,569,406** | **8,485,689** |
| Financial assets of the disposal group | 4,757 | 354,355 | 359,112 |
| | | | |
| Amounts owed to customers | 0 | 0 | 0 |
| Trading liabilities | 0 | 1,460,542 | 1,460,542 |
| Derivatives – investment book | 0 | 1,353,114 | 1,353,114 |
| **Total** | **0** | **2,813,656** | **2,813,656** |
| Financial liabilities of the disposal group | 0 | 48,009 | 48,009 |

In 2011 and 2010 there have not been any reclassifications between the levels.

VBAG only uses market data which are from observable markets. If the system delivers prices for inactive traded positions, these prices are checked with prices based on secondary available market data, like creditspreads or transactions which are done on active markets in similar products. If necessary, the prices of the system are adopted.

## 39) Cash flow hedges

In cash flow hedge accounting, interest rate swaps and cross currency swaps are used with a view to hedging the interest rate risk as well as the foreign currency risk of variable-interest financial investments and liabilities and financial investments and liabilities denominated in foreign currencies.

### Periods in which cash flows can be expected to occur

| | Interest rate related transactions | | |
|---|---|---|---|
| | 31 Dec 2011 | 31 Dec 2010 | |
| Euro thousand | | pro forma | published |
| up to 3 months | –1,218 | –952 | 1657 |
| up to 1 year | 407 | –517 | 7,836 |
| up to 5 years | 3,956 | 4,284 | 50,546 |
| more than 5 years | 1,401 | 803 | 14,770 |
| **Total** | **4,546** | **3,619** | **74,809** |

### Periods in which cash flows are expected to affect the consolidated income statement

| | Interest rate related transactions | | |
|---|---|---|---|
| | 31 Dec 2011 | 31 Dec 2010 | |
| EUR Tsd. | | pro forma | published |
| up to 3 months | 297 | 187 | 3,304 |
| up to 1 year | –458 | –672 | 8,401 |
| up to 5 years | 3,875 | 2,462 | 49,627 |
| more than 5 years | 3 | 783 | 12,393 |
| **Total** | **3,718** | **2,760** | **73,725** |

Although the cross currency swaps hedge interest rate risk as well as the foreign currency exchange risk, the cash flows from cash flow hedges are reported in interest rate related transactions.

Changes in value in the hedging reserve in the amount of euro –3,196 thousand (2010: euro –15,651 thousand) were recognised in income during the reporting period. No significant inefficiencies have been realised in cash flow hedge.

## 40) Derivatives

### Derivative financial instruments

| | Nominale value | | | | Fair value | |
|---|---|---|---|---|---|---|
| Euro thousand | up to 1 year | 1 to 5 years | more than 5 years | Total | 31 Dec 2011 | 31 Dec 2010 |
| Interest related transactions | 28,057,798 | 34,785,664 | 30,766,136 | 93,609,598 | 495,139 | 538,384 |
| Caps & Floors | 170,371 | 6,156,655 | 2,476,381 | 8,803,407 | 21,893 | 15,575 |
| Forward rate agreements | 1,139,300 | 0 | 0 | 1,139,300 | –1,105 | –816 |
| Futures | 797,800 | 15,424 | 0 | 813,224 | –3,377 | –88 |
| Interest rate swaps | 22,240,782 | 26,165,447 | 26,695,409 | 75,101,638 | 511,605 | 606,378 |
| Swaptions | 3,709,545 | 2,448,137 | 1,594,346 | 7,752,028 | –33,877 | –82,666 |
| Currency related transactions | 11,094,610 | 1,357,660 | 653,036 | 13,105,307 | –59,591 | –404,236 |
| Cross currency swaps | 436,553 | 1,084,727 | 651,192 | 2,172,472 | –113,276 | –149,479 |
| Foreign exchange options | 471,460 | 173,042 | 1,844 | 646,345 | 4,629 | 3,295 |
| FX Swaps | 9,820,054 | 64,911 | 0 | 9,884,965 | 50,830 | –261,390 |
| Forward exchange transactions | 366,543 | 34,981 | 0 | 401,524 | –1,774 | 3,337 |
| Credit related transactions | 1,068,141 | 3,005,043 | 1,555,157 | 5,628,341 | –88,301 | 23,477 |
| Other transactions | 1,406,466 | 3,733,382 | 309,814 | 5,449,661 | 6,764 | 808 |
| Futures – index related | 51,958 | 0 | 0 | 51,958 | –1,458 | –767 |
| Options | 1,354,508 | 3,733,382 | 309,814 | 5,397,704 | 8,222 | 1,575 |
| **Total** | **41,627,015** | **42,881,749** | **33,284,143** | **117,792,907** | **354,011** | **158,433** |

Fair values 2011 and 2010 are presented excluding disposal group. In 2011, the disposal group reported a fair value for interest rate related transactions of euro 2,528 thousand (2010: euro –4,401 thousand) and for currency related transactions of euro –3,112 thousand (2010: euro –4,402 thousand) and for other transactions of euro 0 thousand (2010: euro 370 thousand).

All derivative financial instruments – except for futures – are OTC products.

## 41) Hedge of a net investment in a foreign operation

In the business years 2011 and 2010 there was no hedge of a net investment in a foreign operation.

## 42) Assets and liabilities denominated in foreign currencies

On the balance sheet date, assets denominated in foreign currencies (non-MUM currencies) totalled euro 14,632,983 thousand (2010: euro 16,672,200 thousand), whereas liabilities denominated in foreign currencies stood at euro 9,326,195 thousand (2010: euro 10,781,025 thousand). Differences between the amounts of foreign currency assets and liabilities are covered by derivative transactions. The assets and liabilities denominated in foreign currencies are presented including disposal group.

## 43) Trust transactions

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 published |
|---|---|---|---|
| **Assets from trust transactions** | | | |
| Loans and advances to customers | 247,801 | 207,119 | 207,119 |
| Financial investments | 727 | 727 | 727 |
| Mutual funds | 2,794,446 | 3,238,282 | 3,238,282 |
| **Liabilities arising from trust transactions** | | | |
| Amounts owed to customers | 247,801 | 207,119 | 207,119 |
| Debts evidenced by certificates | 727 | 727 | 727 |
| Mutual funds | 2,794,446 | 3,238,282 | 3,238,282 |

## 44) Subordinated assets

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 published |
|---|---|---|---|
| Loans and advances to credit institutions | 77,313 | 0 | 0 |
| Loans and advances to customers | 16,032 | 16,780 | 16,780 |
| Financial investments | 273,152 | 319,956 | 319,956 |

## 45) Assets pledged as collateral for the Group's liabilities

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 published |
|---|---|---|---|
| **Assets pledged as collateral** | | | |
| Loans and advances to credit institutions | 48 | 0 | 0 |
| Loans and advances to customers | 711.116 | 649.021 | 649.021 |
| Financial investments | 97.635 | 66.318 | 120.812 |
| | | | |
| **Liabilities for which assets have been pledged as collateral** | | | |
| Amounts owed to credit institutions | 808.751 | 715.339 | 792.367 |

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and advances to customers in the amount of euro 519 million (2010: euro 492 million) have been provided as collateral. These loans and advances are guaranteed by means of Austrian government default guarantees, private insurance policies and draft guarantees. OeKB may not repledge or sell these loans and advances to customers if the Group performs in accordance with the contract.

Furthermore, financial investments in the amount of euro 46 million (2010: euro 46 million) have been assigned as collateral for global loans from the European Investment Bank (EIB). The EIB also does not have the option to sell or repledge this collateral if the Group performs in accordance with the contract.

The remaining loans and advances to customers have been provided as collateral in the context of funding provided by Landeskreditbank Baden-Würtemberg and KfW Bankengruppe. This is subject to the same terms as for OeKB.

## 46) Contingent liabilities and credit risks

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 pro forma | 31 Dec 2010 published |
|---|---|---|---|
| Contingent liabilities | | | |
| Acceptances and endorsements | 0 | 102,256 | 110,278 |
| Liabilities arising from guarantees | 3,836,614 | 4,042,094 | 4,310,811 |
| Liabilities arising from assets pledged as collateral | 52,000 | 20,000 | 72,891 |
| Others (amount guaranteed) | 28,261 | 32,442 | 32,442 |
| Commitments | | | |
| Liabilities arising from sales with an option to repurchase | 1,466 | 3,691 | 3,691 |
| Unutilised loan commitments | 5,442,755 | 4,676,430 | 5,478,221 |

The table below presents future cash flows of contingent liabilities classified according to their contracted maturity, concerning guarantees also according to their expected maturity.

| Euro thousand | Loan commitments | Guarantees as contracted | Guarantees expected |
|---|---|---|---|
| 31 Dec 2011 | | | |
| Carrying amount | 5,442,755 | 3,836,614 | |
| **Undiscounted cash flows** | **5,442,755** | **3,836,614** | **25,216** |
| up to 3 months | 1,278,670 | 3,836,614 | 0 |
| up to 1 year | 3,497,980 | 0 | 12,628 |
| up to 5 years | 666,106 | 0 | 12,588 |
| more than 5 years | 0 | 0 | 0 |
| 31 Dec 2010 | | | |
| Carrying amount | 5,478,221 | 4,310,811 | |
| **Undiscounted cash flows** | **5,478,221** | **4,310,811** | **15,919** |
| up to 3 months | 1,832,472 | 4,310,807 | 189 |
| up to 1 year | 2,976,135 | 0 | 423 |
| up to 5 years | 643,038 | 5 | 15,140 |
| more than 5 years | 26,575 | 0 | 167 |

Loan commitments are reported according to the end of their contracted maturity. Contracted guarantees are reported when the utilisation is first possible, while column guarantees expected shows management estimates of the expected utilisation over the period.

If the management estimates a cash out flow for financial guarantees, a provision was built for off-balance risks to the amount of the probable cash out flow under consideration of possible available collaterals. Therefore the provision amounts to euro 25,216 thousand (2010: euro 15,517 thousand).

## 47) Repurchase transactions and other transferred assets

As at 31 December 2011, VBAG as pledgor had buy-back commitments under genuine repurchase agreements in the amount of euro 1,394,364 thousand (2010: euro 740,559 thousand).

The balance sheet does not contain any further financial assets for which material risks or opportunities were retained.

## 48) Related party disclosures

| Euro thousand | Unconsolidated affiliates | Companies in which the Group has a participating interest | Associated companies | Companies which exercise a significant influence on the parent as shareholders | of which disposal group |
|---|---|---|---|---|---|
| **31 Dec 2011** | | | | | |
| Loans and advances to credit institutions | 0 | 1,213,973 | 1,929,388 | 43,864 | 4,011 |
| Loans and advances to customers | 304,250 | 191,370 | 5,860 | 0 | 2,292 |
| Risk provisions (–) | –11,790 | –31,406 | 0 | 0 | 0 |
| Debt securities | 13,688 | 131,652 | 0 | 0 | 0 |
| Amounts owed to credit institutions | 0 | 1,187,316 | 98,482 | 1,174,058 | 360,749 |
| Amounts owed to customers | 46,987 | 79,388 | 14,803 | 152 | 31,990 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Liabilities arising from guarantees | 3,675 | 0 | 0 | 15,224 | 0 |
| **31 Dec 2010** | | | | | |
| Loans and advances to credit institutions | 114 | 746,940 | 0 | 67,329 | 21,433 |
| Loans and advances to customers | 1,081,894 | 337,049 | 3,062 | 2 | 41,247 |
| Risk provisions (–) | –27,816 | –52,054 | 0 | 0 | –633 |
| Debt securities | 14,252 | 130,696 | 0 | 0 | 0 |
| Amounts owed to credit institutions | 889 | 1,051,325 | 0 | 1,887,232 | 937,546 |
| Amounts owed to customers | 86,191 | 54,558 | 7,931 | 310 | 22,543 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Liabilities arising from guarantees | 35,498 | 0 | 0 | 35,423 | 1 |

Settlement prices between the VBAG Group and its associated companies are consistent with standard market practices. As in previous year, VBAG Group does not have any other liabilities for unconsolidated affiliates or associated companies on balance sheet date.

The shareholders Volksbanken Holding e. Gen. and DZ Bank AG Deutsche Zentral-Genossenschaftsbank exercise a significant influence on Österreichische Volksbanken-AG.

Loans and advances granted to members of the managing board and the supervisory board during the business year.

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| Outstanding loans and advances | 25 | 22 |
| Redemptions | 25 | 13 |
| Interest payments | 0 | 0 |

At the VBAG Group, the board members of the parent company are classified as management members in key positions. No contracts were closed with members in key positions.

As at 31 December 2011, loans and advances to credit institutions contained transactions with the Volksbanksector amounting to euro 5,015,379 thousand (2010: euro 4,779,936 thousand) and amounts owed to credit institutions included transactions with the Volksbank-Sector amounting to euro 4,735,288 thousand (2010: euro 4,988,291 thousand).

## 49) Disclosures on mortgage banking in accordance with the Austrian Mortgage Bank Act, including covered bonds

| Euro thousand | Covering loans | Debts evidenced by certificates | Surplus cover |
|---|---|---|---|
| **31 Dec 2011** | | | |
| Mortgage bonds | 572,807 | 221,898 | 350,910 |
| Covered Bonds | 830,718 | 766,584 | 64,134 |
| **Total** | **1,403,526** | **988,482** | **415,044** |
| **31 Dec 2010** | | | |
| Mortgage Bonds | 535,282 | 232,916 | 302,367 |
| Covered Bonds | 855,569 | 792,696 | 62,872 |
| **Total** | **1,390,851** | **1,025,612** | **365,239** |

In 2010 and 2011, the position Mortgage bonds consist only of the disposal group Banks CEE.

The required coverage for debts evidenced by certificates includes surplus cover of 2% calculated on the basis of the face value of all outstanding mortgage bonds and all outstanding covered bonds.

## 50) Branches

| | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| Domestic | 1 | 1 |
| Foreign | 296 | 548 |
| **Total number of branches** | **297** | **549** |

In 2011, the disposal group Banks CEE has 295 branches (2010: 311). In the figures as at 31 December 2010, 236 branches of VB Romania are included.

## 51) Events occurring after the balance sheet date

On 27 February 2012, stabilisation measures were resolved with the owners of VBAG and the Republic of Austria, which include provisions for the recapitalisation of VBAG through the Volksbanks and the Austrian government, as well as the merger of Investkredit with VBAG. Subsequently, VBAG is to perform the role of a central organisation in an association, which was newly created for this purpose, pursuant to section 30a of the Austrian Banking Act. All resolved measures and conditions are described in detail in the Notes in chapter 1) a) Going concern.

The sale of VBI to the Russian Sberbank was concluded on 15 February 2012.

The sale of the VICTORIA-VOLKSBANKEN insurance companies in Austria and Central and Eastern Europe was concluded on 16 February 2012. VBAG previously held just above 25% in each of the VICTORIA-VOLKSBANKEN insurance companies in Austria, Slovakia, Czech Republic, Hungary and Croatia. The negotiating parties agreed not to disclose the purchase price. In addition, the cooperation agreement that was to expire at the end of 2012 was redrafted and extended with effect from 1 January 2012 to the end of 2022.

No further events with a significant impact on the Group's financial statements as at 31 December 2011 occurred between the balance sheet date and the preparation of the Group's financial statements by the managing board. The managing board released the Group's financial statements and handed it on to the supervisory board on 30 March 2011. The supervisory board has the function of verifying and declaring if it approves the Group's financial statements.

## 52) Segment reporting

The VBAG Group has five operating segments which correspond to the strategic business segments. These segments provide a variety of products and services and are controlled in varying ways in accordance with the internal management and reporting structure. The Group's internal management is based on the organisation of business units as profit centres, meaning that all results are allocated to business units irrespective of whether these profit centres are organised as independent legal entities within business units or whether the results are realised by the parent company.

A report is submitted to the Managing Board and management level at least once a quarter for each business segment. The separate financial statements of the subsidiaries prepared in line with IFRS and results attributable in accordance with the market interest method form the basis of these reports. The intragroup settlement prices for investments, refinancing or services rendered correspond to standard market conditions. Group overheads are divided among the segments according to the solvency assessment base as well as cost ratios. Costs of Group projects are also allocated to the individual segments. Equity is basically allocated for 10% of the allocated asset item for refinancing purposes. For the remaining 90%, amounts owed to credit institutions and debts evidenced by certificates are allocated in relation to the refinancing of Österreichische Volksbanken-AG.

The same measurement and accounting principles used in the consolidated financial statements are applied to segment reporting. The business segments are managed according to the income statement items given in segment reporting as well as the carrying amounts given. As management is carried out on the basis of factors including net interest income, interest income, interest expenses and income from companies measured at equity are not given separately. For the same reason, the carrying amount of participations recognised at equity is also not reported.

### Corporates

The Corporates segment comprises the small and medium-sized companies, corporate finance and housing construction- and model financing profit centres, with Investkredit Bank AG being responsible for management of operations. Volksbank Malta Limited, VB Factoring Bank AG and Investkredit Investmentbank AG are also included in this segment.

### Retail

The Retail segment consists of banks in Central and Eastern Europe, and movable property leasing business areas. Banks CEE consists of Volksbank International AG with its subsidiaries in Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Romania and Ukraine. The VBI group is displayed as disposal group due to the sale to Sberbank. VB Romania is not included in this sale and was deconsolidated due to the lost of control as at 30 September 2011 and is measured at equity starting at this point of time. The disclosure is continued in the business area Banks CEE. The domestic movable property leasing companies forming part of the VB Leasing Finanzierung Group and the Central and Eastern European companies affiliated with the VB Leasing International Group operate within the leasing division. The comparative figures have been restated accordingly.

### Real Estate

This segment comprises the real estate leasing and lending business areas of Investkredit Bank AG as well as the real estate leasing activities and the international project development activities concerning commercial real estate of VB Real Estate Services group. The real estate asset management activities of the Europolis subgroup also fall within the scope of this segment which is shown in the disposal group.

### Financial Markets

The profit centre Group Treasury is beside raising liquidity in the money and capital markets responsible for the management of VBAG's trading book and offers clients the full range of standard money market products. Additionally, the profit centre Volksbank Investment is included in this segment, which is responsible for the administration of investment funds and issuing of guarantee-certificates.

### Investment Book/Other Operations

As 2010 all activities relating to the investment book of VBAG were summarised organisationally, the business area Capital Markets is now displayed in the Investment Book/Other Operations segment. In addition all other activities which cannot be clearly assigned to any one of the segments described above are enclosed here. Investment income and loss absorption which the parent company received from unconsolidated subsidiaries are reported under net interest income. Net interest income shows an increase as no interest expenses were recognised for supplementary capital in 2011. The majority of net fee and commission income relates to income from the settlement of management fees which increased in comparison to previous year. Income from payment transactions is also reported here. The activities of Treasury, which are carried out on the basis of general bank management, are reported under net trading income. General administrative expenses include payments settled through fee and commission income and other operating income. The decrease in comparison to previous year is due to less over heads and less addition to long-term employee provisions according to IFRS. The other operating result includes beside the impairment for goodwill and the brand Investkredit the banking tax. Income from financial investments contains impairments on Greek bonds and participation capital of Kommunalkredit as well as the assessment of CDS. Furthermore, the result from the disposal group retail banks was allocated here, as the Domestic Retail segment was dissolved.

### Consolidation

Consolidation issues are reported separately from other activities in the column Consolidation. Since the business year 2010, the consolidation of investment income and loss absorption from fully consolidated subsidiaries is reported in the segment Investment Book/Other Operations. The other items contain amounts resulting from the consolidation of income and expenses not carried out within a segment.

Secondary segment reporting is based on the geographical markets in which the VBAG Group operates. All activities focused on Austria as well as Central Europe are presented. Other markets not constituting a major part of the Group's business operations are grouped under other markets. Geographical segment reporting is based on the location of the respective companies' head offices. All consolidation amounts that are not accounted for in the regions Central and Eastern Europe or Other Markets relate to Austria.

## a) Segment reporting by business segments

| Euro thousand | Corporates | Retail | Real Estate | Financial Markets | Investment Book/Other Operations | Consolidation | Total |
|---|---|---|---|---|---|---|---|
| Net interest income | | | | | | | |
| **2011** | **117,787** | **171,883** | **92,957** | **36,359** | **–17,251** | **–7,300** | **394,434** |
| 2010 | 121,185 | 283,528 | 85,680 | 37,063 | –28,515 | 7,643 | 506,584 |
| Risk provisions | | | | | | | |
| **2011** | **39,741** | **–73,033** | **–61,369** | **0** | **–8,929** | **0** | **–103,590** |
| 2010 | –28,741 | –217,716 | –38,916 | 359 | 5,458 | 0 | –279,555 |
| Net fee and commission income | | | | | | | |
| **2011** | **14,521** | **12,544** | **4,436** | **44,963** | **28,903** | **–11,047** | **94,320** |
| 2010 | 16,167 | 19,022 | 3,783 | 52,748 | 15,248 | –6,051 | 100,917 |
| Net trading income | | | | | | | |
| **2011** | **345** | **12,895** | **317** | **–10,353** | **–277** | **0** | **2,927** |
| 2010 | 1,240 | 11,150 | 1,170 | 29,016 | –4,238 | –1,533 | 36,805 |
| General administrative expenses | | | | | | | |
| **2011** | **–70,960** | **–136,916** | **–47,319** | **–43,643** | **–22,894** | **22,394** | **–299,339** |
| 2010 | –71,167 | –154,714 | –43,111 | –48,797 | –46,902 | 14,870 | –349,820 |
| Restructuring cost | | | | | | | |
| **2011** | **0** | **0** | **–4,630** | **0** | **–36,820** | **0** | **–41,450** |
| 2010 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other operating result | | | | | | | |
| **2011** | **283** | **–280,390** | **198** | **59** | **–79,845** | **–5,653** | **–365,348** |
| 2010 | –1,728 | –3,904 | 10,678 | 0 | –637 | –5,282 | –874 |
| of which impairment of goodwill and brand | | | | | | | |
| **2011** | **0** | **0** | **0** | **0** | **–56,423** | **0** | **–56,423** |
| 2010 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Income from financial investments | | | | | | | |
| **2011** | **3,558** | **–5,061** | **–76,411** | **849** | **–364,074** | **0** | **–441,138** |
| 2010 | 5,873 | 747 | –8,479 | 796 | –14,305 | 0 | –15,368 |
| Income from discontinued operations | | | | | | | |
| **2011** | **0** | **–134,740** | **1,127** | **0** | **0** | **1,607** | **–132,005** |
| 2010 | 0 | 46,738 | 7,761 | 0 | –4,077 | –9,647 | 40,774 |
| **Annual result before taxes** | | | | | | | |
| **2011** | **105,275** | **–432,817** | **–90,693** | **28,235** | **–501,188** | **0** | **–891,188** |
| 2010 | 42,829 | –15,149 | 18,566 | 71,185 | –77,968 | 0 | 39,463 |
| Income taxes including taxes from discontinued operations | | | | | | | |
| **2011** | **–24,232** | **–17,070** | **–1,343** | **–7,076** | **–48,360** | **0** | **–98,080** |
| 2010 | –12,509 | –19,161 | –20,523 | –17,966 | 41,679 | 0 | –28,481 |
| **Annual result after taxes** | | | | | | | |
| **2011** | **81,043** | **–449,886** | **–92,036** | **21,159** | **–549,548** | **0** | **–989,268** |
| 2010 | 30,320 | –34,310 | –1,957 | 53,218 | –36,289 | 0 | 10,982 |
| Total assets | | | | | | | |
| **31 Dec 2011** | **6,576,964** | **11,725,723** | **4,231,027** | **3,471,505** | **30,697,157** | **–15,567,795** | **41,134,582** |
| 31 Dec 2010 | 7,374,687 | 16,511,555 | 6,558,529 | 2,881,483 | 31,280,693 | –17,996,585 | 46,610,363 |
| Loans and advances to customers | | | | | | | |
| **31 Dec 2011** | **5,954,675** | **2,578,850** | **3,686,183** | **5,067** | **2,092,271** | **–1,599,983** | **12,717,062** |
| 31 Dec 2010 | 6,523,666 | 5,893,238 | 4,265,806 | 0 | 2,145,120 | –1,943,910 | 16,883,920 |
| Amounts owed to customers | | | | | | | |
| **31 Dec 2011** | **554,641** | **16,226** | **120,154** | **1,753,309** | **355,124** | **–86,716** | **2,712,738** |
| 31 Dec 2010 | 828,408 | 602,563 | 118,910 | 1,329,611 | 437,316 | –280,576 | 3,036,231 |
| Debts evidenced by certificates, including subordinated liabilities | | | | | | | |
| **31 Dec 2011** | **1,409,161** | **6,371** | **1,030,647** | **13** | **15,903,911** | **–3,169,325** | **15,180,777** |
| 31 Dec 2010 | 848,846 | 137,995 | 245,964 | 0 | 19,945,807 | –3,507,124 | 17,671,487 |

## b) Segment reporting by regional markets

| Euro thousand | Austria | Central and Eastern Europe | Other Markets | Total |
|---|---|---|---|---|
| Net interest income | | | | |
| **2011** | **157,075** | **158,422** | **78,937** | **394,434** |
| 2010 | 144,968 | 280,198 | 81,417 | 506,584 |
| Risk provisions | | | | |
| **2011** | **–55,232** | **–71,966** | **23,607** | **–103,590** |
| 2010 | –52,373 | –211,563 | –15,619 | –279,555 |
| Net fee and commission income | | | | |
| **2011** | **77,533** | **12,485** | **4,303** | **94,320** |
| 2010 | 78,956 | 17,564 | 4,397 | 100,917 |
| Net trading income | | | | |
| **2011** | **–10,193** | **13,114** | **6** | **2,927** |
| 2010 | 23,349 | 11,703 | 1,754 | 36,805 |
| General administrative expenses | | | | |
| **2011** | **–148,703** | **–124,999** | **–25,636** | **–299,339** |
| 2010 | –186,334 | –140,702 | –22,785 | –349,820 |
| Restructuring cost | | | | |
| **2011** | **–41,450** | **0** | **0** | **–41,450** |
| 2010 | 0 | 0 | 0 | 0 |
| Other operating result | | | | |
| **2011** | **–85,221** | **–277,129** | **–2,998** | **–365,348** |
| 2010 | 6,833 | –8,012 | 305 | –874 |
| Income from financial investments | | | | |
| **2011** | **–181,382** | **–41,282** | **–218,474** | **–441,138** |
| 2010 | –49,401 | –435 | 34,467 | –15,368 |
| Income from discontinued operations | | | | |
| **2011** | **–3,924** | **–128,081** | **0** | **–132,005** |
| 2010 | –44,068 | 85,138 | –296 | 40,774 |
| **Annual result before taxes** | | | | |
| **2011** | **–291,496** | **–459,437** | **–140,254** | **–891,188** |
| 2010 | –78,069 | 33,892 | 83,640 | 39,463 |

# 53) Risk report

### General

Assuming and professionally managing the risks connected with business activities is a core function of every bank. VBAG performs the key tasks of implementing and supporting processes and methods for identifying, managing, measuring and monitoring all risks related to banking operations at VBAG Group level.

To this end, the following various risks are addressed in the context of the risk strategy specified annually by the Managing Board on the basis of risk policy principles in force across the Group:

- Credit risk (counterparty risk)
- Market risk (interest rate risk, foreign exchange risk, option risk, commodity risk, risks relating to assets and credit spread risk)
- Operational risk
- Liquidity risk
- Investment risk
- Real estate risk and
- Other risks

### Current developments

The ongoing economic and financial crisis had a strong impact on the risk management activities of VBAG in 2011 as well.

These activities focused on further optimising and increasing the efficiency of the risk management processes in the Group.

At the same time as the sale of VBI in mid-2011, the IRB roll-out project was stopped in coordination with the supervisory authorities.

The measurement, limiting and management of credit risks were improved further through the use of an internally developed credit portfolio model. The process of compiling a monthly credit risk report was further accelerated and enhanced to include new data (e.g. credit value at risk) and tables.

On the basis of the two-phase model used since 2009 to quantify the credit spread risk for bonds and CDS, monthly risk-sensitive limiting was implemented, completing the limit system.

Structural liquidity risk management also continued to be improved. In addition to the monthly stress scenarios implemented at the end of 2010, monthly reporting now includes setting limits for the liquidity gaps and structural survival period in the basis scenario and in the stress scenario.

Stress testing remained a focal point in 2011 as well. The method used to execute total bank risk stress tests was further refined and implemented within the organisation by working groups with participants from the areas of market and risk management. Alongside the internal stress tests, the regulatory stress tests of the Austrian National Bank and the European Banking Authority have become even more important.

Beginning in 2011, the risk sustainability account was supplemented by the economic perspective (always based on VaR). Furthermore, a Group-wide return on economic capital calculation was carried out periodically at the profit centre level, and the process for regular calculation was implemented.

## a) Risk management structure and basic principles of risk policy

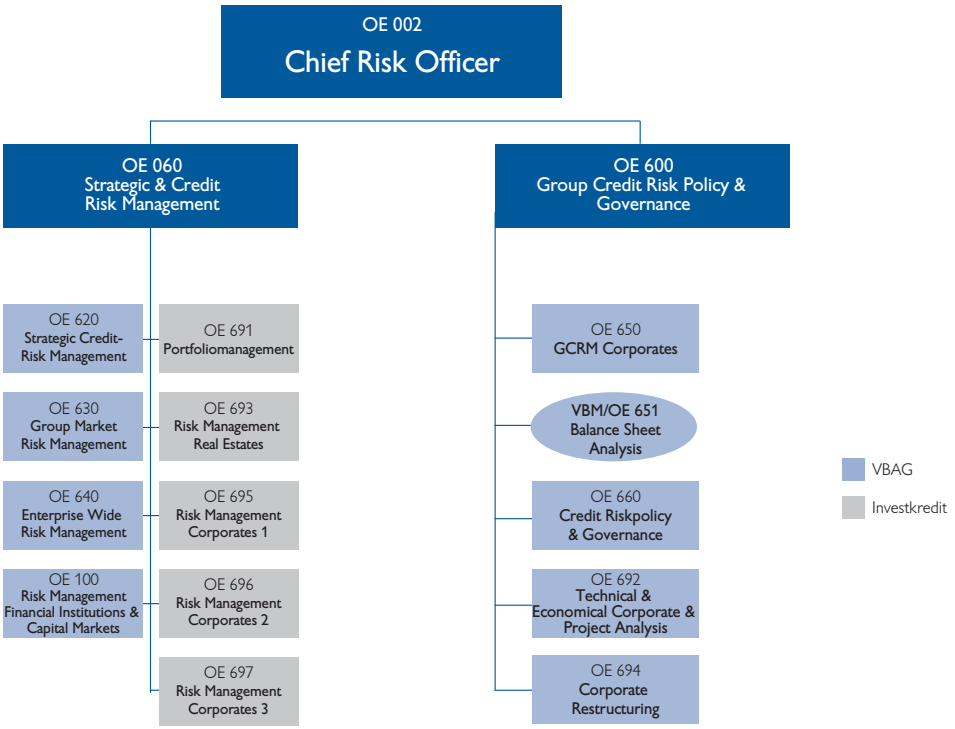
### Risk management structure

The VBAG Group has implemented all organisational precautions necessary to meet the requirements of a modern risk management system as formulated, for example, in the minimum standards for the lending business. There is clear separation of market and risk assessment, measurement and control. For security reasons and in order to prevent conflicts of interest, these tasks are performed by different organisational units.

The department is headed by Michael Mendel in his capacity as the Group's Chief Risk Officer. Michael Mendel is also the Deputy Chairman of VBAG's Managing Board. All centrally managed and regulated strategic and operational risk management activities in the VBAG Group are concentrated in his Managing Board function. In mid-2011, operational and strategic risk management was restructured at Group level and combined in one area. This means that the back offices for the corporates, real estate and banks segments and strategic risk management are joined under uniform management in one organisational unit.

In the organisational chart, the operational risk management units are assigned essentially unchanged to Investkredit and the strategic risk management units to VBAG. The Group Risk Control unit is based alongside the Strategic and Operational Risk Management unit in division 2. Restructuring measures to optimise processes have also been taken in this area with the integration of the technology and corporate restructuring units.

The following diagram provides an overview of the department's current organisational structure.




## Basic principles of risk policy

The basic principles of risk policy encompass the standards valid within the Group for dealing with risks and are determined by the Managing Board together with risk appetite. A broadly shared understanding of risk management throughout the Group is the foundation for developing risk awareness and a risk culture within the company.

Clear organisational structures: Particular attention is paid to the separation of risk-taking on the one hand and calculating risk and specifying risk standards on the other (risk controlling/risk management). Clear separation of functions within the VBAG Group ensures that conflicts of interest are avoided.

Systems and methods: Uniform risk measurement methods form the basis for comparing and aggregating risks within the VBAG Group. They are also an important element in developing effective internal limit structures for the Group and calculating utilisation of limits. Major focus is placed on standardised risk management systems, including with regard to cost-effectiveness and conserving resources. Contingency plans ensure that the necessary system availability is maintained.

Limit system: All measurable risks in the VBAG Group are subject to a limit structure that is in turn subject to ongoing operational monitoring. The "no risk without limit" principle applies. Risks for which current theory does not provide sufficiently exact measurement methods or instruments are considered either on the basis of regulatory equity requirements or conservative calculation methods, taking stress assumptions into consideration, or in the form of safety buffers. The prudence principle is applied in such cases.

Risk reporting: In the VBAG Group, prompt, regular and comprehensive risk reporting is implemented in various forms, including a Group risk report. This is an important element for identifying, measuring, managing and monitoring risks within the Group. It is produced on a quarterly basis and covers all relevant types of risk (market, interest rate, liquidity, credit spread, credit, real estate and operational risk). The Group risk report periodically informs the Managing Board of the Group of the development of risk-bearing ability and the risk situation of the Group and focuses on a quantitative presentation of management-related information on the risk categories addressed, which is supplemented by brief

assessments of the situation and further qualitative information where appropriate. During preparation of the report, particular emphasis is placed on data quality in order to ensure the findings are meaningful. In addition to the quarterly report, the monthly reporting has been extended in 2011.

Processes: Functioning processes form the basis of risk management. Developing these processes and integrating them into day-to-day business procedures is thus a key risk management task in the VBAG Group.

New product launches: An efficient, system-supported approval process for products of VBAG Treasury has been in place since 2003 and is improved and developed on an ongoing basis. A focus here is on correctly mapping all risks in the risk management systems. Particular attention is paid to ensuring that it is possible to carry out an independent assessment. This also applies to closed positions. This ensures that the legal requirements for presenting counterparty default risk and collateral management requirements are met.

A standard procedure for introducing new products in the VBAG Group has been in place since 2008. In addition to the proper recording of all risks and their correct entry in controlling and accounting systems, the emphasis is on mapping them in the centralised systems of the Group, thus ensuring meaningful standardised risk reports and correct external reporting.

Backtesting: As estimations relating to the greatest probability of default (PD), loss given default (LGD), exposure at default (EAD), credit conversion factor (CCF) and value at risk (VaR) are always based on past values, their accuracy must be validated periodically by way of backtesting. In the VBAG Group, backtesting reports are prepared for credit and market risk in all cases. Although the frequency of reporting depends on the type of risk, the reports are produced at least once a year. The Managing Board is promptly informed of the findings. Any findings giving cause for concern (e.g. the number of outliers is too high from a statistical perspective) lead to an immediate analysis of the calculation methods or the models.

Stress testing: Credit and market risks in the VBAG Group undergo regular stress tests. The crisis scenarios in such tests are designed in such a way that the occurrence of very unlikely but not impossible events is simulated. Based on this approach, atypical tail losses, among other things, can be identified and analysed. This method is a useful supplement to the VaR method, particularly in relation to fat tails.

While risk type-specific stress tests and sensitivity analyses have been regularly performed for some time now, stress tests across multiple risk types have also been carried out regularly since 2009. This process initially involves defining economic crisis scenarios (mild and severe recession scenarios) and deriving the changed risk parameters for the individual risk categories and segments from this. In addition to the risk side, the effects of the crisis scenarios on the risk-covering equity are identifieded. Finally, the various effects of the crisis scenarios on the risk-bearing ability of VBAG are compiled and analysed in a stressed risk sustainability account.

## b) Regulatory requirements

Regulatory requirements are split into three pillars within VBAG in accordance with Basel II. Pillar 1, minimum capital requirements, regulates the calculation of the minimum capital requirements for credit risks, market risks and operational risks. Pillar 2, supervisory review, defines minimum requirements of banks' risk management systems as part of ICAAP (internal capital adequacy assessment process – see also Point c)). Pillar 3, disclosure, regulates disclosure for market participants.

### Pillar 1 minimum capital requirements in the VBAG Group

In accordance with Managing Board resolutions, the implementation of pillar 1 in the VBAG Group not only fulfils the minimum requirements but, while taking cost efficiency into account, also provides for implementation of internal models in order to improve the risk management systems for all types of risk on an ongoing basis. Thus, at present, the following methods are used to calculate the minimum capital requirements for each type of risk:

- Market risk: internal VaR model since 1 January 2005. Die VBAG is currently implementing Murex as a front and back-office system. This will replace the existing Kondor+/KVaR risk management systems. In order to minimise the expense for the authorisation processes for the significant model changes, it was agreed with the supervisory authorities that VBAG would set aside the existing authorised internal model in November 2011 and temporarily calculate the capital requirement for market risk in the trading book using the standard approach. The internal model is expected to be resubmitted at the end of 2012/beginning of 2013.
- Operational risk: standard approach (in exceptional cases and for a limited period the basic indicator approach) since 1 January 2008.
- Credit risk: standard approach and IRB basic approach since 1 April 2008. A detailed description of the approaches approved by regulators and the transitional arrangements is made as part of the disclosures in accordance with section 16 (1) no. 1 of the Disclosure Regulation in a separate document (see pillar 3 disclosure in the VBAG Group).

### Pillar 2 internal capital adequacy assessment process

The internal capital adequacy assessment process (ICAAP) requires banks to take all necessary measures to guarantee at all times that there are sufficient capital resources for current business activities and those planned for the future as well as the associated risks. Internal methods and procedures developed by the banks may be used for this purpose. The size and complexity of the business activities plays a key role in the design of the strategies, methods and systems required for implementing the ICAAP (proportionality principle). The implementation of the ICAAP at VBAG is explained in more detail in Point c).

### Pillar 3 disclosure in the VBAG Group

The requirements of pillar 3 are met through publication of the qualitative and quantitative disclosure requirements defined under the Austrian Financial Market Supervisory Authority (FMA) regulation on implementation of the Austrian Banking Act as it relates to the disclosure obligations of banks, on the Bank's website under Group / Investor Relations / Risk Management as well as in the annual report.

## c)Risk strategy and internal capital adequacy assessment process

The Group-wide risk strategy is reassessed and determined by the Managing Board on an annual basis – taking into account results from the internal capital adequacy assessment process (ICAAP) – and forms the basis for a uniform approach to dealing with risks throughout the entire Group. The risk strategy sets out and documents the general framework and principles for risk management to be applied consistently across the Group and the design of appropriate processes and organisational structures in a clear and comprehensible manner. Enhancements of the methods applied for measuring and managing risks are integrated into the risk strategy via the annual update process.

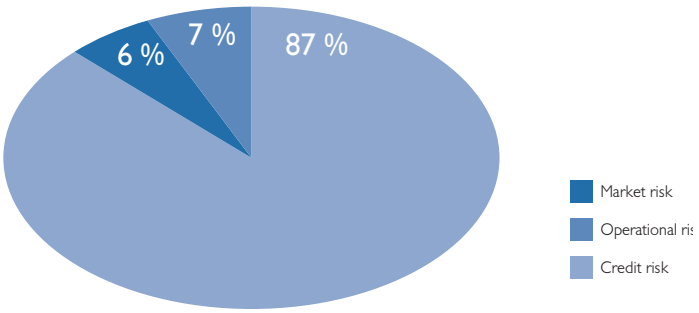
VBAG has established the ICAAP as a revolving management circuit in accordance with international best practice. This starts with defining a risk strategy, then goes through the process of identifying, quantifying and aggregating risks, and finishes by determining risk-bearing ability, allocating capital and establishing limits, leading to ongoing risk monitoring. The individual elements of the circuit are performed with varying regularity (daily for measurement of trading book market risk, monthly for creation of the risk sustainability account and annually for risk assessment and risk strategy). All the activities described in the circuit are examined at least once a year to ensure that they are up to date and adequate and are adjusted to current underlying conditions if necessary.

In line with this principle and based on risk assessments conducted across the Group as a whole, the VBAG Group regularly ascertains what risks are present in ongoing banking operations within the Group as well as their significance and the danger they potentially pose for the Group. This process involves both a quantitative assessment of individual types of risk and an assessment of the existing methods and systems for monitoring and managing risks (qualitative assessment). The risk assessment concept is based on a scoring procedure, thus providing a comprehensive overview of the risk situation in the VBAG Group. Risk assessment is carried out electronically via the OpRisk platform BART, thus increasing transparency and considerably improving workflow management.

The results of the risk assessments are compiled in a risk map in which the individual types of risk are allocated to the subsidiaries according to their significance. The results of the risk assessments also flow into the risk strategy. The basis for the quantitative implementation of the ICAAP in the VBAG Group is the risk sustainability account, which demonstrates that adequate risk-covering capital is in place at all times to provide sufficient cover for risks that have been entered into and which also ensures such cover is available for the future. For this purpose, firstly all relevant individual risks are aggregated into a total bank risk on both an economic and regulatory basis. The existing previously defined risk-covering capital is then compared with this total bank risk.

In the course of the risk monitoring process, the risk-bearing ability is calculated, compliance with the overall bank risk limit resolved by the Managing Board is monitored on a monthly basis and the Group risk report is produced.

As at 31 December 2011, the regulatory overall risk position is composed as follows:




The aim is to implement value at risk methods to the fullest extent possible in the economic risk measurement procedure. The term economic capital describes the minimum economic capital necessary from an economic perspective based on the result of a risk measurement. Combining risk measurement and the income statement makes risk-adjusted income management possible. Standard performance measurement methods

such as return on equity (ROE) are supplemented by the meaningful return on economic capital (ROEC) measurement, which takes adequate account of risks and facilitates comparison of segment performance, thus laying the foundation for value-oriented bank management. ROEC calculations were performed quarterly in collaboration with Controlling and took into account all major risks for the individual management portfolios (segments and profit centres).

## d) Credit risk

### Definition

In the VBAG Group, general credit and default risk and counterparty default risk in derivative transactions are categorised under credit risk.

General credit risk denotes potential losses in value that may arise from the default of business partners who constitute borrowers at the VBAG Group.

The VBAG Group defines counterparty risk as the risk that a business partner in an over-the-counter (OTC) derivative transaction will not meet its contractual obligations or will not fully meet them, thus causing VBAG Group an actual loss resulting from the positive fair value of the derivative transaction (replacement risk).

### Organisation and risk strategy

Strict separation of sales and risk management units is in place in all VBAG Group units that generate credit risk. All case-by-case decisions are made under strict observance of the principle of dual control, which led to stipulation of clear processes for the collaboration between the risk management units in the subsidiaries and risk management at Group level. For large-volume transactions, processes have been created to ensure the involvement of operational Group risk management and the Group Managing Board in risk analyses and credit decisions. Limit systems that combine the decision-making competences of the individual corporate units in a single framework play a key role in this process.

Measuring and controlling the credit risk also necessitates the development of sophisticated models, systems and processes tailored to the bank's own portfolio. The aim is firstly to structure and improve credit decision making and secondly to use such instruments and their findings as a basis for portfolio management. When implementing these systems, the VBAG Group paid particular attention to ensuring that all rating systems used in the Group show a comparable probability of default (PD) and are connected with the VB master scale, which comprises a total of 25 rating categories. The PD band used enables both comparison of internal ratings with the classifications of external rating agencies and, most importantly, comparison of credit ratings across countries and customer segments.

#### Group credit risk manual

The Group credit risk manual (GCRM) regulates credit risk management throughout the VBAG Group in a binding fashion. It encompasses the existing processes and methods for managing, measuring and monitoring credit risks within the Group.

The aim of the GCRM is to stipulate and document the general framework and principles for measuring and managing credit risks to be applied consistently across the Group and the design of appropriate processes and organisational structures in a clear and comprehensible manner. The manual lays the foundation for implementing the risk strategy in operations as regards credit risk components, setting the basic risk targets and limits that are to guide business decisions in line with the main areas of business focus.

The GCRM applies to all fully consolidated entities, unless otherwise specified as well as VB Romania. This also applies to new fully consolidated entities provided that the entity is part of the scope of full consolidation of the VBAG Group with legally binding effect.

Without exception or limitation, as part of their general duty of care in the interest of the entities, the Managing Boards and managing directors of all Group entities must ensure that the GCRM finds application in their respective entities on both a formal and a de facto basis. The GCRM finds application either through being put into force in its entirety at the entity or through the content of the GCRM being integrated into the entity's own credit risk manual. General deviations from Group standards on account of specialised business activity or specific local conditions are possible in principle but require the approval of the Group Managing Board.

The GCRM is a living document that is regularly expanded and adapted to current developments and changes within the VBAG Group.

The development and presentation of rating procedures as well as the estimation and validation of risk parameters are not the purpose and object of the manual. These items and their implementation within the organisation are explained in separate documentation.

#### Loan portfolio and credit value at risk

The term economic capital describes the minimum economic capital necessary from an economic perspective based on the result of a risk measurement. Along with regulatory capital, it is held for the purpose of covering unexpected losses exceeding expected losses. In future, calculation of the economic capital requirements needed for the credit risk will be based on the credit value at risk (CVaR) method. For this purpose, the VBAG Group has selected an analytical calculation method based on an actuarial approach. In particular, a CreditRisk+ model adapted in line with internal requirements will be used for modelling the default risk in the loan portfolio.

Starting with the first quarter of 2010, the CVaR method is used at Group level as a basis for the following tasks:
- Breaking down the CVaR into individual segments and customers
- Identifying portfolio concentrations
- Analysing the development of the CVaR in portfolio and new business
- Individual address analysis
- Identifying the major drivers behind CVaR changes (new business, EAD, collateral, loss and default rate, risk factor, etc.)

The CVaR for the credit risk is also used for the following purposes as part of general bank management:
- Calculating economic capital
- Ensuring comparability of the risk situation for different types of risk (e.g. credit risk and market risk)
- Calculating risk-adjusted performance ratios (e.g. ROEC)
- Allocating capital

The CVaR results also serve as a means of obtaining additional information for portfolio analysis and management. A corresponding report is compiled every month.

An important aim of using credit risk methods and instruments is preventing loss through identifying risks at an early stage. In this process, the VBAG Group pays particular attention to ensuring that the systems primarily serve to support the persons performing the tasks. Thus, in addition to the quality of the methods, great importance is attached to the training, qualifications and experience of the employees.

## Risk management and controlling

### Limits

Limits exist within VBAG aimed at monitoring, controlling and restricting the risk of individual exposures and risk clusters.
- Credit limits for individual customers
- Credit limits for groups of affiliated customers
- Portfolio limits

When limits are defined, with regard to individual customers and groups of affiliated customers a distinction is made between governments, banks and others, with the latter category subsuming both corporate and retail customers. The limits are set depending on the rating category and the counterparty's own funds, the maximum remaining term of the transaction and the Group member's own funds and earnings power. In the Corporates and Retail segments, the limits generally relate to the credit scope granted after deducting collateral (unsecured risk). The setting of limits is monitored at individual transaction level on a continual basis as part of the operational risk management of the sub-institutions and is supported by centrally produced analyses.

At present, when setting limits for portfolios, the VBAG Group primarily uses country risk limits with the aim of limiting the transfer risk. The countries are divided into risk groups and markets based on external ratings and business strategy.

### Concentration risks

Concentration risks are quantified and assessed on a Group-wide basis on the one hand via the CVaR report created each month and on the other hand on a quarterly basis during creation of the Group risk report. This includes, for example, concentrations at individual customer level for corporates, banks and the public sector.

### Rating systems

Standardised models are applied across the Group to determine credit ratings (the VB rating family) and to determine the loss amount in the event of default. The expected likelihood of each customer defaulting is estimated across the VB rating family and expressed via the VB master scale. The concept behind the VB master scale allows for the comparison of borrower credit ratings across regions and customer groups.

The rating classes in rating category 5 cover the reasons for defaulting on a loan applied across the Group and are also used for reporting non-performing loans (NPL). Loans from parts of rating category 4 and loans past due more than 60 days are defined as problem loans. An in-depth description of rating methods can be found in the disclosure in accordance with section 16 of the FMA Disclosure Regulation on the VBAG homepage.

### Counterparty risk

As an approximation function for the potential future exposure in relation to the counterparty risk, add-on factors that are dependent on the term and type of the underlying derivative transaction (interest rates, currencies, shares, and commodities) are used and expressed as a percentage of the face value. When calculating the exposure, the sum of positive fair value and the relevant add-on value is included.

Legally enforceable netting agreements are in place with key counterparties of VBAG, which have been taken into consideration since the end of 2009 for internal risk management and determining capital requirements. VBAG does not use an internal model to calculate counterparty risk.

The amount of the counterparty limits (off-balance limits) for derivative transactions with banks and financial institutions depends on the following criteria:

- Amount of the counterparty's own funds
- Amount of the VBAG Group member's own funds
- Intensity of the business relationship with the counterparty (strategically important, small number of transactions, sporadic)
- Legally enforceable netting agreements in place

The terms of the off-balance limits set are determined taking the counterparty risks into consideration.

The Group market risk management department is responsible for monitoring the counterparty limits for trading that are set in line with various maturity bands. As mentioned above, the inclusion of derivative transactions in the off-balance lines is based on the principle of positive fair value plus a term-dependent add-on for counterparties without legally enforceable netting agreements. If valid netting agreements are in place, positive and negative fair values are netted and any cash collateral is taken into account.

For institutional counterparties without netting, the amount of the add-ons is based on section 234 (2) Austrian Solvency Regulation. The add-on calculation is carried out in accordance with section 259 Austrian Solvency Regulation applying the off-balance netting. More conservative markups are used for internal risk management for non-credit institutions.

The inclusion of concluded transactions in the limits naturally takes place in real time. Utilisation reports and any overdraft reports are made available to the credit and trading departments concerned on a daily basis.

### Collateral management in derivative trading

As part of internal risk management in the VBAG Group, a daily comparison of the fair value of derivative transactions is currently performed with 82 partners for transactions concluded on the basis of framework contracts (ISDA – International Swaps and Derivatives Association, Austrian or German framework contract) or credit support annex contracts. If the fair values exceed certain contractually defined thresholds, these surpluses must be covered by collateral. The repo transactions with 81 contractual partners are also examined with regard to the amount of collateral. In line with agreed margin calls, collateral is mostly transferred in the form of cash or government bonds in euro. Of the current number of 82 CSA contracts in existence, three would be affected by a rating downgrade by VBAG. In the event of the VBAG rating being downgraded by two rating categories, in the worst case an additional cash collateral requirement in the amount of euro 5 million would arise as a result of reduction of the threshold.

### Credit risk reporting

Credit risk reporting for VBAG is performed on a monthly basis and provides a detailed presentation as at reporting date of the existing credit risk in the VBAG Group. Corresponding reports are created for the Group and the major Group units (VBAG, VBI, IK and Europolis). The information is also included in the credit risk section of the Group risk report.

The reports contain a quantitative presentation of management-related information on the credit risk, which is supplemented by a brief assessment of the situation and further qualitative information where appropriate. The following analyses form part of the report:

- Portfolio distributions – monthly
- Development of new business – monthly
- Credit rating distributions – monthly
- Non-performing loans – monthly
- Credit risk concentrations – quarterly
- Country group analyses – quarterly
- Customer segments (customer segment split) – quarterly
- Sector distributions (commerce) – quarterly
- Significant CVaR information – quarterly

These analyses are presented according to different sizes and ratios: unsecured exposure, total exposure, expected loss, existing and planned risk provisions and average risk costs.

A CVaR report is also created every month that details the amount of the unexpected loss at Group level and why this changed between reporting dates and breaks this information down into segments and individual commitments.

The key ratios used to describe credit risks for the various business segments as at the balance sheet date and in comparison to the previous year are shown in the following tables and are excerpts taken from the Group risk report. The previous year's figures have not been adapted in respect to the disposal group or possible reclassifications in the segments, but correspond to the figures published in 2010.

Presentation of loans and advances to credit institutions and customers according to credit quality and allocation to the individual risk categories.

| Euro thousand | Loans and receivables to credit institutions and customers 31 Dec 2011 | Loans and receivables to credit institutions and customers 31 Dec 2010 |
|---|---|---|
| Gross carrying amount | 20,681,372 | 30,046,816 |
| Risk provision | 945,744 | 1,522,532 |
| Carrying amount | 19,735,629 | 28,524,284 |
| | | |
| Receivables impaired | | |
| Risk category 1 (1A - 1E) | 10,620 | 53,307 |
| Risk category 2 (2A - 2E) | 126,022 | 111,663 |
| Risk category 3 (3A - 3E) | 1,217,802 | 1,622,105 |
| Risk category 4 (4A - 4E) | 785,395 | 745,673 |
| Risk category 5 (5A - 5E) | 1,934,033 | 2,623,073 |
| Risk category 6 (NR) | 4,219 | 17,344 |
| Gross carrying amount | 4,078,092 | 5,173,165 |
| Risk provision | 886,486 | 1,465,652 |
| Net carrying amount | 3,191,606 | 3,707,512 |
| Receivables not impaired but past due 90 days | | |
| Risk category 1 (1A - 1E) | 14,401 | 20,423 |
| Risk category 2 (2A - 2E) | 2 | 84 |
| Risk category 3 (3A - 3E) | 22,625 | 35,483 |
| Risk category 4 (4A - 4E) | 18,007 | 32,262 |
| Risk category 5 (5A - 5E) | 99,068 | 235,594 |
| Risk category 6 (NR) | 100 | 453 |
| Gross carrying amount | 154,203 | 324,300 |
| Receivables neither impaired nor past due | | |
| Risk category 1 (1A - 1E) | 6,460,738 | 6,374,309 |
| Risk category 2 (2A - 2E) | 3,759,982 | 2,201,442 |
| Risk category 3 (3A - 3E) | 2,953,878 | 10,999,629 |
| Risk category 4 (4A - 4E) | 2,664,153 | 3,712,991 |
| Risk category 5 (5A - 5E) | 269,049 | 626,680 |
| Risk category 6 (NR) | 341,278 | 634,300 |
| Gross carrying amount | 16,449,078 | 24,549,351 |
| | | |
| Portfolio based allowance | 59,258 | 56,880 |
| **Total net carrying amount** | **19,735,629** | **28,524,284** |

Classification to the individual risk categories is carried out according to internal rating categories at VBAG. Receivables in risk category 1 have the highest rating (lowest expected default rate), while receivables in risk category 4 have the lowest rating and receivables in risk category 5 constitute defaulted receivables (= non-performing loans, NPLs). The distribution of risk provisions is also clarified accordingly. It must be noted that the gross carrying amount of the individual impaired loans and receivables does not correspond to the total of the NPLs. If the rating of a defaulted customer improves, the customer is assigned to a better (= performing) rating category, the impairment is reduced accordingly and the customer is no longer designated as an NPL. Receivables in risk category 6[1] are receivables for which there is no external rating and for which there is no regulatory requirement to produce an internal rating.

The defaulted loans or NPLs are assigned to risk category 5 at VBAG and allocated to the individual rating categories based on the reason for the default. This means, for example, that rating category 5A denotes those borrowers that are past due by more than 90 days.

[1] This also concerns ratings that have not been prepared in every small number of cases.

The following table shows the distribution of non-performing loans across the default rating categories.

| Euro thousand | Loans and receivables to credit institutions and customers 31 Dec 2011 Gross | Net | Loans and receivables to credit institutions and customers 31 Dec 2010 Gross | Net |
|---|---|---|---|---|
| Receivables impaired | | | | |
| Rating 5A | 141,154 | 107,967 | 375,531 | 177,458 |
| Rating 5B | 667,026 | 294,305 | 848,158 | 369,021 |
| Rating 5C | 817,469 | 405,561 | 1,016,768 | 600,885 |
| Rating 5D | 303,781 | 95,797 | 381,098 | 87,412 |
| Rating 5E | 4,603 | 204 | 1,518 | 157 |
| Total | 1,934,033 | 903,834 | 2,623,073 | 1,234,933 |
| Receivables not impaired but past due 90 days | | | | |
| Rating 5A | 14,293 | 14,293 | 81,563 | 81,563 |
| Rating 5B | 13,441 | 13,441 | 35,458 | 35,458 |
| Rating 5C | 60,456 | 60,456 | 62,929 | 62,929 |
| Rating 5D | 10,796 | 10,796 | 55,644 | 55,644 |
| Rating 5E | 83 | 83 | 0 | 0 |
| Total | 99,068 | 99,068 | 235,594 | 235,594 |
| Receivables neither impaired nor past due | | | | |
| Rating 5A | 32,843 | 32,843 | 173,335 | 173,335 |
| Rating 5B | 96,996 | 96,996 | 162,566 | 162,566 |
| Rating 5C | 125,954 | 125,954 | 275,506 | 275,506 |
| Rating 5D | 8,467 | 8,467 | 15,214 | 15,214 |
| Rating 5E | 4,788 | 4,788 | 59 | 59 |
| Total | 269,049 | 269,049 | 626,680 | 626,680 |
| **Total** | **2,302,150** | **1,271,952** | **3,485,347** | **2,097,207** |

The following table shows the gross and net carrying amounts of the receivables according to their respective risk categories.

| Euro thousand | Loans and receivables to credit institutions and customers Gross | Net |
|---|---|---|
| **31 Dec 2011** | | |
| Risk category 1 (1A - 1E) | 6,485,759 | 6,485,593 |
| Risk category 2 (2A - 2E) | 3,886,006 | 3,881,947 |
| Risk category 3 (3A - 3E) | 4,194,305 | 4,323,783 |
| Risk category 4 (4A - 4E) | 3,467,555 | 3,427,403 |
| Risk category 5 (5A - 5E) | 2,302,150 | 1,271,952 |
| Risk category 6 (NR) | 345,596 | 344,951 |
| **Total** | **20,681,372** | **19,735,629** |
| **31 Dec 2010** | | |
| Risk category 1 (1A - 1E) | 6,448,040 | 6,447,866 |
| Risk category 2 (2A - 2E) | 2,313,189 | 2,296,191 |
| Risk category 3 (3A - 3E) | 12,657,218 | 12,608,749 |
| Risk category 4 (4A - 4E) | 4,490,927 | 4,427,221 |
| Risk category 5 (5A - 5E) | 3,485,347 | 2,097,207 |
| Risk category 6 (NR) | 652,096 | 647,052 |
| **Total** | **30,046,816** | **28,524,284** |

Individual impairment in risk category 5 generally does not cover the entire gross value of outstanding receivables, as collateral is taken into account but other provisions (portfolio provisions) are not, and this does not always need to result in complete impairment of the defaulted receivable in cases of restructuring (going concern consideration when recognising risk provisions).

The following table shows the share represented by defaulted and non-defaulted receivables in total receivables.

| | Receivables total | | Receivables in loss | | Receivables alive | |
|---|---|---|---|---|---|---|
| Euro thousand | Exposure | Unsecured | Unsecured | Risk provision | Unsecured | Expected Loss |
| **31 Dec 2011** | | | | | | |
| Corporates | 5,815,624 | 3,141,685 | 411,437 | 322,677 | 2,730,248 | 36,133 |
| Real Estate | 3,803,537 | 1,624,180 | 151,524 | 142,053 | 1,472,655 | 22,488 |
| Leasing | 2,606,768 | 1,090,772 | 233,378 | 224,181 | 857,394 | 17,053 |
| Financial Markets | 5,591,507 | 5,033,858 | 0 | 0 | 5,033,858 | 2,121 |
| Investment Book/Other Operations | 2,863,935 | 2,816,643 | 19,927 | 15,110 | 2,796,716 | 12,793 |
| **Total** | **20,681,372** | **13,707,137** | **816,266** | **704,021** | **12,890,872** | **90,588** |
| **31 Dec 2010** | | | | | | |
| Corporates | 6,513,968 | 3,916,589 | 484,699 | 370,692 | 3,431,890 | 71,800 |
| Real Estate | 4,066,659 | 1,696,867 | 339,452 | 164,613 | 1,357,415 | 21,082 |
| Retail CEE | 10,618,593 | 4,175,386 | 731,152 | 626,240 | 3,444,234 | 66,514 |
| Leasing | 2,718,656 | 1,089,905 | 223,652 | 205,877 | 866,253 | 19,422 |
| Financial Markets | 3,944,950 | 3,439,553 | 0 | 0 | 3,439,553 | 1,501 |
| Investment Book/Other Operations | 2,183,991 | 2,146,613 | 31,587 | 20,718 | 2,115,026 | 5,823 |
| **Total** | **30,046,816** | **16,464,912** | **1,810,540** | **1,388,140** | **14,654,372** | **186,142** |

Across the Group, default follows the definition given by the Austrian Solvency Regulation for banks which employ an approach based on internal ratings when calculating own funds. Defaulted receivables are compared with the amount of individual impairments recognised and performing receivables are compared with the loss expected for the following year. The expected loss is based on internal credit ratings, the economic collateral situation and the loss amount expected in the event of default derived from this. Defaulted receivables generally result in risk provisons which are less than the unsecured exposure, as in addition to provisions based on individual impairments, there are also group-based impairments and portfolio provisions that are not included in the above table.

The following table shows the value of collateral assigned to the individual receivables.

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| Collateral for individual impairment loans and receivables | 1,599,275 | 2,402,556 |
| Liquid funds | 14,939 | 35,668 |
| Securities | 16,337 | 16,914 |
| Mortgages | 1,373,462 | 2,157,166 |
| Guarantees | 98,234 | 94,496 |
| Movable Goods | 86,202 | 92,455 |
| Others | 10,100 | 5,858 |
| Collaterals for loans and receivables not impaired but past due 90 days | 89,861 | 231,331 |
| Liquid funds | 1,160 | 34,954 |
| Securities | 0 | 460 |
| Mortgages | 76,681 | 187,740 |
| Guarantees | 8,106 | 5,790 |
| Movable Goods | 411 | 1,130 |
| Others | 3,502 | 1,257 |
| Collaterals for loans and receivables which are neither impaired nor past due | 8,628,584 | 10,948,017 |
| Liquid funds | 184,458 | 417,212 |
| Securities | 60,259 | 68,061 |
| Mortgages | 5,516,885 | 7,257,284 |
| Guarantees | 724,012 | 748,941 |
| Movable Goods | 1,619,444 | 1,837,019 |
| Others | 523,525 | 619,501 |
| **Total value of collaterals** | **10,317,720** | **13,581,904** |

The key form of collateral in the lending business is mortgages. Movable property collateral derives from the leasing units of the Group and mainly constitutes private passenger cars.

The following table shows the regional distribution of utilisation across strategic segments.

| Euro thousand | Austria | EFA incl. Switzerland | EU Central- and Eastern Europe | Non EU Europe | USA and Canada | Others | Total |
|---|---|---|---|---|---|---|---|
| **31 Dec 2011** | | | | | | | |
| Corporates | 3,254,838 | 1,500,834 | 780,071 | 148,707 | 39,192 | 91,983 | 5,815,624 |
| Real Estate | 756,299 | 456,917 | 2,228,320 | 98,027 | 2,602 | 261,372 | 3,803,537 |
| Leasing | 612,390 | 51,110 | 1,651,645 | 287,240 | 0 | 4,382 | 2,606,768 |
| Financial Markets | 5,239,453 | 344,413 | 550 | 0 | 7,092 | 0 | 5,591,507 |
| Investment Book/ Other Operations | 479,979 | 285,658 | 2,011,052 | 12,553 | 58,253 | 16,442 | 2,863,935 |
| **Total** | **10,342,958** | **2,638,932** | **6,671,639** | **546,527** | **107,138** | **374,179** | **20,681,372** |
| **31 Dec 2010** | | | | | | | |
| Corporates | 3,566,144 | 1,743,232 | 843,422 | 233,029 | 46,563 | 81,578 | 6,513,968 |
| Real Estate | 713,564 | 479,875 | 2,597,736 | 166,430 | 4,665 | 104,388 | 4,066,659 |
| Retail CEE | 68,714 | 387,896 | 8,069,125 | 2,070,855 | 18,922 | 3,081 | 10,618,593 |
| Leasing | 591,204 | 52,991 | 1,751,013 | 318,976 | 0 | 4,473 | 2,718,656 |
| Financial Markets | 3,352,525 | 546,602 | 556 | 654 | 32,975 | 11,637 | 3,944,950 |
| Investment Book/ Other Operations | 1,470,537 | 507,892 | 116,008 | 7,688 | 62,350 | 19,516 | 2,183,991 |
| **Total** | **9,762,687** | **3,718,489** | **13,377,861** | **2,797,632** | **165,475** | **224,672** | **30,046,816** |

The distribution of the receivables portfolio across the main regions that are used within the Group for controlling purposes shows a considerable shift in regional distribution. In 2011, the majority of the volume is located in Austria. The CEE countries have lost a great deal of significance with the sale of VBI. Changes occurred in the segments year-on-year due to internal management deliberations and as a result of the disposal of investments, otherwise there were barely any noteworthy shifts.

The following table shows the distribution of the portfolio by sector and customer segment.

| Euro thousand | Public sector | Banks | Corporates | Retail SME | Retail Privat | Special finance | not attributable | Total |
|---|---|---|---|---|---|---|---|---|
| **31 Dec 2011** | | | | | | | | |
| Corporates | 63,392 | 155,828 | 4,553,167 | 86,204 | 301,807 | 655,226 | 0 | 5,815,624 |
| Real Estate | 5,712 | 2,974 | 1,650,573 | 5,799 | 3,153 | 1,967,031 | 168,295 | 3,803,537 |
| Leasing | 23,903 | 14,714 | 277,390 | 1,921,176 | 364,476 | 736 | 4,373 | 2,606,769 |
| Financial Markets | 0 | 5,403,590 | 187,917 | 0 | 0 | 0 | 0 | 5,591,507 |
| Investment Book/ Other Operations | 77,602 | 2,387,204 | 393,055 | 1,267 | 4,808 | 0 | 0 | 2,863,935 |
| **Total** | **170,609** | **7,964,310** | **7,062,102** | **2,014,446** | **674,244** | **2,622,993** | **172,669** | **20,681,372** |
| **31 Dec 2010** | | | | | | | | |
| Corporates | 78,231 | 273,896 | 5,180,041 | 81,498 | 327,647 | 572,474 | 181 | 6,513,968 |
| Real Estate | 6,300 | 5,695 | 1,759,129 | 6,846 | 3,304 | 2,283,027 | 2,357 | 4,066,659 |
| Retail CEE | 195,790 | 648,291 | 2,604,567 | 1,046,142 | 4,927,505 | 1,196,298 | 0 | 10,618,593 |
| Leasing | 22,657 | 10,003 | 304,856 | 2,030,684 | 345,009 | 1,015 | 4,435 | 2,718,656 |
| Financial Markets | 0 | 3,933,199 | 3,784 | 0 | 0 | 0 | 7,967 | 3,944,950 |
| Investment Book/ Other Operations | 153,230 | 1,560,795 | 449,335 | 1,535 | 4,724 | 3,212 | 11,161 | 2,183,991 |
| **Total** | **456,207** | **6,431,879** | **10,301,711** | **3,166,702** | **5,608,189** | **4,056,026** | **26,102** | **30,046,816** |

The sectors represent the way in which the receivables portfolio is broken down within the Group for controlling purposes, while the breakdown according to customer segment conforms to the customer groups as defined by the Austrian Banking Act.

## Loan collateral

### Use of loan collateral

The use and management of loan collateral are regarded as important components of credit risk management in the VBAG Group. Alongside borrowers' creditworthiness, they are a decisive factor in determining the credit risk of an exposure. The primary significance of loan collateral is in making provision for unforeseeable future risks from loan exposures, thus limiting the risk of loss arising from a loan exposure in the event of insolvency or restructuring.

The types of collateral used within the VBAG Group and the way in which these are handled are presented in detail in two documents: the economic collateral catalogue and the Basel II collateral handbook.

These categorise collateral according to both legal hedging transactions and by the type of goods on which they are based. In this process, information is provided for each type of collateral as to whether it is economically suitable collateral or collateral recognised by regulatory requirements and can thus be used to reduce economic risk and/or regulatory minimum equity requirements.

In the VBAG Group, a key requirement when selecting a type of collateral is its congruence with the loan to be secured. If collateral is created for a loan exposure, it must be objectively valued in accordance with binding Group-wide valuation rules. Furthermore, there are clearly defined guidelines and processes for creating, managing and realising loan collateral. The soundness of all loan collateral is examined regularly. Periodicity largely depends on the type of collateral and is regulated on a standard basis throughout the Group.

### Valuation of loan collateral

In each case, the starting point for considering collateral in terms of the lending process is the current fair value, market value, nominal value or repurchase value. The corresponding deductions are subsequently applied to this value in each case for the purposes of credit risk mitigation. The different types of collateral are valued based on the following initial values:

| Collateral | Initial value |
|---|---|
| Financial collateral | Fair value / nominal value |
| Real estate collateral | Fair value / market value |
| Other tangible collateral | Fair value |
| Amounts receivables | Nominal value |
| Life insurance | Surrender value |
| Guarantees | Nominal value |
| Credit derivatives | Nominal value |

The initial valuation method used for loan collateral is appropriately documented together with the valuation results for ongoing examination.

### The most important types of collateral

Loan collateral should correspond with the type of loan to be secured. As such, capital investment loans should be secured by the assets to be financed, provided these are sound and the guarantor disposes of them for the term of the loan. During selection of loan collateral, the cost/benefit ratio is taken into consideration so that sound loan collateral that requires low levels of processing and costs as well as loan collateral that is actually realisable can be selected first. For this reason, tangible collateral, such as real estate collateral, and financial collateral, such as cash or securities collateral, are given priority.

Distribution of economic loan collateral in the VBAG portfolio:

| Collaterals | Allowable amount | |
|---|---|---|
| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
| Financial collateral | 610,817 | 1,078,666 |
| Real estate collateral | 6,967,028 | 9,602,189 |
| Other tangible collateral | 1,709,155 | 1,933,701 |
| Accounts receivables | 78,713 | 61,510 |
| Life insurance | 121,655 | 56,611 |
| Guarantees | 830,352 | 849,227 |
| **Total** | **10,317,720** | **13,581,904** |

Real estate collateral is by far the most important type of collateral in the VBAG Group. Other tangible collateral constitutes moveable property in the leasing business. The values shown represent the recognised value of the collateral (after measurement and capping by the amount of the secured receivable).

Whether or not personal collateral is recognised depends largely on the quality of the guarantor and its close association with the borrower.

According to the right granted by means of personal collateral, the following liability instruments are recognised in the VBAG Group:

| Personal Collateral |
|---|
| Abstract guarantees |
| Guarantees and payer liability (persuant to section 1357 Austrian Civil Code) |
| Deficiency guarantee (persuant to section 1356 Austrian Civil Code) |
| Draft guarantee |
| Strict letter of comfort |

Distribution of personal collateral in the VBAG portfolio:

| Personal guarantees | Allowable amount | |
|---|---|---|
| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
| Abstract guarantees | 496,377 | 456,826 |
| Guarantees | 42,388 | 161,991 |
| Joint security / Guarantees and payer liability (persuant to section 1357 Austrian Civil Code) | 197,619 | 97,739 |
| Second degree security / Deficiency guarantee (persuant to section 1356 Austrian Civil Code)* | 13,931 | 15,786 |
| Second degree security / Ordinary guarantee (persuant to section 1356 Austrian Civil Code)* | 32,278 | 33,330 |
| Guarantee of a bill of exchanges acc. Bill of Exchange Act (Joint security) | 41,561 | 60,155 |
| Strict letter of comfort | 6,197 | 23,400 |
| **Total** | **830,352** | **849,227** |

* only with default guarantees of public bodies

Abstract guarantees are the most important type of personal collateral. Personal collateral in accordance with section 1356 and section 1346 of the Austrian Civil Code is only recognised if this is granted by government bodies or is provided with counter-liability on the part of government bodies. The values shown represent the recognised value of the collateral (after measurement and capping by the amount of the secured receivable).

## e) Market risk

### Definition

Market risk is the risk that the value of an asset item will change as a result of changes to the price of value-determinant market risk factors. VBAG draws a distinction between the following market risk sub-groups:

- Interest rate risk
- Foreign currency risk
- Commodity risk
- Risks relating to assets
- Option risks
- General credit spread risk

### Organisation and risk strategy

#### Market risk in the trading book

Market risks in trading in the VBAG Group are managed and monitored by the independent Group market risk management department, which is based in strategic risk management. Besides producing a risk and income presentation on a daily basis and specifying the limit structure based on the economic capital made available by the Managing Board, the department's main tasks include administration of front-office systems, collateral management, enhancement of risk measurement systems and monitoring the market risk and counterparty limits.

#### Interest rate risks in the investment book

Entering into interest rate risks is a completely normal part of banking business and is a key source of income. However, excessive interest rate risks represent a significant threat to the earnings and capital situation. Accordingly, an effective risk management system that monitors and limits the interest rate risk in line with the scope of business is vital for maintaining the bank's ability to bear risk.

Functional separation of the units that enter into interest rate risks and those that monitor such risks is in place.

The asset liability committee (ALCO) is the coordination body for managing the ALM processes and is convened quarterly in line with the rules of procedure or at short notice if required.

Asset liability management (ALM) is responsible for ensuring the ALM organisation is adequate, chairs the meetings of the ALCO and devises the bases and analyses relevant for decision-making.

The Group ALM support group is responsible for specifying risk measurement methods and enhancing them on an ongoing basis. Preparing evaluations and analyses, setting parameters and monitoring limits also fall within its remit. The reports it produces serve as a decision-making tool for the ALCO in performance of its management tasks.

The interest rate sensitivities of the VBAG Group (the impact of the shift of the yield curve by one basis point) were distributed as follows across the major currency areas:

Euro thousand

| Currency | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| EUR | –153 | –86 |
| USD | 141 | –70 |
| CHF | –54 | –90 |
| JPY | –6 | –2 |
| GBP | 17 | 3 |
| Others | –160 | 221 |
| **Total** | **531** | **473** |

Here, netting takes place within the currencies (positive and negative) but added across the currencies (irrespective of being plus and minus).

The declared aim of interest rate risk management is to identify all material interest rate risks from assets, liabilities and off-balance positions in the investment book. This requires analysis of both the income effect and the present value effect of interest rate changes using simulation scenarios in the form of statistical and dynamic reports that also incorporate new business.

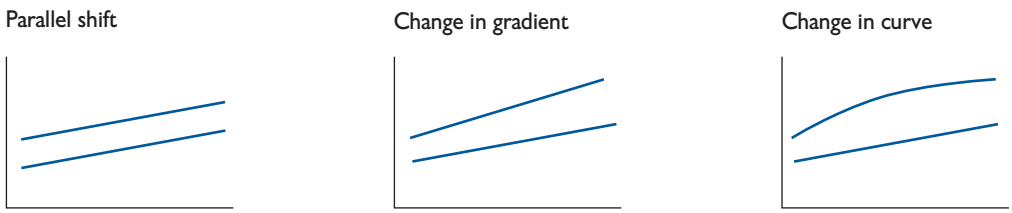
The following interest rate risks are relevant to the VBAG Group:

### Repricing risk

Repricing risk arises due to time differences in the remaining maturity (fixed-interest instruments) or in the period until the interest rate is next fixed (variable-interest instruments) for receivables, liabilities and off-balance positions. It manifests itself in changes in the present value and future earnings of the banks brought about by changes in interest rates.

### Yield curve risk

Yield curve risk results from disadvantageous changes in an interest rate curve, for example:




### Basis risk

In this context, basis risk results from imperfect correlations between the interest rates levied and paid on various financial instruments with otherwise similar characteristics, such as the same maturities.

### Explicit/implicit risk from options

An option is the right, but not the obligation, of an option holder to buy, sell or otherwise change the cash flow of a financial contract. Options may stand alone or be embedded in other financial instruments.

Here, the implicit risk of options denotes the risk from options embedded in receivables, liabilities and off-balance positions.

Examples of implicit options are
- Bonds with call options – the right to repurchase the bonds prior to maturity
- Bonds with put options – the right to return the bonds prior to maturity
- Deposits with the right to terminate – e.g. non-maturity deposit instruments

Here, the explicit risk of options denotes the risk from standalone, interest rate-related options (asymmetrical interest rate derivatives).

Examples of explicit options are
- Cap & floor
- Options on a bond
- Swaptions

### Strategic investment book positions

Particular attention is paid to strategic investment book positions (SIBP). These essentially include all bonds, credit default swaps and securitisations. Credit linked notes, syndicated loans, investment and hedge funds and shares in the nostro portfolio of the VBAG Group are also recognised, but are of less significance. These positions are brought to the attention of the Managing Board on a quarterly basis as part of a specific report. The SIBP report is broken down into a portfolio section and a risk section.

The SIBP portfolio report describes assets with regard to their fair values and carrying amounts and presents them in structural analyses according to various characteristics, such as asset class, IFRS treatment, credit rating, sector, currency or duration. All portfolios are presented on the basis of the end of the respective quarter and their quarterly performance. Qualitative changes in the portfolio are described by means of migration matrices and ratios such as migration drift or migration activity for each individual asset class.

Portfolio structure according to IAS 39 categories

| Euro thousand | Bond | Securisation | Syndicated loans & SSD | Fund & Equity | CLN, LPN & CL-SSD | Total |
|---|---|---|---|---|---|---|
| **31 Dec 2011** | | | | | | |
| At fair value through profit or loss | 109,472 | 26,552 | 0 | 86,518 | 41,992 | 264,535 |
| Available for sale | 3,656,772 | 19,887 | 0 | 32,843 | 3,846 | 3,713,349 |
| Held to maturity and loans & receivables | 1,390,232 | 1,313,744 | 294,833 | 1,914 | 4,478 | 3,005,200 |
| **Total** | **5,156,476** | **1,360,183** | **294,833** | **121,276** | **50,316** | **6,983,084** |
| **31 Dec 2010** | | | | | | |
| At fair value through profit or loss | 219,472 | 160,194 | 0 | 82,235 | 2,798 | 464,698 |
| Available for sale | 4,082,197 | 30,176 | 0 | 39,554 | 62,375 | 4,214,301 |
| Held to maturity and loans & receivables | 1,823,617 | 1,350,829 | 300,633 | 2,888 | 10,377 | 3,488,344 |
| **Total** | **6,125,286** | **1,541,199** | **300,633** | **124,676** | **75,550** | **8,167,344** |

The strategic investment book is the portion of financial investments eligible for the capital market. The exposure shown in the tables exceeds the volume of financial investments, as it also includes the portfolio of VB Romania amounting to euro 480 million as at 31 December 2011. Furthermore, only some of the figures in the SIBP report include deferred interest. Moreover, participation capital held in the investment book, bonds not eligible for the capital market and short-term government securities are not recorded as these are excluded due to technical or regulatory requirements rather than for strategic reasons.

Exposure financial investments European peripheral countries as at 31 December 2011

| | At fair value through profit or loss | | Available for sale | | Held to maturity | | Total | |
|---|---|---|---|---|---|---|---|---|
| Euro thousand | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| Italy | 0 | 0 | 98,362 | 98,362 | 20,000 | 13,996 | 118,362 | 112,358 |
| Spain | 0 | 0 | 40,623 | 40,623 | 0 | 0 | 40,623 | 40,623 |
| Greece | 3,750 | 3,750 | 27,925 | 27,925 | 8,750 | 8,750 | 40,425 | 40,425 |
| Hungary | 0 | 0 | 34,460 | 34,460 | 0 | 0 | 34,460 | 34,460 |
| Portugal | 0 | 0 | 18,750 | 18,750 | 0 | 0 | 18,750 | 18,750 |
| **Total** | **3,750** | **3,750** | **220,120** | **220,120** | **28,750** | **22,746** | **252,620** | **246,616** |

Exposure CDS in European peripheral countries as at 31 December 2011

| | Protection sell | | Protection buy | | Total net | |
|---|---|---|---|---|---|---|
| EUR Tsd. | Face value | Fair value | Face value | Fair value | Face value | Fair value |
| Italy | 102.914 | –28.447 | –72.000 | 21.685 | 30.914 | –6.762 |
| Spain | 124.657 | –12.958 | –16.457 | 417 | 108.200 | –12.541 |
| Greece | 35.593 | –25.288 | –82.643 | 58.230 | –47.050 | 32.942 |
| Hungary | 122.596 | –27.541 | –118.321 | 27.135 | 4.274 | –407 |
| Portugal | 53.457 | –14.767 | –54.457 | 14.786 | –1.000 | 19 |
| Ireland | 73.421 | –12.960 | 0 | 0 | 73.421 | –12.960 |
| **Gesamt** | **512.639** | **–121.961** | **–343.879** | **122.253** | **168.760** | **292** |

Exposure with regard to European peripheral countries (Portugal, Italy, Greece and Spain) and Hungary is in a single-digit percentage of the total exposure of the strategic investment book positions. Of this, VBAG's greatest exposure relates to Italy – followed by Spain, Greece, Hungary and Portugal.

Portfolio distribution by credit rating

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| 1A | 2,173,111 | 2,420,860 |
| 1B - 1C | 888,784 | 1,293,171 |
| 1D - 2 A | 1,757,414 | 2,245,832 |
| 2B - 3A | 889,049 | 1,464,461 |
| 3B - 4E (NIG) | 1,136,640 | 596,894 |
| 5A - 5E (Default) | 42,066 | 48,877 |
| No rating | 96,020 | 97,249 |
| **Total** | **6,983,084** | **8,167,344** |

Since no ratings are provided by the established rating agencies for fund & equity, a rating is not specified for this class in the relevant row.

Portfolio distribution by sector

| Euro thousand | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| Financial sector | 2,567,528 | 2,449,205 |
| Public sector | 2,030,017 | 3,120,364 |
| Corporates | 988,070 | 1,057,022 |
| no classification | 1,397,468 | 1,540,753 |
| **Total** | **6,983,084** | **8,167,344** |

Securitisations and (in part) fund & equity are not assigned to a sector since their individual components may belong to different sectors.

The SIBP risk report has been prepared for the asset classes bonds and credit default swaps since 2009. The portfolio is broken down into 26 risk clusters on the basis of the criteria of currency, credit rating and sector, additionally every risk cluster is separeted relating to the respectiv seniority. Republic of Austria exposure is presented separately in an additional risk cluster. The systemic credit spread is measured for each cluster on the basis of corresponding market indexes and a risk-free interest rate curve. This data is presented with daily-basis historical data going back to 2003. Quarterly changes to the credit spread are determined on the basis of this, which are in turn used to calculate the credit spread value at risk on the basis of a two-regime model. The SIBP risk report presents the credit spread value at risk, the conditional credit spread value at risk and a credit spread value at risk standardised on the basis of euro 100 million for each of the risk clusters described above, each with a 99% confidence level (holding period of 1 quarter). Taking into account the diversification effects between the individual risk factors, the report also shows the credit spread risk on a value at risk basis overall for the respective rating levels, the IFRS categories "at fair value through profit or loss" and "available for sale" and the overall portfolio.

As at 31 December 2011, the credit spread value at risk for the bond asset class (without bonds in default) was euro 270 million (31 December 2010: euro 210 million) for the entire portfolio as well as euro 170 million for available for sale and euro 11 million for at fair value through profit or loss positions.

The credit spread value at risk is also included in the risk sustainability account as part of risk control for the entire bank. A sensitivity evaluation based on a 10 bp shift has been implemented along the same lines as a second risk concept for the risk clusters and factors described above, and is presented in the SIBP risk report.

A change in the credit spread of 10 bp would lead to a change in the net present value in the bond portfolio of euro 16 million (31 December 2010: euro 21 million), whereby euro 0.7 million (31 December 2010: euro 0.8 million) would be recognised in income and euro 12 million 431 December 2010: euro 17 million) would be recognised in equity (valuation reserve). The rest is attributed to bonds in the category held to maturity and loans & receivables.

As the entire CDS Portfolio is measured at fair value through profit or loss, the credit spread value at risk for the CDS asset class is fully reported as euro 45 million and the credit spread sensitivity as euro 5 million in the IFRS category at fair value through profit or loss.

A risk limit has been introduced for the asset classes bonds and credit default swaps based on the risk measurement described, which will trigger pre-defined escalation procedures in the event of a limit being exceeded.

Limiting has also been put in place in the form of volume limits for securitisations at sub-asset class level, together with appropriate escalation procedures.

As well as the portfolio and risk report, carrying out various stress tests is also an important aspect of risk management for SIBP. Uniform Group-wide standards based on economic Group research are vital for risk management here. The implications of the macroeconomic environment for credit spreads for bonds and credit default swaps is assessed on the basis of historical data using a multivariate factor model. Using this estimated correlation, the stressed characteristics are determined for credit spreads based on the macroeconomic specifications. In this way, stress test results can be provided on an economic basis for the bond and credit default swap portfolio, which are then included in the economic total bank risk stress test. Stress test results are also provided for SIBP on a regulatory basis for the total bank risk stress test. These stress tests take place every six months.

All of the models described here are subject to regular backtesting in strategic risk management and are further developed on an ongoing basis in collaboration with other key departments.

## Risk management and controlling

### Market risk in the trading book

The key task in risk monitoring is estimating possible loss that could arise from unfavourable market developments on a daily basis. These value at risk calculations are performed using the internationally recognised software program KVaR+ using the method of historical simulation and essentially include the following calculation steps: following identification and definition of the market risk factors to be included in the modelling process, historical changes are identified from the time series of the market risk factors. The historic simulation method is based on the assumption that future changes can be forecasted from these historically observed changes.

To identify the future (hypothetical) development of market risk factors required for the VaR calculation, in each case the historically observed changes are added as an alternative to the current development of a risk factor, thus producing a hypothetical distribution for the future development of individual market risk factors. In the next step, hypothetical portfolio values are defined for the scenarios generated in this way that are then used to calculate the profit and loss distribution by mapping the differences between the hypothetical future and currently observed portfolio value. The VaR is obtained by applying the relevant quantile to the empirically calculated profit and loss distribution. The time series length used at VBAG corresponds with the minimum legal requirement of one year.

The amount of VaR is ascertained from the 1% quantile of the hypothetical profit and loss distribution, thus meeting the legal requirement of assuming a one-sided forecast interval with a probability level of 99% in the VaR calculation. VBAG calculates the VaR for a holding period of one day, which is then multiplied by the root of ten for the purpose of extrapolating a ten-day VaR. The capital requirements of products that are not integrated into the internal VaR model are covered in the standard procedure.

In December 2004, the Austrian Financial Market Supervisory Authority issued approval for calculating the capital requirements for market risk in the trading book in accordance with the model selected by VBAG. The VaR calculations cover the market risk in interest rate and currency-based positions pursuant to section 22o (2) no. 2 and 12 Austrian Banking Act and the risk in commodity positions pursuant to section 226 (6) Austrian Solvency Regulation (formerly section 3 (6) Austrian Regulation on Internal Models for the Limitation of Market Risk) and the general position risk in assets pursuant to section 22o (2) no. 5-7 Austrian Banking Act. Based on the positive test results, the multiplier for calculating the equity was set at three.

VBAG is currently implementing Murex as a front and back-office system to replace the existing risk management systems Kondor+/KVaR. In order to minimise the expense for the authorisation processes for the significant model changes, it was agreed with the supervisory authorities that VBAG would set aside the existing authorised internal model in November 2011 and temporarily calculate the capital requirement for market risk in the trading book using the standard approach. However, this does not give rise to any changes in internal risk management. The internal model is expected to be resubmitted at the end of 2012/beginning of 2013.

The VaR in the trading book according to risk type and development during the year is as follows.

| Euro thousand | 31.12.2011 | Average | Maximum | Minimum |
|---|---|---|---|---|
| Interest | 1,495,369 | 1,346,712 | 2,272,363 | 696,470 |
| Currency | 104,229 | 130,542 | 377,975 | 40,230 |
| Equity | 152,165 | 155,384 | 353,660 | 58,218 |
| Commodity | 92,371 | 149,242 | 220,010 | 86,730 |
| Volatility (option risk) | 374,994 | 511,788 | 935,396 | 312,693 |
| **Gesamt** | **1,582,545** | **1,387,194** | **2,406,259** | **672,383** |

VaR calculation based on hisorical simulation, confidence level 99%, holding period one day.
VaR total does not correspond to the addition of the seperate VaRs due to portfolio effects.

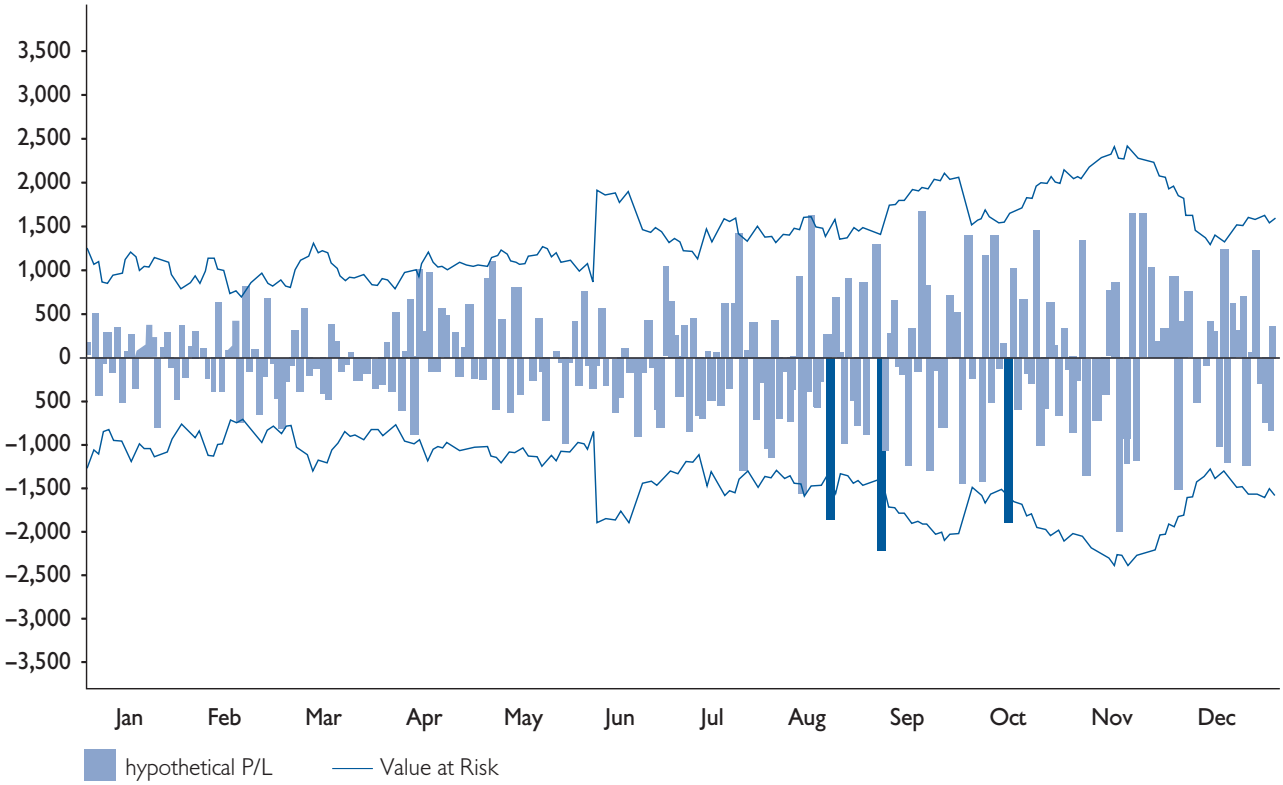
The plausibility and reliability of the risk ratios is reviewed daily by way of backtesting. In this process, the potential risk amounts calculated by the model on a daily basis are compared ex post with the trading results, whereas the Austrian supervisory authorities favour the use of hypothetical trading results. An exception (outlier) is deemed to exist if a negative trading result exceeds the potential risk amount calculated by the model.

Backtesting at VBAG is based on hypothetical trading results and assumes that the portfolio is maintained at a constant level. The portfolio used as the basis for the VaR calculation is then revalued the following day with the current prices/results of the valuation models.

If the VaR determined ex ante is exceeded during the backtesting, an appropriate cause analysis is performed and immediately forwarded to the Austrian Financial Market Supervisory Authority (FMA) and the Austrian National Bank.

In 2011, there were three backtesting outliers. The best possible multiplier (three) for calculating the capital requirements will therefore be retained.

Backtesting results for the 2011 trading book



A hierarchical limit system approved by the Managing Board is a key element of market risk management. The desired higher degree of diversification in the portfolios and the trading strategy are key factors in the development of this limit structure. In addition to VaR, a further series of risk ratios are calculated up to department level. These chiefly include interest rate sensitivities and option risk ratios (delta, gamma, vega, rho).

Volume limits for all currencies and product groups limit the liquidity risk. Management action triggers and stop loss limits are also in place. Besides the KVaR+ risk engine, the front office systems Kondor+ and Bloomberg TS are available for daily risk controlling. The external pricing software UnRisk is also used to support the valuation of structured products. Comprehensive position data management and daily market data checks ensure optimal data quality.

As the effects of extreme situations on earnings cannot be covered by VaR, stress tests using around 80 historical and portfolio-specific worst case scenarios are performed monthly or as required. These crisis tests are mandatory under section 22p Austrian Banking Act for banks that use an internal model for calculating the regulatory capital requirements for market risk in the trading book.

The crisis tests are of both a quantitative and a qualitative nature. The quantitative criteria determine plausible crisis scenarios with which the banks could be confronted. Qualitative criteria ensure that two important objectives of the crisis tests are brought to the fore: assessing whether the bank's own funds can absorb potential major losses and identifying measures with which the bank can reduce its risk and retain its equity.

The VBAG risk monitoring office performs extensive crisis tests on a monthly basis. For VBAG, extensive means that crisis tests are performed across all trading book portfolios. Once a month and at least once a quarter, an expert committee analyses the results, which are also subject to limits, and documents them in detail. Quarterly reports are also submitted to the supervisory authorities (Austrian Financial Market Supervisory Authority and the Austrian National Bank).

Quantitative standards, which VBAG meets by conducting crisis tests, concern the plausibility of the selected scenarios. Plausible scenarios to which the bank may be exposed in the course of critical market events are determined. For selecting scenarios, VBAG has chosen to apply four methods which are in turn divided into two categories, namely non-portfolio-specific and portfolio-specific methods:

Non-portfolio-specific methods:
- Historical crises
- Standardised scenarios
- Historical simulation

Portfolio-specific methods:
- Scenario building by expert committees

### Historical crises
Here, crises that have occurred in the past, for example 11 September 2001, are implemented as scenarios and applied to the current portfolio, with the largest one-day return implemented as a crisis over the observed time interval.

### Standardised scenarios
When implementing these scenarios, VBAG mostly uses the scenario suggestions of the Austrian National Bank in Volume 5 of the guide series on conducting crisis tests. The following standard scenarios are among those implemented:
- Parallel shifts in interest rate curves
- Tilts in interest rate curves
- Changes in exchange rates
- Significant changes in share indexes
- Changes in volatilities

The scope of the changes made is also based on the suggestions of the Austrian National Bank guide series.

### Historical simulation
With this method, the portfolio is valued using the VaR approach of historical simulation. The simulated changes in value are sorted in ascending order and the largest loss incurred is used as the stress test result. To investigate extremely negative scenarios, the largest losses incurred are added at sub-portfolio level independently of the days on which they occurred, thus deliberately negating portfolio effects.

### Scenario building by expert committees (worst case scenarios)
These scenarios stress all relevant risk types and attempt to find the most unfavourable possible impact for the VBAG treasury portfolio. At VBAG, such scenarios are sought subjectively and empirically. VBAG has established an expert committee comprising representatives from trading and market risk management that constructs and discusses various scenarios that would have a decisive influence on trading positions which, although generally unlikely, are still possible.

Extreme developments on the market are discussed and analysed in detail in the expert committee of VBAG with a view to identifying any potential need to adjust the expert scenarios. With the exception of the FSAP bottom-up scenarios in 2008, extreme scenarios have been implemented and further adjustments discussed (particularly with regard to market liquidity risk) but were not deemed necessary by the experts, as the trading book of VBAG only contains highly liquid positions for the most part.

### Valuations

In accordance with section 198 Austrian Solvency Regulation, banks must value each position allocated to the trading book pursuant to section 22n Austrian Banking Act at market prices at least once a day. The positions must be valued based on close-out prices obtained from independent sources. If a direct valuation at market prices is not possible, in accordance with section 199 Austrian Solvency Regulation banks are permitted to perform a valuation using model prices.

VBAG has mapped all trading book positions in a Kondor+ front office and risk management system that is directly linked to various price information systems. This means that the market prices for different products are updated in real time. Products that are not referenced to any direct price are valued with valuation models using market data (market risk factors) in this standard software.

Structured or exotic products whose model prices cannot be calculated in the standard software are valued using an external price calculator whose model results are compared with tradable prices on the market as part of a test phase during model testing.

The systems described above ensure a daily, independent valuation of trading book positions.

Well-organised, efficient processes and procedures are an important component of risk management. The process for launching new treasury products, which falls under the remit of the Group market risk management department, also plays an important role in this context.

All the rules and organisational processes connected with measuring and monitoring market risks are compiled in the VBAG market risk manual. The manual also stipulates the limit structure and escalation procedures in the event of limits being exceeded.

### Interest rate risks in the investment book

The risk measurement system records all the main forms of interest rate risk, such as basis and option risks. All Group positions sensitive to interest rate movements are included. Risk reporting takes place on a monthly or an ad hoc basis whenever necessary. The objective of risk management is to keep the bank's interest rate risks within specific parameters defined by the bank itself.

Positions with no specific lock-in period, which are primarily core deposit products such as savings deposits, current account deposits and loans with no fixed maturity are incorporated in the risk measurement using fictions. The assumptions were made based on statistical analyses or experience values or using expert opinions. The assumptions made were documented, are adhered to at all times and regularly reviewed with regard to their validity. Any deviations are also documented and displayed, provided that they are justified by facts. To approximate the basis risk within the gap process report, products (interest rate swaps, bonds, loans) whose lock-in period is not equal to the interest rate adjustment and is greater than or equal to one year are placed in maturity bands by replicating fixed-interest portfolios. This relates to those positions for which interest rates are fixed in line with secondary market rates of return (SMR) or a constant maturity swap (CMS).

## Risk reports

A building block of reporting is the gap report, which also forms the basis for interest rate risk statistics in line with the gap analysis method. To determine the gaps, products sensitive to interest rate movements are allocated to the appropriate maturity band according to their remaining maturity or the points at which interest rates are to be fixed. Initial risk ratios are obtained from calculating the net positions and weighting them using the associated weighting factors. A further risk ratio is obtained by then correlating the present value risk calculated in this way with the own funds.

As an additional step, a gap report is produced that approximates the basis risk, e.g. of positions that are linked to secondary market rates of return, by replicating fixed-interest portfolios.

Additional present value reports are produced to obtain further ratios. Besides parallel shifts, tilts in interest rate curves are used. These scenarios and stress tests are regularly examined as to their validity and may be added to or replaced.

Currently, the following scenarios are implemented:

- Parallel shift of +1 bp, +10 bp, +25 bp and +50 bp
- Parallel shift of –1 bp, –10 bp, –25 bp and –50 bp

Stress testing refers to the development of scenarios for extreme market conditions. Interest rate shocks that can lead to extraordinary losses for the bank are a fixed component of stress tests in risk management.

Currently, the following stress tests are performed:
- Parallel shift of +100 bp and +200 bp
- Parallel shift of –100 bp and –200 bp
- Tilt/money market +100 bp, capital market –100 bp
- Risk stress tests are conducted half-yearly as part of the ICAAP. The scenarios used (mild and severe recession) are determined and examined in advance.

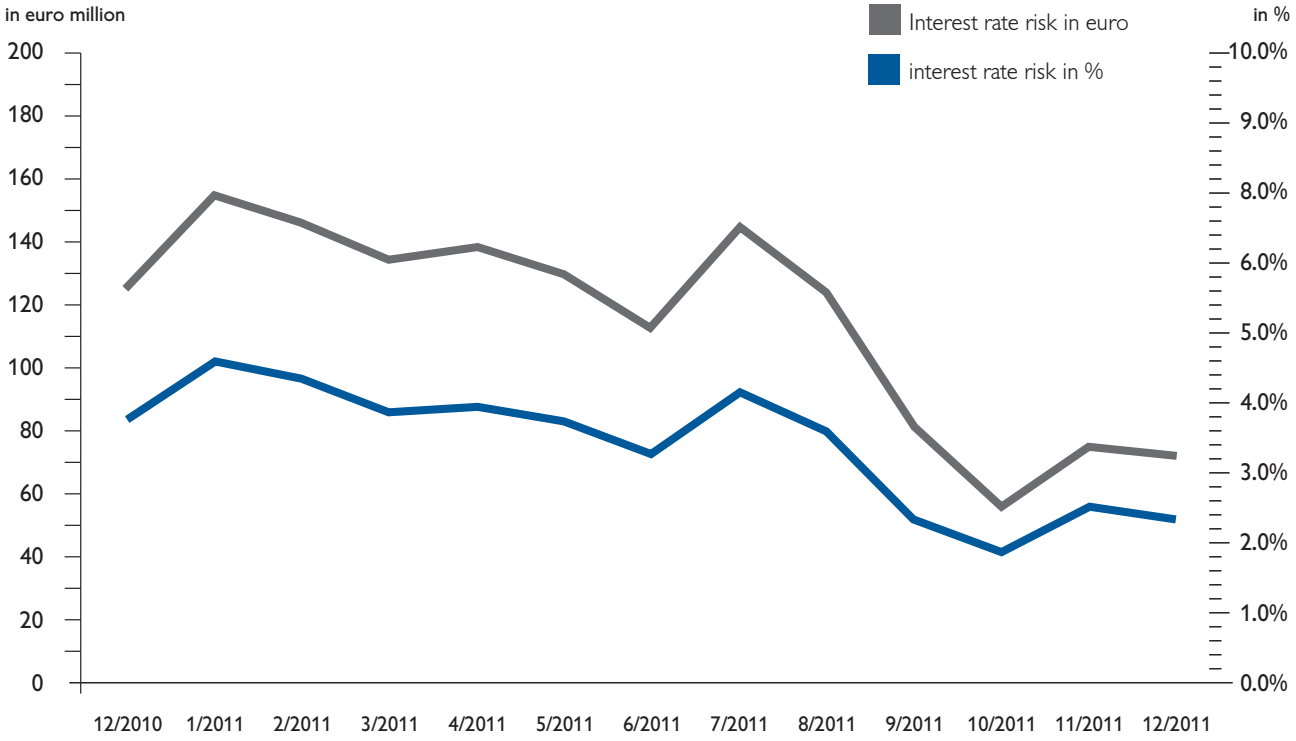
As well as the maximum limit defined by the Supervisory Authority of 20% of eligible qualifying capital with a standardised interest rate curve shift of 200 bp based on interest rate risk statistics, further, and in many cases considerably lower, limits are defined and monitored for the purpose of limiting internal risk across the Group.

At VBAG, limits are set using the interest rate sensitivity limit (PVBPs) and gap volume limits for the main currencies (EUR, USD, CHF, JPY).

### Group gap report
Absolute interest rate risk has increased year-on-year from euro 126.3 million (3.78% of own funds) to euro 72 million (2.36% of own funds).

In comparison to the comparative period, these changes totalled euro 54.3 million on an absolute basis or a decrease of 1.4 percentage points in relation to own funds.

### Interest rate risk development
This graph shows the net present value interest rate risk in millions of euro (left axis) and in relation to eligible qualifying capital (right axis) over time. In the 2011 business year, a stable interest rate risk was apparent which was low in relation to own funds. Maximum utilisation in the 2011 business year was 4.6% (January 2011), and the smallest utilisation was 1.9% (October 2011).



Effect of a change of interest rate on interest income

| Euro thousand | Shift +100 Bp | Shift –100 Bp |
|---|---|---|
| **31 Dec 2011** | | |
| Fiscal year 2011 | 39,413 | –39,413 |
| Average of the period | 25,505 | –25,505 |
| Maximum of the period | 39,413 | –16,764 |
| Minimum of the period | 16,764 | –39,413 |
| **31 Dec 2010** | | |
| Fiscal year 2010 | 16,764 | –16,764 |
| Average of the period | –2,346 | 2,346 |
| Maximum of the period | 16,764 | 14,135 |
| Minimum of the period | –14,135 | –6,668 |

## f) Operational risk

### Definition

The VBAG Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. Beyond the stipulations of banking law provisions, VBAG also takes legal risks and reputational risks, such as those arising from disruptions to business processes, into account in the risk assessment.

### Organisation and risk strategy

Both quantitative and qualitative methods are used in the measurement of operational risks. The line management responsible for managing operational risks receives support from the OpRisk control function based in strategic risk management. Local business line operational risk managers in the business units, risk committees based in some Group member units and close collaboration with other Group functions such as audit, compliance, legal as well as security, safety and insurance management ensure optimum and comprehensive management of operational risks.

### Risk management and controlling

Capital requirement is calculated using the standard approach.

The following policies and principles derived from the risk strategy apply to OpRisk management at VBAG:

- The foremost aim of the entire OpRisk management process is to optimise processes to decrease the likelihood of events occurring and/or the impact of operational losses.
- Events must be documented fully and in a sufficiently comprehensible manner to enable third-party experts to make use of the documentation. Since 2004, operational events throughout the Group have been recorded in a standardised fashion. The resulting transparency with regard to the events that have occurred makes it possible to produce a risk assessment derived from historical data.
- The methods, systems and processes in OpRisk management must be adapted to the respective institution in observance of Group requirements in line with the proportionality principle.
- The adequacy of management and monitoring measures and other measures aimed at minimising risk must be reassessed taking the risk potential into consideration on a continual basis and at least once a year. Risk maps are produced and risk and control assessments are performed during workshops and consultations with experts and the results reported to line management and risk management as well as to management/the Managing Board. Management measures relevant in this context include awareness-raising initiatives/training, ensuring confidentiality, availability and integrity of customer and company data and operational contingency planning, as well as, in particular, adequate separation of responsibilities and application of the principle of dual control. These internal control and management measures integrated in business processes provide for an appropriate and acceptable level of risk within the organisation and ensure sustainable business performance.
- (Remaining) operational risks that cannot be prevented, reduced or transferred must be formally and verifiably accepted by the risk owner.
- Implementation of additional management and monitoring measures and further measures aimed at minimising risk must be monitored and the effectiveness of the measures assessed as part of periodic audits. The effectiveness of operational risk management is also confirmed by way of periodic independent audits.

In addition to the systematic assessment of operational risks, work on enhancing the early warning system (key risk indicators), detailed consideration of risk scenarios posing a threat to the company and appropriate precautionary measures for hedging risks is in progress. In particular, the management of misappropriation risk and external fraud risks were the focus of initiatives in 2011 as well.

### Changes in the 2011 business year

By means of targeted awareness-raising measures such as the electronic OpRisk newsletter and regular meetings with the OpRisk point of contact, the employees concerned have been quickly provided with the latest information.

In the course of operating contingency planning, analyses were carried out and the optimisation of processes continued to be pushed as an aim of risk controlling. Emergency drills were carried out in selected units.

## g) Liquidity risk

### Definition

Liquidity risk is defined as the risk of not being able to meet payment obligations on their due date or not being able to raise the liquidity required at the conditions expected as and when necessary. Liquidity risk is controlled by means of monitoring surpluses from the allocation of cash flows of all asset and liability items to defined maturity bands.

### Organisation and strategy

#### ALM and liquidity management

Operative liquidity management, short-term reporting and long-term, strategic liquidity management are all combined within one unit in the ALM division. ALM/liquidity management is the central department in the Group for all liquidity issues. These include in particular liquidity pricing (transfer pricing), Group-wide, central management of collateral, establishing the funding structure, managing available liquid assets and ensuring compliance with the refinancing strategy.

In addition, liquidity management is documented via the liquidity manual and the liquidity emergency manual.

### Risk management and controlling

#### ALM and liquidity management

Through the use of both tried-and-tested instruments and newly developed tools, operational liquidity management ensures compliance with legal provisions, daily reporting and liquidity provision within the Group within short timeframes.

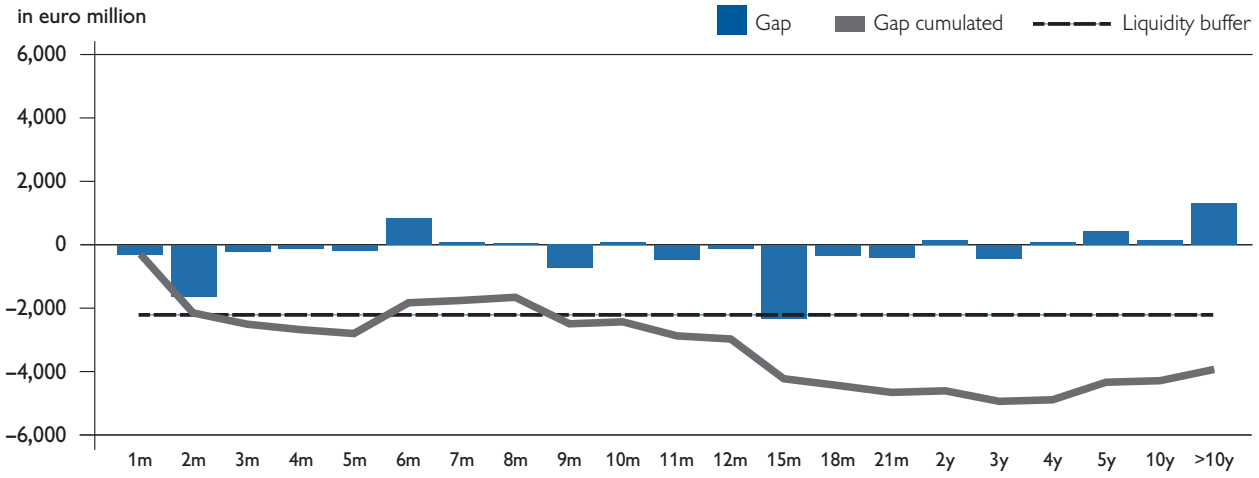
Operational liquidity management comprises five key tasks:

1. Cash management, supported by a real-time cash management system, provides for prompt management of the nostro accounts maintained by VBAG in all currencies as well as funding of CLS netting positions. An intraday comparison of data from cash management with the cash flows from day-to-day liquidity planning is performed. Further cash management tasks included monitoring the TARGET II platform and Austrian National Bank accounts and monitoring large-volume payments.
2. The management of ECB eligible collateral (eligible bonds and credit claims) and the initiation/use of ECB refinancing enables optimal use of the collateral portfolio, taking planning data and cash management requirements into consideration.
3. Liquidity planning is carried out on a daily basis for the next 31 days and on a weekly basis for the next 12 months. The enhanced planning tool allows for a liquidity outlook based on the net cash flow in all currencies up to product level. Daily modelling of cash flows is carried out at product level and includes market, institution and product-specific data and daily valuation of all items mapped in foreign currencies in order to be able to model liquidity requirements arising from currency fluctuations.
4. Compliance with the legal provisions of section 25 Austrian Banking Act in connection with managing ECB collateral and monitoring liquid funds is a key element of liquidity management and have a decisive influence in ALM together with liquidity planning.
5. Planning and complying with the minimum reserve provisions (compliance) for VBAG and the association of Volksbanks while taking liquidity planning into account and regularly reporting to the Managing Board are also part of the task area.

### Risk reports

To present the structural liquidity risk management in the bank, the Group market risk management department creates a liquidity gap report that takes into account both deterministic and stochastic capital cash flows and interest rate cash flows of on- and off-balance sheet products. The cash flows are calculated and modelled in their original currency first of all and are then aggregated and translated into euro. Surplus cover and deficits from the cumulative cash flows are identified and analysed using the GAP method. The report visualises the net cash flows for each maturity band, the cumulative cash flow and the liquidity buffer. The liquidity buffer corresponds to the lending value of the unencumbered assets/collaterals deposited and accepted at the central banks.

**Liquidity gap report for VBAG Group as at 31 December 2011**




The most important key rate indicator, the structural survival period, is determined from the point at which the cumulative cash flow and liquidity buffer lines intersect. The structural survival period is 2 months.

In addition to the real case scenario, stress scenarios are also calculated. As determined by CEBS, this involves a bank, market and combined stress scenario. In these cases, the liquidity buffer is stressed with regard to sufficient cover.

Limits for the structural liquidity risk are set in the real case scenario and in the stress scenarios using the structural survival period and the net concentration ratio. The structural survival period is the period up to which the institution is able to make its due payments with deposits and the liquidity buffer. Additional funding measures are not taken into account here and would extend the structural survival period. The net concentration ratio is the net of cash inflows and cash outflows for a certain maturity band in relation to the liquidity buffer.

The refinancing risk is to be hedged with the support of the owners and the Republic of Austria. These supporting measures still require external authorisations in order to be implemented.

The 2011 earnings situation and the danger of falling short of the solvency limits results in increased liquidity risk, as the investment-grade rating and capital market viability of the bank were endangered. In order to stabilise VBAG, a capital increase and measures to improve liquidity were specified with the owners and the Republic of Austria in the agreement dated 27 February 2012. Moreover, the bank's medium-term liquidity planning assumes positive liquidity effects from the sale of VB Romania S.A. (planned for 2015) and VB-Leasing International GmbH (planned for 2014).

## h) Real estate risk

### Definition

VBAG defines real estate risk as the risk that potentially negative changes in value in the Group's own real estate portfolio will come about as a result of a general fall in value or rent.

### Organisation and strategy

In this context the focus is placed on real estate risk entered into as part of asset management. As regards project companies, particular attention is paid to overlaps with investment risk and credit risk. The sale of Europolis has reduced the volume of the portfolio under observation by more than 80%.

### Risk management and controlling

In order to control real estate risks at portfolio level, VBAG developed a dedicated internal approach based on a value at risk model to quantify the real estate risk. Since 2010, the results have been included in the ongoing risk reporting process.

### Risk reports

Real estate risk reporting at portfolio level is carried out quarterly as part of the Group risk report.

## i) Other risks

In terms of other risks, the VBAG Group is confronted with strategic risk, reputational risk, equity risk and business risk. Although other risks are not of key significance to the VBAG Group, they are intrinsic to its operations.
While business risk is to be quantified using value at risk in future, this type of measurement is not possible for the other risk sub-groups of strategic risk, reputational risk and equity risk. Mainly organisational measures are implemented for the management of other risks.

A capital buffer is therefore defined in order to protect against other risks and the risk arising from market value changes of investment valuations.

VB Romania S.A., in which VBAG has a 51% interest, was deconsolidated as at the end of September. From this date, the company is measured at equity. As at 30 September 2011, the fair value of the company was assessed with nil. Therefore, no income is offsetting the disposal of the proportional net assets. VB RO has a portfolio of problematic retailed loans collateralised with real estate. The refinancing is carried out almost exclusively via the owners. The portion attributable to VBAG amounts to euro 1.7 billion in long-term credit lines. VB RO is planned to be sold once the restructuring is complete in 2015.

## 54) Fully consolidated companies [1)]

| Company names and headquarters | Type* | Equity interest | Share in voting rights | Nominal capital in euro thousand |
|---|---|---|---|---|
| "VBL POSREDNIK" d.o.o.; Sarajevo | SO | 50.00 % | 50.00 % | 1 |
| "VBV iota" - IEB Holding GmbH; Wien | SO | 100.00 % | 100.00 % | 36 |
| 3V-Immobilien Errichtungs-GmbH; Wien | HD | 100.00 % | 100.00 % | 35 |
| ACP IT-Finanzierungs GmbH; Wien | FI | 75.00 % | 75.00 % | 150 |
| ARIANA TURIST VILE d.o.o.; Zagreb | SO | 100.00 % | 100.00 % | 1,132 |
| ATIUMCO LIMITED; Limassol | SO | 100.00 % | 100.00 % | 1 |
| AWP Liegenschaftsverwaltung GmbH; Wien | HD | 100.00 % | 100.00 % | 145 |
| Banka Volksbank d.d.; Ljubljana | KI | 50.97 % | 50.97 % | 43,140 |
| BEVO-Holding GmbH; Wien | SO | 51.00 % | 51.00 % | 35 |
| Edesiana Ltd.; Limassol | SO | 100.00 % | 100.00 % | 1 |
| Egressy 2010 Ingatlanformalgazó Kft.; Budapest | SO | 50.10 % | 50.57 % | 2 |
| Garay Center Ingatlanforgalmazó és Ingatlanhasznosító Korlátolt Felelosségu Társaság; Budapest | SO | 50.10 % | 50.57 % | 2,543 |
| Gefinag-Holding AG; Wien | HD | 100.00 % | 100.00 % | 436 |
| Grieshofgasse 11 Liegenschaftsverwaltungs GmbH; Wien | FI | 100.00 % | 100.00 % | 35 |
| GUB-Holding GmbH; Wien | SO | 100.00 % | 100.00 % | 18 |
| Heilbad Sauerbrunn Betriebsgesellschaft m.b.H. & Co.KG.; Bad Sauerbrunn | SO | 100.00 % | 100.00 % | 3,511 |
| IC Beta d.o.o.; Krapina | FI | 100.00 % | 100.00 % | 3 |
| IC Investment Corporation Limited; Msida. Malta | HD | 100.00 % | 100.00 % | 7 |
| IKIB alpha Beteiligungsholding GmbH; Wien | SO | 100.00 % | 100.00 % | 35 |
| IKIB beta Beteiligungsholding GmbH; Wien | SO | 100.00 % | 100.00 % | 35 |
| IKIB gamma Beteiligungsholding GmbH in Liqu.; Wien | SO | 100.00 % | 100.00 % | 8,000 |
| IKIB Mittelstandsfinanzierungs AG; Wien | SO | 100.00 % | 100.00 % | 7,300 |
| Immo Kapitalanlage AG; Wien | KI | 94.50 % | 94.50 % | 5,000 |
| Immoconsult Asset Leasing GmbH; Wien | FI | 100.00 % | 100.00 % | 18 |
| IMMOCONSULT LEASING ROMANIA IFN S.A.; Bukarest | FI | 100.00 % | 100.00 % | 167 |
| Immokik s.r.l.; Bukarest | FI | 50.92 % | 50.92 % | 1 |
| Immopol Logis Sp.z.o.o.; Warszawa | FI | 100.00 % | 100.00 % | 11 |
| IMMOROM BETA SRL; Bukarest | SO | 100.00 % | 100.00 % | 4,651 |
| Imobilia Kik s.r.o.; Praha | FI | 100.00 % | 100.00 % | 8 |
| Imobilia Sen s.r.o.; Praha | FI | 100.00 % | 100.00 % | 8 |
| Imobilia Spa s.r.o.; Praha | FI | 100.00 % | 100.00 % | 16 |
| INPROX Karlovac d.o.o.; Krapina | FI | 100.00 % | 100.00 % | 13 |
| Investkredit Bank AG; Wien | KI | 100.00 % | 100.00 % | 46,000 |
| Investkredit Funding Ltd.; St. Helier - JERSEY | HD | 80.16 % | 100.00 % | 10 |
| Investkredit International Bank p.l.c.; Sliema | KI | 80.16 % | 100.00 % | 65,000 |
| Investkredit Investmentbank AG; Wien | KI | 100.00 % | 100.00 % | 5,088 |
| Investkredit-IC Holding alpha GmbH; Wien | SO | 100.00 % | 100.00 % | 35 |
| Investkredit-IC Holding beta GmbH; Wien | SO | 100.00 % | 100.00 % | 35 |
| Kalvin-Center Kft.; Budapest | SO | 100.00 % | 100.00 % | 11 |
| Leasing - west Gesellschaft m.b.H. & Co. Kommanditgesellschaft; Kufstein | FI | 100.00 % | 100.00 % | 1,124 |
| Leasing-west Gesellschaft m.b.H.; Kufstein | FI | 100.00 % | 100.00 % | 36 |
| Leasing-west GmbH. BRD; Kiefersfelden | FI | 100.00 % | 100.00 % | 51 |
| Magyarországi Volksbank zrt; Budapest | KI | 50.10 % | 50.57 % | 47,892 |
| Markovo Tepe Mall EOOD; Plovdiv | SO | 100.00 % | 100.00 % | 150 |
| Mithra Holding Gesellschaft m.b.H.; Wien | SO | 100.00 % | 100.00 % | 18 |
| Mithra Unternehmensverwaltung Gesellschaft m.b.H.; Wien | HD | 100.00 % | 100.00 % | 18 |
| ÖVAG FINANCE (JERSEY) LIMITED; St. Helier - JERSEY | HD | 100.00 % | 100.00 % | 0 |
| PJSC Volksbank; Lviv | KI | 50.96 % | 50.96 % | 40,452 |
| PPI ONE Ltd.; Limassol | SO | 100.00 % | 100.00 % | 9 |
| PRI FIVE Limited; Limassol | SO | 100.00 % | 100.00 % | 2 |
| PRI ONE Limited; Limassol | SO | 100.00 % | 100.00 % | 4 |
| PRI TWO Ltd.; Limassol | SO | 100.00 % | 100.00 % | 7 |
| Privatinvest d.o.o.; Ljubljana | HD | 50.97 % | 50.97 % | 2,296 |

| Company names and headquarters | Type* | Equity interest | Share in voting rights | Nominal capital in euro thousand |
|---|---|---|---|---|
| Protea Létesítményszervezö Kft.; Budapest | SO | 100.00 % | 100.00 % | 2 |
| REWO 10 Limited; Limassol | SO | 100.00 % | 100.00 % | 3 |
| REWO 90 Limited; Limassol | SO | 100.00 % | 100.00 % | 3 |
| REWO Holding GmbH; Wien | SO | 100.00 % | 100.00 % | 18 |
| S.C. IMMOROM DELTA SRL; Bukarest | SO | 100.00 % | 100.00 % | 4,251 |
| Selini Holding GmbH; Wien | SO | 100.00 % | 100.00 % | 35 |
| Új Garai tér Ingatlanforgalmi Kft.; Budapest | SO | 50.10 % | 50.57 % | 2,225 |
| Unternehmensbeteiligungs Gesellschaft mit beschränkter Haftung; Wien | SO | 100.00 % | 100.00 % | 73 |
| UVB-Holding GmbH; Wien | SO | 100.00 % | 100.00 % | 35 |
| VB Factoring Bank Aktiengesellschaft; Salzburg | KI | 100.00 % | 100.00 % | 2,907 |
| VB GFI AG; Wien | HD | 100.00 % | 100.00 % | 1,000 |
| VB Leasing CZ. spol.s.r.o.; Brno | FI | 50.00 % | 50.00 % | 138,750 |
| VB LEASING d.o.o.; Zagreb | FI | 50.00 % | 50.00 % | 9,924 |
| VB Leasing doo Beograd; Novi Beograd | FI | 50.00 % | 50.00 % | 4,037 |
| VB Leasing Finanzierungsgesellschaft m.b.H.; Wien | FI | 100.00 % | 100.00 % | 18 |
| VB LEASING POLSKA S.A.; Wroclaw | FI | 50.00 % | 50.00 % | 1,804 |
| VB LEASING ROMANIA IFN S.A.; Bukarest | FI | 50.20 % | 50.20 % | 236 |
| VB Leasing Services. spol. s r.o.; Brno | FI | 50.00 % | 50.00 % | 396 |
| VB LEASING SK. spol. s.r.o.; Bratislava | FI | 50.00 % | 50.00 % | 4,149 |
| VB LEASING Sprostredkovatelská s.r.o.; Bratislava | SO | 50.00 % | 50.00 % | 5 |
| VB Real Estate Development Baross Ingatlan Kft.; Budapest | SO | 100.00 % | 100.00 % | 11 |
| VB Real Estate Development GmbH; Wien | HD | 100.00 % | 100.00 % | 18 |
| VB Real Estate Holding drei GmbH; Wien | SO | 100.00 % | 100.00 % | 18 |
| VB Real Estate Holding eins GmbH; Wien | SO | 100.00 % | 100.00 % | 18 |
| VB Real Estate Holding Zeta GmbH; Wien | SO | 100.00 % | 100.00 % | 18 |
| VB Real Estate Holding zwei GmbH; Wien | SO | 100.00 % | 100.00 % | 18 |
| VB Real Estate Leasing Alpha GmbH; Wien | FI | 100.00 % | 100.00 % | 18 |
| VB Real Estate Leasing Citycenter GmbH; Wien | FI | 51.00 % | 51.00 % | 18 |
| VB Real Estate Leasing Delta GmbH; Wien | FI | 100.00 % | 100.00 % | 36 |
| VB Real Estate Leasing eins GmbH; Wien | FI | 100.00 % | 100.00 % | 18 |
| VB Real Estate Leasing Gamma GmbH; Wien | FI | 100.00 % | 100.00 % | 36 |
| VB Real Estate Leasing Herkules GmbH; Wien | FI | 100.00 % | 100.00 % | 73 |
| VB Real Estate Leasing Ismene GmbH; Wien | FI | 100.00 % | 100.00 % | 18 |
| VB Real Estate Leasing neun GmbH; Wien | FI | 100.00 % | 100.00 % | 19 |
| VB Real Estate Leasing Prater I GmbH; Wien | FI | 100.00 % | 100.00 % | 18 |
| VB Real Estate Leasing Psi GmbH; Wien | FI | 100.00 % | 100.00 % | 18 |
| VB Real Estate Leasing RAI GmbH; Wien | FI | 100.00 % | 100.00 % | 18 |
| VB Real Estate Leasing Rho GmbH; Wien | FI | 100.00 % | 100.00 % | 18 |
| VB Real Estate Leasing SPU GmbH; Wien | FI | 100.00 % | 100.00 % | 35 |
| VB Real Estate Leasing vier GmbH; Wien | FI | 100.00 % | 100.00 % | 18 |
| VB Real Estate Leasing Viribus GmbH; Wien | FI | 100.00 % | 100.00 % | 36 |
| VB Real Estate Leasing VOGEVA GmbH; Wien | FI | 100.00 % | 100.00 % | 36 |
| VB Real Estate Services GmbH; Wien | FI | 100.00 % | 100.00 % | 3,270 |
| VB Real Estate Services Polska Spólka z.o.o.; Warszawa | FI | 100.00 % | 100.00 % | 90 |
| VB Real Estate Zeta Ingatlankezelö Bt.; Budapest | FI | 100.00 % | 100.00 % | 0 |
| VB Services für Banken Ges.m.b.H.; Wien | HD | 98.89 % | 98.89 % | 327 |
| VB Technologie Finanzierungs GmbH; Wien | FI | 100.00 % | 100.00 % | 100 |
| VB Vermögensanlage Gesellschaft m.b.H.; Wien | SO | 100.00 % | 100.00 % | 73 |
| VB-Holding Aktiengesellschaft; Wien | SO | 100.00 % | 100.00 % | 73 |
| VBI Holding GmbH; Wien | SO | 100.00 % | 100.00 % | 36 |
| VBKA-Holding GmbH; Wien | SO | 100.00 % | 100.00 % | 35 |
| VBL BROKER DE ASIGURARE SRL; Bukarest | SO | 50.20 % | 50.20 % | 6 |
| VBL SERVICES DOO BEOGRAD; Beograd | FI | 50.00 % | 50.00 % | 78 |
| VB-Leasing International Holding GmbH; Wien | SO | 50.00 % | 50.00 % | 5,603 |
| VB-NEPREMICNINE podjetje za promet z nepremicninami. d.o.o.; Ljubljana | SO | 60.00 % | 60.00 % | 956 |
| VBRES Real Estate Services Romania s.r.l.; Bukarest | SO | 100.00 % | 100.00 % | 0 |

| Company names and headquarters | Type* | Equity interest | Share in voting rights | Nominal capital in euro thousand |
|---|---|---|---|---|
| VBS HISA d.o.o.; Ljubljana | FI | 50.00 % | 50.00 % | 626 |
| VBS Leasing d.o.o.; Ljubljana | FI | 50.00 % | 50.00 % | 28,973 |
| VBV Anlagenvermietungs- und Beteiligungs-GmbH; Wien | FI | 100.00 % | 100.00 % | 35 |
| VBV Holding GmbH; Wien | FI | 100.00 % | 100.00 % | 36 |
| VBV zwölf Anlagen Vermietung Gesellschaft m.b.H.; Wien | SO | 100.00 % | 100.00 % | 18 |
| VBZ Váci u. 37 Irodaközpont Kft; Budapest | SO | 100.00 % | 100.00 % | 11 |
| V-Dat Informatikai Szolgáltató és Kereskedlmi Kft.; Budapest | HD | 50.10 % | 50.57 % | 1,281 |
| Verwaltungsgenossenschaft der IMMO-BANK eG; Wien | SO | 88.83 % | 88.83 % | 3,915 |
| VIBE-Holding GmbH; Wien | SO | 100.00 % | 100.00 % | 35 |
| VIVH AG; Wien | SO | 100.00 % | 100.00 % | 5,000 |
| Volksbank a.d. Banja Luka; Banja Luka | KI | 51.00 % | 51.00 % | 12,132 |
| Volksbank a.d.; Beograd | KI | 49.42 % | 49.42 % | 54,992 |
| VOLKSBANK BH d.d.; Sarajevo | KI | 51.00 % | 51.00 % | 24,031 |
| Volksbank CZ. a.s.; Praha | KI | 51.00 % | 51.00 % | 77,767 |
| Volksbank d.d.; Zagreb | KI | 51.00 % | 51.00 % | 81,680 |
| Volksbank Ingatlankezelö Kft; Budapest | HD | 50.10 % | 50.57 % | 5,244 |
| Volksbank International AG; Wien | KI | 51.00 % | 51.00 % | 64,385 |
| Volksbank Invest Kapitalanlagegesellschaft m.b.H.; Wien | KI | 100.00 % | 100.00 % | 2,500 |
| Volksbank Leasing BH d.o.o.; Sarajevo | FI | 50.00 % | 50.00 % | 2,124 |
| Volksbank Malta Limited; Sliema | KI | 100.00 % | 100.00 % | 167,821 |
| VOLKSBANK Slovensko. a.s.; Bratislava | KI | 50.53 % | 50.45 % | 33,207 |
| Volksin d.o.o.; Zagreb | HD | 51.00 % | 51.00 % | 905 |

[1)] all fully consolidated companies are under direct or indirect control of VBAG

## 55) Companies measured at equity

| Company names and headquarters | Type* | Equity interest | Share in voting rights | Nominal capital in euro thousand |
|---|---|---|---|---|
| GEF Beteiligungs-AG; Wien | SO | 49.94 % | 49.94 % | 7,300 |
| TRASTONA HOLDINGS LIMITED; Nicosia | SO | 40.00 % | 40.00 % | 2 |
| VBI Beteiligungs GmbH; Wien | SO | 51.00 % | 51.00 % | 35 |
| VBV delta Anlagen Vermietung Gesellschaft m.b.H.; Wien | SO | 40.00 % | 40.00 % | 36 |
| Volksbank Romania S.A.; Bukarest | KI | 51.00 % | 51.00 % | 215,694 |

* Abbreviations
KI credit institutions
FI financial institution
HD banking related auxiliary service
SO other enterprises

# STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial positions and profit or loss of the group as required by the applicabel accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.

Vienna, 30 March 2012

Gerald Wenzel
Chairman of the Managing Board
Finance, Human Resources, Law, Organisation/IT, Marketing

Michael Mendel
Deputy Chairman of the Managing Board
Risk

Martin Fuchsbauer
Member of the Managing Board
Treasury

Wolfgang Perdich
Member of the Managing Board
Markt/Overseas

# AUDITOR'S REPORT

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of

**Österreichische Volksbanken-Aktiengesellschaft,**
**Wien,**

for the year from 1 January 2011 to 31 December 2011. These consolidated financial statements comprise the consolidated statement of financial positions as of 31 December 2011, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year ended 31 December 2011 and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2011 and of its financial performance and its cash flows for the year from 1 January to 31 December 2011 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Without qualifying our opinion, we want to point out the following circumstances:

- In the notes of the consolidated financial statements management reports that there have been doubts about the company's ability to continue as a going concern due to the significant losses posted for the 2011 financial year in the VBAG parent company. On 27 February 2012, an agreement was concluded between the shareholders of VBAG and the Republic of Austria to stabilise VBAG. As these measures are dependent on the approval of the shareholders, the Financial Market Authority, the Republic of Austria as well as the European Commission there could remain risks concerning the implementation. Managing board assumes that the stabilisation measures are very likley to be taken.
- Due to the concentration on core business security portfolios should be reduced where significant hidden burdens are included. Concerning measurement of these assets management assumes that the reduction is done on a controlled basis and therefore no deductions for accelearated sales have been taken into account.

### Report on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements.

In our opinion, the management report for the Group is consistent with the consolidated financial statements.

Vienna, 30 March 2012

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Bernhard Mechtler
Certified Public Accountant

Walter Reiffenstuhl
Certified Public Accountant

(Austrian Chartered Accountants)

This report is a translation of the original report in German, which is solely valid.

# OFFICERS AND ADRESSES

# SUPERVISORY BOARD AND MANAGING BOARD

## Supervisory board

Chairman
Hans HOFINGER
Syndic and chairman of the Managing Board of the Federation of Austrian Credit Co-operatives (Schulze-Delitzsch)

First deputy chairman
Rainer KUHNLE
Member of the Managing Board of Volksbank Krems-Zwettl-AG

Second deputy chairman
Franz FRISCHLING
Chairman of the Managing Board of Volksbank Vöcklamarkt-Mondsee rGmbH (until 19 May 2011)

Edwin REITER
Chairman of the Managing Board of Volksbank Oberkärnten rGmbH (from 19 May 2011)

## Members

Harald BERGER
Chairman of the Managing Board of Volksbank Südburgenland eG

Thomas BOCK
Chairman of the Managing Board of Volksbank Vorarlberg e. Gen.

Franz FRISCHLING
Chairman of the Managing Board of Volksbank Vöcklamarkt-Mondsee rGmbH (from 19 May 2011)

Erich HACKL
Chairman of the Managing Board of Allgemeine Bausparkasse reg.Gen.m.b.H.

Wolfgang KIRSCH
Chairman of the Managing Board of DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Wolfgang KÖHLER
Member of the Managing Board of DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Jochen MESSEMER
Member of the Managing Board of ERGO Versicherungsgruppe AG

Franz NEBEL
Member of the Managing Board of REWE International AG

Anton PAUSCHENWEIN
Chairman of the Managing Board of Volksbank Niederösterreich Süd eG

Edwin REITER
Chairman of the Managing Board of Volksbank Oberkärnten rGmbH (until 19 May 2011)

Walter ZANDANELL
Chairman of the Managing Board of Volksbank Salzburg eG

## Delegated by the staff council

Hans LANG
Chairman of the staff council
Hermann EHINGER
Ilse HABERLEITNER
(until 31 August 2011)
Josef HEIDEGGER
Erika MÖRK
(from 8 September 2011)
Michaela POKORNY
Dr. Dieter Seyser
(from 8 September 2011)
Matthäus THUN-HOHENSTEIN
Christian WERNER
(until 31 August 2011)

## State commissioners

Senior legal secretary
Heinrich LORENZ
Federal Ministry of Finance

Senior legal secretary
Viktor LEBLOCH
Deputy state commissioner
Federal Ministry of Finance

## Managing Board

Chief Executive Officer
Gerald WENZEL

Deputy Chief Executive Officer
Michael MENDEL

Members of the Managing Board
Martin FUCHSBAUER

Wolfgang PERDICH

# ADVISORY BOARD

## Advisory board

**Werner EIDHERR**
Chairman of the Advisory Council
President of the Advisory Council
of the Federation of Austrian Credit
Co-operatives (Schulze-Delitzsch)

**Johannes JELENIK**
Deputy Chairman of the Advisory Council
Deputy Chairman of the Managing Board
of Volksbank Kärnten Süd e.Gen.

**Johannes FLEISCHER**
Chairman of the Managing Board
of Volksbank Weinviertel e.Gen.

**Hermann GEISSLER**
Lawyer

**Franz KNOR**
Deputy Chairman of the Managing Board
of Volksbank Südburgenland rGmbH

**Michael PESCHKA**
Chairman of the Managing Board
of Volksbank Eferding-Grieskirchen
reg. Gen.m.b.H.

**Gerhard REINER**
Chairman of the Managing Board
of Volksbank Graz-Bruck e. Gen.

**Wolfgang SCHAUER**
Chairman of the Managing Board of
Volksbank Kufstein eG

**Othmar SCHMID**
Member of the Managing Board of
Österreichische Apothekerbank eG

**Gerhard SCHWAIGER**
Chairman of the Managing Board of
Volksbank Tirol Innsbruck-Schwaz AG
(until 18 April 2011)

**Claudius SEIDL**
Chairman of the Managing Board
of VR-Bank Rottal-Inn eG

**Peter SEKOT**
Deputy Chairman of the Managing Board
of Volksbank Marchfeld e.Gen.

**Bernd SPOHN**
Deputy Chairman of the Managing Board
of the Federation of Austrian Credit
Co-operatives (Schulze-Delitzsch)

**Helmut STIEB**
Chairman of the Managing Board of
Volksbank Vöcklabruck-Gmunden e. Gen.

**Sonja ZWAZL**
President of the Chamber of Commerce
of Lower Austria

# VBAG GROUP

## Headquarters

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Internet: www.vb-real-estate.com
Represented in the following countries: Poland, Romania, Slovakia, Czech Republic and Hungary

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Internet: www.investkredit.at
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### VB Factoring Bank Aktiengesellschaft
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## Umbrella Organisation

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# TERMINOLOGY

### Österreichische Volksbanken-AG

Central institution of Volksbank Group
Business name:
Österreichische Volksbanken-Aktiengesellschaft
(in german language for short: ÖVAG)
Brand and international name:
Volksbank AG (for short: VBAG)

### VBAG Group

Österreichische Volksbanken-AG with its subsidiaries in Austria and abroad: Investkredit Bank AG, VB-Factoring Bank AG, Volksbank Malta Ltd., VB Real Estate Services GmbH, Volksbank International AG (closing on 15 February 2012 excl. Volksbank Romania S.A.), VB-Leasing International Holding GmbH, VB Leasing Finanzierungsgesellschaft m.b.H.

### Volksbank primary banks

51 Local Volksbanks including 7 banks with specialised professional expertise (Österreichische Apothekerbank eG, Gärtnerbank, registrierte Genossenschaft mit beschränkter Haftung, IMMO-BANK Aktiengesellschaft, SPARDA-BANK LINZ, registrierte Genossenschaft mit beschränkter Haftung, SPARDA-BANK VILLACH/INNSBRUCK registrierte Genossenschaft mit beschränkter Haftung, Wiener Spar- und Kreditinstitut registrierte Genossenschaft mit beschränkter Haftung, Bank für Ärzte und Freie Berufe Aktiengesellschaft) and 4 credit co-operative banks

### Volksbank-Sector

Volksbank primary banks, VBAG in Individual Financial Statements, VB Factoring AG, Volksbank Quadratbank AG, IK Investmentbank AG, Investkredit Bank AG

### Association of Volksbanks/Volksbank Group

Volksbank primary banks, VBAG Group, Group of Volksbank Vorarlberg, Allgemeine Bausparkasse reg.Gen.m.b.H., ABV

### Austrian Cooperative Association

Volksbank Group is a member of Österreichischer Genossenschaftsverband (Schulze-Delitzsch) – known as ÖGV for short. ÖGV represents the interests of and acts as an auditing association for independent regional Volksbanks whose co-operative assignment is to advance and support their respective local and the companies and private customers located there. The regional focus of Volksbanks enables targeted regional use of financial resources.

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