VOLKSBANK AG

HALF-YEAR FINANCIAL REPORT

AS AT 30 JUNE 2011

KEY FIGURES OF VOLKSBANK AG

Euro million	30 Jun 2011	31 Dec 2010	31 Dec 2009
Statement of financial position [1]			
Total assets	**44,100**	**46,465**	**49,146**
Loans and advances to customers	23,650	23,615	24,134
Amounts owed to customers	7,723	7,312	7,467
Debts evidenced by certificates	14,949	16,122	17,329
Subordinated liabilities	1,851	1,864	1,983
Own funds			
Core capital (tier I) after deductions	2,597	2,613	2,715
Supplementary capital (tier II, tier III) after deductions	845	950	968
Eligible qualifying capital	3,442	3,563	3,682
Assessment base credit risk	24,451	25,454	27,255
Capital requirement market risk	50	54	55
Capital requirement operational risk	139	141	125
Surplus capital	1,297	1,333	1,321
Core capital ratio [2]	**10.6%**	**10.3%**	**10.0%**
Equity ratio [3]	**12.8%**	**12.8%**	**12.5%**
Income statement [1]	**1-6/2011**	**1-6/2010**	**1-6/2009**
Net interest income	380.0	397.2	275.3
Risk provisions	–129.5	–193.8	–282.5
Net fee and commission income	85.0	87.4	77.3
Net trading income	22.0	31.0	72.8
General administrative expenses	–287.9	–281.6	–270.3
Other operating result	–7.2	5.7	14.7
Income from financial investments	–47.9	–6.1	–26.6
Income from the disposal group	–3.9	5.0	–0.1
Result before taxes	**10.5**	**45.0**	**–139.4**
Income taxes	5.1	–10.6	46.2
Result after taxes	**15.6**	**34.4**	**–93.2**
Non-controlling interest	–15.1	–19.8	–12.9
Consolidated net income	**0.5**	**14.6**	**–106.1**
Key ratios [4]			
Operating cost-income-ratio	59.1%	54.6%	63.5%
ROE before taxes	1.5%	4.1%	–11.1%
ROE after taxes	2.0%	3.2%	–7.5%
ROE consolidated net income	0.7%	2.5%	–12.7%
ROE before taxes (regulatory)	1.5%	3.8%	–12.2%
Resources [1]			
Staff average	7,463	7,651	8,060
of which domestic	1,405	1,423	1,475
of which foreign	6,058	6,228	6,585
	30 Jun 2011	**31 Dec 2010**	**31 Dec 2009**
Staff at end of period	7,436	7,531	7,740
of which domestic	1,379	1,416	1,433
of which foreign	6,057	6,115	6,307
Number of sales outlets	452	549	584
of which domestic	1	1	1
of which foreign	451	548	583

1) The comparative figures of 2009 and 2010 were restated by disposal group in line with IFRS 5.

2) In relation to credit risk

3) In relation to total risk

4) 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 the disposal group.

CONTENT

Half-Year Financial Report

Any role descriptions in this half-year financial report that are used only in the masculine form apply analogously to the feminine form.

HALF-YEAR MANAGEMENT REPORT

Report on business development and the economic situation

Economic environment

The economy in the Eurozone was characterised by pronounced national differences in the first half of the year, with visibly slower economic development in the second quarter. Annual growth in industrial production fell from 9.1% in January to 4% in May 2011. Monthly growth rates also flattened. Growth rates in Estonia (+26.1% Y/Y in May), Germany (7.5% Y/Y in May), Austria (11.8% Y/Y in April) and Slovakia (10.7% in May) were above average. There has been a continued weak development in Greece (–10%) and Portugal (–0.3%), while the Irish industry registered positive growth rates. Economic sentiment indicators were somewhat unclear, though incoming orders recovered in May and were 15.5% higher than in the same period the year before. Incoming orders have been especially positive in the investment-goods industry in the first half year, which indicates that the economic growth path is still robust.

Uncertainty resulting from the debt crisis and the negative impact on the financial sector as well as the substantial increase in prices in crude oil and other energy resources affected economic sentiment indicators. These effects were exacerbated by the spreading of the North African freedom movement to Libya in the first quarter. The collapse of Japanese industrial production in the wake of the earthquake and nuclear incident in May caused a partial breakdown in the international supply chain and, thus, affected production in specific sectors in Europe. An indirect factor emerging from this development was the rise in electricity wholesale prices, which followed the halt in generation at German nuclear power stations and the subsequent presentation of a new energy policy.

The annual inflation rate stabilised at 2.7% in the second quarter, after accelerating sharply mostly due to higher energy and raw-material prices in the first quarter and is currently well above the ECB target level of about 2%. The ECB retained its easy monetary policy to some extent, for example, by granting full allocations at the base rate. However, it raised its main refinancing rate by 25 basis points in April and again at the start of July from an original rate of 1% to 1.5%.

In Austria, first-quarter GDP growth was 0.9% Q/Q, almost as high as in the final quarter of 2010. Growth was driven by exports and investments in plant and machinery. While industrial production went up sharply, production in the construction industry only recovered marginally and was 1.7% higher than in the year before in April 2011. Growth in private consumption was also modest measured in terms of retail turnover. At –3.7%, in May, annual growth in retail turnover in Austria was noticeably weaker than that in the Eurozone as a whole (–1.9%). However, the annual inflation rate was about one percentage point higher than in the entire Eurozone. This was partly caused by increases in indirect taxes and was reflected in an above average rise in food and luxury-product prices, which are comparably volatile in Austria. [1)]

The unemployment rate fell in the first half of 2011, from 10% (January and February) to 9.9% (March to May). Despite the low unemployment level, the reduction in unemployment rates in Austria were above average (4.6% in January, 4.7% in February and 4.3% in May, according to EU calculation methods).

Economic development in the Czech Republic, Poland, Slovakia and Serbia was solid. Growth rates in the first quarter were well above the average for the Eurozone. In Slovenia, growth levels were below average partly due to budget consolidation measures that were necessary as a result of recent high deficits. Hungary still has the biggest consolidation requirements and its first-quarter growth was behind total European performance levels, though it presented the most comprehensive reform programme in terms of the annual Convergence Reports. Romania had growth of 0.3% in the first quarter, the first time it registered a positive rate in GDP growth since the fourth quarter of 2008. Only Croatia has yet to escape the grips of the recession, with a drop in GDP of 0.8% Y/Y in the first quarter. Industrial production in Croatia also fell below the level recorded in the previous year, although it was well above the previous year's level in all other countries.

Inflation rates of the Central and South-Eastern European countries were above the inflation targets set by the local central banks, just as in the Eurozone – a trend that has been fought by the tightening of monetary policy in certain countries for some time. The exception is the Czech Republic, which had an inflation rate that never rose above 2% in the first half of the year.

[1)] This might result from the fact that due to low trade margins, in Austria rising purchase costs are transferred on to consumers faster than in the rest of the Eurozone, according to the Financial Market Stability Report of the Austrian National Bank Q2/11. On the reverse, decreasing purchase costs should be felt more quickly and/or more sharply in local consumer prices.

Financial markets

The most important factors affecting the financial markets in the first and second quarters were concerns about state-budget financing in the periphery euro states, as well as accelerating inflation and resulting rises in interest rates in Europe. The exchange rate of the Swiss Franc reached a new high. Government bonds that had been seen as safe in recent times had rising yields because of economic and inflation developments, but then reached such a high level of demand due to stability concerns that yields fell again. By contrast, the sovereign debt of periphery states that had come under pressure had yield increases of 300 to 400 basis points, especially after budget data from Greece worsened again and government spending cuts led to more and more protests. Calm was only restored after the end of the quarter with the agreement by Eurozone heads of state and government leaders on new assistance mechanisms. The markets in Central and South-Eastern Europe barely felt the rise in risk aversion in the last half year, unlike during the 2008/2009 financial crisis – currencies remained stable, bond yields in Hungary and Poland even fell in contrast to international trends. The stock markets developed inconsistently in the first half year. While the DAX and Dow Jones Index registered increases of about 6% in the half-year, many European stock indices were lower than at the start of the year, including the ATX.

Business development

Despite a solid operating result and lower risk provisions, the result before taxes for the first half of 2011 decreased to euro 11 million. The consolidated result after taxes and non-controlling interest for this period amounted to euro 1 million. The result was negatively impacted by valuations of financial investments, including impairments on Greek bonds.

The capital ratios remained stable as against 31 December 2010. On 30 June 2011, the tier I ratio (in relation to credit risk) was 10.6% (31 December 2010: 10.3%) and the equity ratio (in relation to total risk) stood at 12.8% (31 December 2010: 12.8%).

Results in detail

	2011			2010		
Euro million	**1–3**	**4–6**	**1–6**	**1–3**	**4–6**	**1–6**
Net interest income	***187***	***193***	***380***	*193*	*205*	*397*
Risk provisions	**–66**	**–63**	**–130**	–107	–87	–194
Net fee and commission income	***42***	***43***	***85***	*43*	*44*	*87*
Net trading income	***7***	***15***	***22***	*2*	*29*	*31*
General administrative expenses	***–141***	***–147***	***–288***	*–136*	*–146*	*–282*
Other operating result	**4**	**–11**	**–7**	8	–2	6
Income from financial investments	**8**	**–56**	**–48**	10	–17	–6
Income from the disposal group	**0**	**–4**	**–4**	8	–3	5
Result before taxes	**41**	**–30**	**11**	**22**	**23**	**45**
Income taxes	**–5**	**10**	**5**	–2	–9	–11
Result after taxes	**35**	**–20**	**16**	**20**	**14**	**34**
Consolidated net income	**32**	**–31**	**1**	**7**	**7**	**15**
Result attributable to non-controlling interest	**4**	**11**	**15**	13	7	2
Operating result	***94***	***105***	***199***	***102***	***132***	***234***
Operative cost-income-ratio	***59.9 %***	***58.4 %***	***59.1 %***	***57.2 %***	***52.4 %***	***54.6 %***

Net interest income for the first half of 2011 amounted to euro 380 million, a decrease of euro 17 million or 4% against the first half of 2010. Compared to the first quarter of 2011 net interest income more than doubled. While net interest income in the Real Estate and Financial Markets segments increased, in the Retail segment it was down on the first half of 2010. This is due to a drop in the interest margin in Central and Eastern European countries.

Compared with the same period of the previous year, net fee and commission income decreased slightly by euro 2 million or 3% to euro 85 million. It increased compared to the first quarter. Net trading income stood at euro 22 million, reflecting a euro 9 million decline as against the figure reported for the first half of the previous year. Trading result in the retail segment decreased by euro 18 million as a consequence of last years favourable currency development in Romania.

General administrative expenses for the first half of 2011 amounted to euro 288 million, a slight rise of euro 6 million or 2% against the comparative period. This rise is primarily due to the Retail segment, where IT costs in the CEE Banks business area increased as a result of regulatory requirements.

Since the end of 2010, the number of employees in the Group fell by 95, to 7,436. This reduction mainly took place abroad, where the number of employees went down from 6,115 to 6,057. At the same time, the number of international sales outlets has decreased by 97 since the end of 2010 to 451. The number of employees in Austria dropped by 37 to 1,379.

The other operating result decreased by euro 13 million year-on-year, amounting to euro –7 million as at the first half of the year 2011. In the first half of the year, it was negatively impacted in an amount of euro 22 million by bank taxes also incurred 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 deconsolidation proceeds of euro 9 million.

The positive trend in risk provisions continued on from the 2010 financial year into 2011. Despite the persisting difficult economic environment in some regions of Central and Eastern Europe, risk provisions declined by euro 64 million compared with the first half of 2010 and stood at euro 130 million. The greatest decrease was recorded in the Retail segment and was primarily attributable to the Leasing business area and to Volksbank in Romania. All other segments also posted declining risk provisions.

Income from financial investments amounted to euro –48 million for the first half of 2011, down euro 42 million year-on-year. As a result of the bailout of Greece by the European Union in July, in which the private sector is also to participate, Greek bonds had to be impaired. As a result of this the available for sale reserve was reclassified to profit or loss with an amount of euro –17 million. Securities in the held to maturity category were measured at a present value of 79%, corresponding to an impairment of euro 7 million. Securities that are not included in the exchange programme were not impaired as there does not exist any triggering event for an impairment. The VBAG Group thus fully followed the recommendations of the German and Austrian auditors with regard to the valuation of Greek securities. Furthermore the result was affected by the need for impairments for other country risks. Declining market values of securities linked to baskets of various country risks (e.g. Greece), reduced the income from financial investments by euro 36 million.

The Europolis Group was deconsolidated as at 1 January 2011, which led to a deconsolidation loss of euro 4 million, recognised in the income of a disposal group.

Income taxes for the first half of 2011 amounted to euro 5 million, of which euro 1.3 million was attributable to tax refunds from previous years. Negative results from the valuation of financial investments in Austria and profits in Central and Eastern European countries with low tax rates led to positive income taxes overall. Profits attributable to non-controlling interest dropped from euro 20 million to euro 15 million compared to the first half of 2010. On the one hand, this reduction is due to the lower results reported by the CEE banks business area and on the other to the deconsolidation of Europolis Group, which accounted for euro 4 million in non-controlling interest in the first half of 2010.

Statement of financial position and own funds

As at 30 June 2011, total assets amounted to euro 44.1 billion, which signifies a decrease of euro 2.4 billion or 5.1% against the previous year. Of this amount, euro 1.7 billion related to the disposal of Europolis Group. Adjusted for the disposal group, total assets declined by euro 0.6 billion, or 1.4%.

Loans and advances to customers amounted to euro 23.6 billion as at the reporting date and thus remained stable in comparison to the previous year. The declines in the Corporates and Real Estate segments were partially offset by the increase in the CEE Banks business area.

Debts evidenced by certificates declined by euro 1.2 billion or 7% compared with the end of 2010 and amounted to euro 14.9 billion at 30 June 2011. This is due to scheduled redemptions which were only partly replaced by new issues.

Amounts owed to customers increased slightly by euro 0.4 billion to euro 7.7 billion.

The VBAG Group's own funds amounted to euro 3.4 billion as at 30 June 2011. The tier I ratio (ratio of core capital to the assessment base for credit risk) reached 10.6% (31 December 2010: 10.3%). The tier I ratio in relation to total risk was 9.7% (31 December 2010: 9.4%). The equity ratio in relation to total risk amounts to 12.8% (31 December 2010: 12.8%). Eligible own funds exceeded the regulatory requirement by nearly euro 1.3 billion or 60.4%.

VBAG participated in the EU-wide bank stress test conducted by the European Banking Authority (EBA). VBAG started the stress test process with an unstressed value of 6.4% for the core tier I capital as at 31 December 2010. Under the simulation of a worst case scenario, this core tier I ratio would amount to 4.5% as at 31 December 2012. However, this simulation takes into account only those capital-strengthening measures that were implemented by 30 April 2011. If the measures already being implemented are taken into account, this results in a core tier I ratio of 6.6% as at 31 December 2012. Taking into account fully loss absorbing capital in accordance with the Austrian Banking Act, the tier I ratio amounts to 9.8%. The publication of the stress test did not have any negative effects on the VBAG Group. There were no substantial outflows of liquidity after the publication.

Outlook

Economic environment

There has recently been a slight easing of the inflationary pressure on Austrian and German producer prices. However, the risk of second-round effects is likely to cause continued cautious interest rate increases. Inflation, interest rates and high sovereign debt in many countries both within and outside the euro zone are depressing private demand. Exports and investments remain the most important drivers of the positive, albeit slightly slowing, momentum in the macroeconomic development. The uncertainties on the financial markets will likely be reduced only slowly.

Business performance

As set out in the VBAG Strategy 2015, the process for selling Volksbank International AG has been initiated. On 14 July 2011, the shareholders of Volksbank International AG (VBI) and the Russian bank Sberbank signed a term sheet on the key points of a purchase agreement for 100% of the shares in VBI (the VBAG Group holds 51% of these shares). Volksbank Romania S.A. is not included in this transaction. The closing is expected to take place by the end of 2011.

The combination of Österreichische Volksbanken-Aktiengesellschaft and Investkredit Bank AG is in progress and is set to be completed by the second half of 2011. The necessary resolutions were voted upon on 19 May 2011 at the annual general meetings of VBAG and Investkredit. As a result – subject to approval by the Financial Market Authority – in the second half of 2011, the banking operations of Österreichische Volksbanken-Aktiengesellschaft will be transferred to Investkredit Bank AG as the assuming company by way of a universal succession through de-merger. The name of the combined bank will then be changed to Österreichische Volksbanken-AG. It is expected that VBAG's core shareholders will redeem euro 300 million of participation capital held by the Republic of Austria.

As a result of the difficult economic environment and of the current degree of implementation of VBAG's "Strategy 2015" a payment or a full payment on dividend-carrying securities (shares and participation capital) in 2012 for the 2011 business year is unlikely from today's viewpoint.

CORPORATES SEGMENT

Investkredit Bank AG, Investkredit Investmentbank AG, Invest Mezzanine Capital Management GmbH, Investkredit International Bank p.l.c. and VB Factoring Bank AG service corporate customers within VBAG Group. A comprehensive range of products and services are provided, with the aim of being THE bank for companies and entrepreneurs.

The downstream merger of Österreichische Volksbanken-AG with Investkredit Bank AG is expected to be completed in the second half of the year. The Corporate segment has been operating on the market under the brand name of Volksbank AG – Investkredit since June 2010.

Volksbank AG – Investkredit strives to create sustainable and profitable customer relationships with corporate customers by understanding their business models and branch conditions. It focuses on solution-oriented financing based on partnership and geared towards the individual requirements of customers. The service spectrum the bank provides includes short- and long-term financing, treasury products, hedging products for interest rates, currencies and raw materials, subsidised lending as well as capital market activities. Arrangement and placement of corporate bond issues is gaining importance. Tailor-made export and trade financing solutions have been developed by Volksbank AG – Investkredit for companies involved in international business. Leasing and factoring are also focal points of the bank.

The Medium-sized Companies department concentrates on the needs of small- and medium-sized businesses and on the syndicated-loan business with the regional Volksbanks. Corporate Banking performs direct business with larger medium-sized companies – including many family firms.

Corporate customers and financial investors from Austria, as well as Germany, Poland, the Czech Republic and Slovakia, are offered special corporate finance services: project financing for infrastructure and especially for renewable energy, acquisition financing, mergers & acquisitions services, private equity and loan financing in Central and Eastern Europe.

Segment result

In the first half of 2011, the Corporates segment continued the positive trend from the 2010 financial year. Result before taxes grew by euro 5 million compared to the first half of 2010 and amounted to euro 10 million. This is primarily due to lower credit risk provisions and an increase in net fee and commission income.

Commercial business

Lending business

Volksbank AG – Investkredit registered more stabilised demand for working capital facilities and investment financings, following the encouraging results of 2010.

Activities are centred on companies with good credit ratings, which are provided with loans and other financial services. Margins are yet again under increasing pressure in the medium- and long-term lending field, which is counterbalanced by tailor-made lending and capital market financing, as well as cross selling (for example, treasury instruments to hedge against interest-rate, currency and raw-materials price risks).

Syndication business

In the first half of 2011, the focus was put on assisting the regional Volksbanks in the acquisition of medium-sized companies. This resulted – on the basis of a fair sharing of risk with the regional Volksbanks – in increasing demand, especially in the field of structured long-term financing.

Company subsidies and trade finance

Investment activities and associated subsidies have grown steadily in the first half year in Austria. ERP loans of around euro 50 million are currently being processed for customers in the Volksbank Sector. In addition, ERP small loans are also being processed for the regional Volksbanks. Austria Wirtschaftsservice Gesellschaft m.b.H., aws, has recorded rising demand in guarantee instruments for ERP large-sized loans. ERP application volumes have gone up close to 100% in comparison with the first half of 2010.

Export finance loans rose slightly compared to 31 December 2010, although interest-rates are higher than last year. With respect to long-term equity financing by Osterreichische Kontrollbank AG, OeKB, the credit volume which was processed rose by about 200% to euro 40.6 million compared to 31 December 2010.

Leveraged finance

Leveraged finance Austria/CEE

In the first half of 2011 there was brisk business and a markedly stronger flow in deals in acquisition financing, with activities still centring on Central and Eastern Europe.

High levels of activity were also observed in the area of M&A in Central European markets, this development being particularly strong in Poland and the Czech Republic. However, the number of transactions in Austria is still below expectations. Participations, as well as other trend-setting arrangements that will put this business field into a promising position in the future, were completed in the past half year.

Leveraged finance Germany/Western Europe

New business was successful in Frankfurt in the first half of 2011 with a large number of transactions completed. This is mainly due to the successful acquisition of single transactions and not yet to a sustainable recovery in financing demand.

The Corporate Lending segment is facing continuing pressure on margins because of a lack of volumes. There is a higher, more stabilised level of deal flow with good quality in the LBO and Corporate Finance areas, though this is still far below the volume levels registered in the pre-crisis years of 2006 to 2008.

Project finance

Further projects in Poland are expected to be evaluated by the Project Financing department, following the successful closing of lending deals for a Czech and a Polish wind park. The proposed structures confirm expected developments towards "adding" market electricity price risk to typical, fixed feed-in tariffs. That means more flexibility on the structuring side, while this development should be positive for Volksbank AG – Investkredit because of its branch knowledge. This trend demonstrates that the asset classes "wind" and "photovoltaic" are developing very clearly towards "grid parity" (market price adequacy).

Two financing transactions for Spanish photovoltaic parks were completed successfully. On the one hand, a structure which satisfied the investors in spite of very reduced, state-controlled feed-in tariffs was developed, while, on the other hand, the investors themselves are strong and reliable sponsors (in one case, a Danish utility company).

Financing of international schools

A loan of USD 8.7 million for the American School in Warsaw underlined the good, long-term customer relationship to top-level international educational institutions in Poland. The German School in London, founded in 1970 and supported financially by the German government, became a new customer. A euro 3.4 million loan was extended, which is used for the construction of a primary school. It proves the excellent links between the Federal Foreign Office in Berlin, the KfW Group and Volksbank AG – Investkredit.

Both transactions have been complemented by interest-rate hedging instruments in line with the conservative financial management of the schools.

Investkredit Investmentbank AG (IKIB)

Investkredit Investmentbank AG is responsible for M&A Consulting and Private Equity (fund and direct investment) within VBAG Group.

A new co-investment deal was completed in the first half of 2011. In addition, IKIB made an investment in a well-known German private equity fund specializing in medium-sized companies.

Due to the improved economic environment and resulting increase in transaction numbers, IKIB generated capitals in-flows from the sale of portfolio companies from the existing fund investments.

Debt capital markets

Volksbank AG – Investkredit took part in six Austrian corporate bond issues in the first half of 2011: once as the lead arranger, three times as senior co-lead manager and twice as co-lead manager. This underpinned Volksbank AG – Investkredit's strong presence in this market segment.

Corporate Treasury

The very high levels of volatility in the interest-rate and FX areas are providing good opportunities for hedging and optimization strategies. The trend towards higher money and capital market rates was initiated by the increase in ECB interest rates. The product focus on interest-rate hedging is expected to continue in the months ahead due to historically still very low long-term interest rates.

VB Factoring Bank AG
The factoring business continued to develop positively in the first half of 2011. The specialised bank registered a 35.9% increase in business volumes compared with the same period the year before.

Outlook for the Corporates segment

There has been an increased concentration on core customers. Based on a potential analysis, core customers are serviced in a comprehensive manner. Suitable solutions are provided to support the growth of our clients.

The Syndicated Financing department expects moderate growth in business volumes in 2011, based on existing demand for financing.

Greater demand for subsidised loans is expected, especially in Austria. Moderate improvements are also expected in export financing and short-term lending (export fund global loans), as well as in long-term OeKB equity financing.

The deal flow is expected to stabilise in Leveraged Finance Austria/CEE in the months ahead, with the prospect of further transactions in the second half of the year.

The subsidiary in Frankfurt is focusing on strengthening its marketing and sales. In September, the unit is organising an event – similar to the ones that were very successful in the past – for customers, private equity funds, bank partners and other multipliers at the Frankfurt Opera for the first time since 2008.

Germany's announcement and partly started exit from atomic energy strengthens the trend towards renewable energy and reaffirms the focus of the Project Financing on this market segment. Speeches and seminars by the Project Financing Team were expanded to include panel and speaker participation at an international risk conference in Vienna and further presentations and talks are being planned (for example, at the Austrian Innovation Forum in September 2011).

Intensive dialogue with a variety of international schools should lead to further business deals in the next few months, even though project lead times are long because each transaction requires wide-ranging commercial and legal discussions. Attractive loan margins, long-term customer relations and low credit risks are central elements in the business field International School Financing.

Investkredit Investment Bank foresees further capital in-flows in private equity in the second half.

There should be further business opportunities for the issuance of corporate bonds for the Debt Markets division later in the year, provided market sentiment for new corporate bond issues remains good.

Corporate Treasury will continue to focus on working with corporate customers on capital market financing activities (corporate bonds and promissory notes), as well as on the interest-rate hedging business, together with origination and securities sales. Process optimisation has led to increased volumes in the last 18 months, meaning that the very ambitious 2011 revenue targets set for corporate treasury sales are reachable.

At VB Factoring Bank AG, the positive trend and upward movement in revenues from existing customers are expected to continue thanks to current developments in new business. Improved factoring solutions for SMEs and for large-scale customers are expected to widen the bank's service palette from autumn 2011.

RETAIL SEGMENT

Österreichische Volksbanken-AG is active in the Retail segment, both in Austria and in Central and Eastern Europe: in Austria via VB Leasing Finanzierungsgesellschaft m.b.H. and in the CEE countries via Volksbank International Group and VB-Leasing International Holding GmbH.

Segment result

Result before taxes in the Retail segment improved by euro 9 million as compared to the first half of 2010 to euro 30 million. Lower risk provisions in the Leasing business area and at Volksbank Romania were driving factors of the growth in profit. The decrease in net interest income is due to a drop in the interest margin in Central and Eastern European countries. Trading result in the retail segment decreased by euro 18 million as a consequence of last years favourable currency development in Romania. The increase in general administrative expenses relates primarily to the CEE Banks business area, which posted increased IT costs resulting from regulatory requirements.

Retail in Austria

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

The Austrian leasing market developed positively in the first half of 2011, a continued recovery is expected for the coming months. The visible improvement in the vehicle leasing branch was offset to a degree by continually lacklustre business in the equipment leasing division. VB Leasing Finanzierungsgesellschaft was able to strike a balance between both divisions and attain positive results. It posted new business of euro 156 million in the reporting period, the equivalent of about 8,500 contracts. This represents an increase of 6% as compared to the first half of 2010. VB Leasing retained its current sixth spot in the Austrian equipment leasing rankings thanks to this quarterly result.

Success story ARB

The distribution and sales channel Auto Retail Business, ARB, continued to display a dynamic development and grew faster than the Austrian vehicle financing market as a whole. The main factors were sales cooperation agreements with Toyota and Honda in Austria. The cooperation with Honda has been established in November 2010 and now every fourth new Honda vehicle delivered in Austria is financed by VB Leasing. The cooperation with Toyota began with a finance campaign supported by importers on 1st January 2011 and has been developing very successfully ever since.

Retail abroad

Volksbank International Group (VBI)

Since 1991, VBAG has been represented outside Austria by Volksbank International AG, VBI, in which it holds a 51% stake. The German cooperative banks DZ BANK AG/WGZ BANK AG and France's Banque Populaire Caisse d'Epargne both hold 24.5% of VBI. Volksbank International is headquartered in Vienna and has a network of 10 banks in nine Central and Eastern European countries: Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Romania, Bosnia-Herzegovina, Serbia and Ukraine.

On 14 July 2011, VBAG and Sberbank reached an agreement on the most important points regarding the sale of Volksbank International. A term sheet was signed by all Volksbank International shareholders (VBAG, BPCE, DZ BANK and WGZ BANK) and Sberbank in Vienna. The parties to the contract announced that they expect the transaction to be closed by the end of the year. VB Romania is not part of this transaction.

Focus on retail and SMEs

The 10 VBI Group subsidiaries are focused on conservative risk policies centring on business with retail customers and small- and medium-sized enterprises. The referral business of their Austrian, German, French and Italian partner banks also represents a pillar in the Volksbank International strategy.

Upward trend in 2011

There was an upward trend in business in VBI Group in the first six months of 2011 after a relatively difficult 2010. Risk provisions could be decreased, while income from interest and commissions remained stable at a high level.

Concentration on deposit growth

The Volksbanks in Central and Eastern Europe have been concentrating on raising deposit levels in recent months. Individual sales initiatives by different Volksbanks have led to visible growth in this area, especially at the Volksbank in Slovenia.

VB-Leasing International Holding GmbH (VBLI)

The slight upswing in international leasing markets in the first half of 2011 had a positive effect on VB-Leasing International's results. New business rose around 10% to around euro 500 million in the reporting period, the equivalent of 18,500 contracts. The reason for the rise in new business was infrastructure investments that had previously been postponed in many countries – mostly in road construction – that are now under way.

Business in Croatia and Serbia remains at a relatively low level. The leasing market in Croatia, however, gained momentum due to the country's expected European Union accession in mid-2013: in May 2011 the local leasing market grew for the first time since the outbreak of the financial crisis.

Implementing the strategy

VB Leasing International Group began a comprehensive strategic reorganisation in 2010, which forms the foundation for a stable future. The new strategy is oriented to the market and its needs and takes into account local conditions and legal requirements. The concept for the future is a tight international network in combination with local identity and flexibility.

VB Leasing became an official partner of BMW Financial Services in Croatia in May 2011, after many years of successful cooperation. This deal is something of a novelty at BMW Financial Services. The Bavarian auto producer, which already has a financing partner in Croatia, is working with two financers in one country for the first time.

VB Leasing Slovakia became the exclusive retail partner for Subaru importers and dealers in Slovakia in April 2011. Subaru is an up-and-coming brand in the local market and VB Leasing Slovakia is planning to grow together with this partner.

VB Leasing International is attractive to its business partners because of the high level of service orientation and automisation in its standard bulk business. This not only drives the local units, but shows that the direction taken by the whole group is the right one, in terms of its sales focus on manufacturers and dealers.

Future-oriented online communication

Since January 2011, VB Leasing has been working intensively on its new website, as well as on a group-wide intranet solution. Nine web portals will present the service spectrum and portfolio of all the local subsidiaries and the holding in Vienna to partners and customers. Interaction with users will be the focal point in the future: we will span everything from basic company information for interested parties to personalised service fields for existing partners and customers. At the same time, the website will be used more intensively as a brand positioning and strengthening instrument.

Outlook for the Retail segment

The Austrian leasing market has recovered after the turbulence of recent years and is seeing growth in new business. VB Leasing will therefore aim at maximising revenues in 2011. It is striving to do so within the framework of its consistent risk policy in regard to customer creditworthiness, object security and risk diversification. Special attention will continue to be paid to risk-adequate pricing policies.

Volksbank International Group and its banks in Central and Eastern Europe perceive themselves as cooperative local banks, with a focus on sustainable, high-quality services for its customers. The group will continue to pursue its medium- and long-term goals in the near future and its focus will remain consistently on customer orientation in service and product development.

VB-Leasing International will work on strengthening existing and potential partnerships with manufacturers and dealers, while expanding its group-wide network of sales partners. Ongoing investment in the stability of the group has paid off in the past and will be continued. Strengthening the network through group-wide partnerships is also a key focus in 2011, as is the optimisation of services.

Direct, personal support for partners and customers is still at the forefront, even though VB Leasing International will concentrate more on communication using new media in combination with digital and mobile service tools. The goal is to lead the way in fast, efficient, service-oriented customer communication in Central and Eastern Europe.

REAL ESTATE SEGMENT

The VBAG Real estate segment provides a comprehensive spectrum of commercial real estate services for customers and real estate partners, under the slogan “Passion for Quality”. The service range includes long-term real estate financing at Investkredit Bank AG as well as leasing finance, real estate development and asset management at VB Real Estate Services GmbH. In addition, Immo Kapitalanlage AG offers private customers attractive fund investment opportunities via its <immofonds 1>. Customers in Austria and selected CEE and SEE nations can rely on the expertise and the high level of service quality provided by VBAG’s real estate specialists.

The downstream merger of Österreichischen Volksbanken-AG with Investkredit Bank AG should be completed in the second half of 2011. Investkredit Bank AG real estate financing has been operating under the brand name of Volksbank AG – Investkredit since the decision to combine the banks was taken.

VB Real Estate Services represents the central service platform and the brand VB Real Estate Services comprises all real estate activities within VBAG Group.

Segment result

Result before taxes in the Real Estate segment amounted to euro 22 million for the first half of 2011. Against the same period of the previous year it improved by euro 10 million which is primarily due to decreasing risk provisions. The increases in net interest income and net fee and commission income as well as the successful sale of the “North Gate” real estate project which is reflected in other operating income with a deconsolidation result of euro 9 million, also contributed to the positive performance. The deconsolidation of Europolis Group as at 1 January 2011 resulted in expenses of euro 4 million in the first half of 2011.

Real Estate Finance at Volksbank AG – Investkredit

The second quarter of 2011 was characterised by a visible recovery in the real estate markets in Central and Eastern Europe: on the one hand, due to a rise in purchase and sales transactions, and on the other, thanks to growing development activity in Volksbank AG – Investkredit‘s target markets. This was accompanied by a significant increase in deals in the pipeline. More projects are expected to be concluded in the second half year. Increased marketing activities on the German real estate market are producing positive results. There are very interesting business opportunities in this new target market, particularly in office buildings and hotels.

Leasing

VB Real Estate Services’ real estate leasing activities were reorganised as part of the continued restructuring at VBAG’s real estate units. All activities were bundled into one department, which manages both sales and contract processing. Significant synergies and increases in efficiency have been achieved through organisational streamlining.

Real estate portfolio optimisation will carry on with the sale of less profitable projects. VB Real Estate Services will remain the leasing service provider for the Volksbank Sector.

A long-planned sale and lease back transaction involving two OBI stores in Poland was completed successfully in the reporting period, with a financing volume of about euro 20 million.

Container leasing, in the form of large-volume movables leasing, will continue to be offered as a niche product by a specialist department within VB Real Estate Services GmbH.

Real Estate Project Development

VB Real Estate Services currently owns office buildings in Vienna, Warsaw, Budapest, Bucharest, Bratislava and Ljubljana and is the competence centre for international project development within VBAG Group. The projects “Horizon Offices” in Prague (rentable space about 23,000 m^2) and “Salomea Business Park” in Warsaw (rentable space about 28,000 m^2) are under completion. The acquisition of new sites for future development of real estate projects in Warsaw is in progress, a plot of land has recently been bought in the Zoliborz District of Warsaw for the future development of an office building with rentable space of about 19,000 m^2.

Immo Kapitalanlage AG

Immo Kapitalanlage AG, Immo KAG, is a 100% subsidiary of VBAG. Founded in 2004, it manages an open real estate fund, the <immofonds1>. Small, private investors are the main investors in this fund, which holds a diversified real estate portfolio focused on commercial objects in Austria and Germany. Activities in these countries have continued to provide sustainable, regular rental incomes – even during the years of the crisis. The funds under management remained stable in the first half of 2011 at around euro 243 million.

The measures to strengthen sales and marketing that were initiated at the turn of the year have been continued actively, in addition to the appointment of a new Sales Director.

Outlook for the Real Estate segment

The real estate finance loan portfolio will be further optimised in 2011 in order to improve profitability. New business will be concentrated on the defined core target markets. The number of countries in which financing will be offered will be reduced. This means that existing know-how can be bundled more tightly and local expertise will be expanded, resulting in further improvements in quality for customers and the bank.

In the real estate leasing segment, new business will only take place once the necessary levels of profitability have been reached and the restructuring of the existing portfolio has been completed. As a result of the strict refocusing on core target markets, local presence will be limited to the countries that belong to the core target markets of the leasing segment in the medium term.

VB Real Estate Services will also continue to focus on its role as the Group's workout unit for impaired real estate financing. Real estate project developments are expected to resume in the defined core markets, on the condition that the respective markets develop favourably and planned occupancy rates are reached. A land acquisition related to this strategy has already been made in Warsaw.

VB Real Estate Services will continue working on the project of optimising its processes, which is expected to be completed during 2011. A milestone was reached on 1 July 2011, when the reorganisation and resultant integration and streamlining of existing structures was concluded. These far-reaching measures will not only improve process quality, but will ensure the optimisation of the full-service spectrum of products and services.

Immo KAG expects a further positive development of sales, resulting from continually strong investor interest in asset-based investment products. This trend is supported by intensive asset management and professional sales support by Immo KAG. The product palette will be even more closely linked to investor needs as a special fund is in the process of being set up for institutional investor groups, in addition to the existing retail fund.

FINANCIAL MARKETS SEGMENT

The Segment Financial Markets consists of the customer-oriented organisational units Group Treasury und Volksbank Investments, in addition to strategically important staff departments.

Segment result

Net interest income and net trading income rose in comparison to the same period of the previous year, reaching euro18 million and euro 17 million respectively. Net fee and commission income dropped slightly to euro 27 million. The total result before taxes of the Financial Markets segment was euro 37 million as of the first half year of 2011.

Group Treasury

The Eurozone was affected strongly by the debt crisis in the second quarter of 2011. Apart from Greece, Portugal and Ireland, important countries such as Spain and Italy came under pressure. Nonetheless, the ECB focused its attention on inflation and raised the base rate in two steps in April and at the beginning of July from 1% to 1.5%. The upward trend in euro money market rates also continued in the second quarter, with the benchmark 3-month Euribor at 1.52% at the end of June.

The European debt crisis and the tense situation in the Arab world, Japan and in the US led to pronounced fluctuations of the Euro against the Swiss Franc. In order to counteract the strong appreciation of the Franc, the Swiss National Bank (SNB) narrowed the target range for the three-month Libor from 0-0.75% to 0-0.25% on 3 August 2011. Furthermore, sight deposits of banks held at the SNB will be increased. The situation remains difficult for customers with foreign-currency exposure.

Trading

Group presence in the primary bond market was further expanded despite difficult market conditions: there were three international Co-Lead mandates, as well as three Austrian Senior Co-Lead mandates. Regarding the issuance of bonds, the focus was on products such as min/max floaters, mortgage bonds and inflation-linked bonds in the second quarter.

The short- and medium-term liquidity situation was managed in a precise way using targeted measures (such as tenders, repos and money market borrowing), as in the previous months.

Consulting

Providing the regional Volksbanks with interest-rate hedging products for their customers (small- and medium-sized enterprises as well as private customers) remains a core activity. The ECB interest-rate increases highlighted the importance of this area and had a positive effect on sales. Contracts for interest rate hedging will be simplified and hedging instruments for raw material prices will be created for commercial customers in the second half-year.

The placement of Austrian corporate bonds and third-party funds was the main activity in third-party product management. Austrian corporate bonds with a volume in the double-digit million range were placed via the Volksbank sector banks.

The interest shown by the Austrian Volksbanks in the “Volksbank Consulting Days” was very keen again this year, with participation levels reaching 90%. Vital topics such as equity and liquidity requirements according to Basel III, the use of interest-rate curves for generating revenue via maturity transformation strategies and the structuring of interest cash flows for increasing primary funds at the Volksbanks were covered.

Sales

The second quarter was tense as interest rates did not move to the extend expected due to events in the periphery countries of the Eurozone. Hectic issuing activities were interspersed with relatively calm periods. The investor uncertainty stemming from this led to stagnating revenues in fixed income and derivates.

The very high levels of volatility of interest rates and FX created consistently good opportunities for hedging and optimisation strategies. The trend towards higher rates began in the Eurozone, although the level of long-term capital market interest rates is still low. As a result, attention will remain on interest-rate hedging in the third and fourth quarter, particularly for real estate customers. Corporate capital market activities (corporate bonds and promissory notes) will be a further focal point, along with interest-rate hedging. The optimisation process that has been going on for the last 18 months led to increased business volumes.

Volksbank Investments

Volksbank Investments is the only provider on the Austrian market that can offer the best of the entire investment world as a one-stop shop, thanks to the bundling of competences at its funds and certificates units. The ability to offer products and product components that "work" in every market phase is a competitive advantage that proved to be successful, especially in the second quarter of 2011, which was marked by extreme market uncertainty.

Total assets under management fell slightly compared to the previous quarter and were about euro 7.8 billion at the end of June 2011. The reasons for the drop are the pronounced decline of the Austrian bond funds market in May as well as internal restructuring. <immofonds 1>, until recently a part of the assets under management at Volksbank Investments, was transferred to another segment within VBAG Group.

Market development was characterised by extreme uncertainty in the second quarter. The debt problems of different sovereign issuers created massive pressure during the second quarter. With respect to bonds, decreases were registered in the area of funds similar to the general market trends, though these decreases could be absorbed by increasing sales of other bond products. The Asia Crisis was one of the main causes of market reaction in equity funds, with VB-Pacific-Invest – despite very good results by international comparison – reporting a sharp decline.

The certificates business continued to develop well in spite of difficult market conditions, certificate volumes slightly increased on the first quarter and reached euro 2.5 billion. Volksbank Investments remained the clear market leader in guarantee certificates with a market share of more than 40% – guarantee certificates account for the major part of the certificate volume, in Volksbank Investments as well as on the total market.

The main target at Volksbank Investments is to gradually raise the share in sustainable investment funding. The positive trend from previous quarters could be continued in the second quarter of 2011. The share of sustainable products in total sales (funds and certificates) was more than 15% by the end of June. Volksbank Investments's Fix Plus Garant 4/2011 was the first certificate awarded with the Austrian environmental quality seal (Österreichisches Umweltzeichen). Furthermore, VB-Mündel-Rent was certified by the European umbrella association for sustainable investment (FNG) and received the European transparency seal for sustainable funds. The VICTORIA-VOLKSBANKEN pension fund was awarded the ÖGUT-Nachhaltigkeitszertifikat (Austrian sustainability quality seal).

In strategic terms, Volksbank Investments has adapted its product range to ensure that current topics which are important to investors are reflected. The focus always is on reliability in payment profiles. During the second quarter, performance opportunities that could be gained from inflation in different markets were highlighted, for instance.

The long-term product range at Volksbank Investments consists of pension products and asset management (guaranteed savings such as Garantie-Sparen and the state subsidised Life Cycle Pension, ZVE). The core elements, here, are investment security and continual investment growth. A total of more than 97,710 pension product contracts were concluded as of the end of June 2011. In Asset Management, intensive efforts to attract institutional investors – in close cooperation with the Volksbanks – were continued during the second quarter. The investment volume in asset management rose slightly compared to the previous quarter to euro 2.3 billion.

Prospects in the CEE countries were also greatly influenced by the Greek debt crisis in the second quarter, with investors remaining in a "wait-and-see" position. Nevertheless, there were positive developments, for example in Bosnia, where a product was launched for the first time since 2007. In Slovenia and Slovakia, Volksbank Investments is operating successfully in the pension products markets. Preparations for the introduction of pension products in Hungary and the launch of guarantee savings (Garantie-Sparen) products in the Czech Republic were underway in the second quarter.

Outlook for the Financial Markets segment

Group Treasury expects a difficult environment in the months ahead, dominated by the debt crisis of the periphery countries and by restructuring debates. Group Treasury will continue to follow its strategy in a consistent manner and is thus optimistic that solid results will be achieved in the second half year as well.

Volksbank Investments is also expecting that the debt crisis in the Eurozone – in particular the danger of spreading to Italy and Spain – as well as concerns about U.S. debt levels, could prove a tough challenge for the markets. Investor focus will continue to be on the development of emerging markets, especially China. Volksbank Investments anticipates that there will be periods of risk aversion interspersed with periods of risk affinity. However, Volksbank Investments is well positioned to deal with increased volatility.

INVESTMENT BOOK/OTHER OPERATIONS SEGMENT

All activities related to VBAG's investment book are organised centrally and are presented in the Investment Book/Other Operations segment. The segment consists of VBAG's Capital Markets and Asset Liability Management, as well as the department Debt Capital Markets at Volksbank AG – Investkredit (presented in the Corporate segment). The Investment Book/Other Operations segment also includes Back Office Service für Banken GmbH and various holding companies.

Capital Markets

VBAG's Capital Markets department is responsible for the management of the strategic investment book. The portfolio includes the entire securities portfolio required for regulatory purposes and banking operations of around euro 5.7 billion, as well as other capital market investments of around euro 1.3 billion (excluding Volksbank International).

After a relatively calm beginning of the second quarter, markets became increasingly nervous following discussions about the danger of the Greek debt crisis spreading to other sovereign issuers. This resulted in the significant widening of spreads in Portugal, Ireland and Spain, with Italy coming into the headlines towards the end of the quarter amid worries it would also be a possible restructuring candidate. Corporate spreads remained stable for much of the period, although they also widened from mid-June.

Group ALM and Liquidity Management

Asset Liability Management is responsible for managing VBAG's long-term interest-rate risk and foreign currency risk.

Interest rate risk

Asset Liability Management is responsible for the management of the long-term interest-rate risk at VBAG. Transfer prices are used to assume market risks from front office units.

The goal of interest-rate risk management is to record all material interest-rate risks from assets, liabilities and off-balance sheet items in the investment book. This requires the analysing of both the income- and present-value effects of interest-rate changes and taking them into account in decision making.

Market risk controlling evaluates and records interest-rate risks using different limits. The total limit has been laid down by the management in line with the bank's risk bearing capacity and in accordance with supervisory limits. All of VBAG's interest-rate sensitive items are presented in a monthly report.

Currency risk

Currency risks are defined as potential losses from open foreign currency positions. VBAG Group has material investments outside the Eurozone, with equity held in the corresponding local currency. Exchange-rate fluctuations result in changes in VBAG's consolidated capital. The hedging strategy at VBAG is focused on protecting equity held in local currency through the appropriate hedging measures on a consolidated basis.

Liquidity management

Operational and strategic liquidity management is continuing as planned, with VBAG's liquidity buffer constant at about euro 3 billion. In order to expand the funding base, the issue of covered bonds backed by a pool of mortgage loans of the Volksbank Sector is currently being prepared.

An important step in the successful diversification of group financing sources is the planned takeover of VB Kufstein's online bank Live Bank which should be completed by year-end.

Outlook for the Investment Book/Other Operations segment

A lower mismatch contribution is expected compared to 2010, given further expected increases in interest rates by the ECB.

Income statement

	1-6/2011 Euro thousand	1-6/2010 Euro thousand	Changes Euro thousand	%
Interest and similar income and expenses	376,922	395,199	–18,277	–4.62%
Income from companies measured at equity	3,050	2,041	1,009	49.43%
Net interest income	379,972	397,241	–17,268	–4.35%
Risk provisions	–129,548	–193,758	64,210	–33.14%
Net fee and commission income	85,014	87,438	–2,424	–2.77%
Net trading income	21,976	31,024	–9,048	–29.16%
General administrative expenses	–287,908	–281,578	–6,330	2.25%
Other operating result	–7,203	5,746	–12,949	<–200.00%
Income from financial investments	–47,859	–6,133	–41,726	>200.00%
Income from the disposal group	–3,924	5,033	–8,956	–177.96%
Result for the period before taxes	**10,521**	**45,013**	**–34,492**	**–76.63%**
Income taxes	5,050	–9,410	14,461	–153.67%
Income taxes of the disposal group	0	–1,207	1,207	–100.00%
Result for the period after taxes	**15,571**	**34,395**	**–18,824**	**–54.73%**
Result attributable to shareholders of the parent company (Consolidated net result)	**513**	**14,599**	**–14,086**	**–96.49%**
Result attributable to non-controlling interest	15,058	19,796	–4,738	–23.93%

Comprehensive income	1-6/2011 Euro thousand	1-6/2010 Euro thousand	Changes Euro thousand	%
Result for the period after taxes	15,571	34,395	–18,824	–54.73%
Other comprehensive income				
Currency reserve	22,905	–22,676	45,581	<–200.00%
Available for sale reserve (including deferred taxes)				
Change in fair value	44,427	–100,715	145,142	–144.11%
Net amount transferred to profit or loss	2,362	191	2,171	>200.00%
Hedging reserve (including deferred taxes)				
Change in fair value (effective hedge)	7,461	2,598	4,863	187.23%
Net amount transferred to profit or loss	–8,622	–7,959	–663	8.32%
Other comprehensive income total	**68,533**	**–128,562**	**197,095**	**–153.31%**
Comprehensive income	**84,104**	**–94,167**	**178,271**	**–189.31%**
Comprehensive income attributable to shareholders of the parent company	**58,279**	**–104,004**	**162,284**	**–156.04%**
Comprehensive income attributable to non-controlling interest	25,825	9,837	15,987	162.52%

Statement of financial position

	30 Jun 2011 Euro thousand	31 Dec 2010 Euro thousand	Changes Euro thousand	%
Assets				
Liquid funds	2,233,859	1,982,446	251,413	12.68%
Loans and advances to credit institutions (gross)	5,627,807	6,431,879	–804,071	–12.50%
Loans and advances to customers (gross)	23,649,804	23,614,938	34,866	0.15%
Risk provisions (–)	–1,582,535	–1,522,532	–60,003	3.94%
Trading assets	2,225,308	2,163,480	61,828	2.86%
Financial investments	8,800,555	8,993,767	–193,212	–2.15%
Assets for operating lease	224,677	334,771	–110,094	–32.89%
Companies measured at equity	71,486	72,619	–1,132	–1.56%
Participations	704,691	717,920	–13,229	–1.84%
Intangible assets	122,620	125,340	–2,720	–2.17%
Tangible fixed assets	241,176	248,090	–6,915	–2.79%
Tax assets	215,181	210,144	5,037	2.40%
Other assets	1,565,463	1,372,512	192,951	14.06%
Assets of the disposal group	0	1,719,470	–1,719,470	–100.00%
TOTAL ASSETS	**44,100,093**	**46,464,844**	**–2,364,751**	**–5.09%**
Liabilities and equity				
Amounts owed to credit institutions	14,461,469	14,377,129	84,340	0.59%
Amounts owed to customers	7,723,379	7,311,931	411,448	5.63%
Debts evidenced by certificates	14,949,447	16,121,510	–1,172,064	–7.27%
Trading liabilities	1,196,644	1,457,430	–260,786	–17.89%
Provisions	189,115	186,147	2,968	1.59%
Tax liabilities	87,422	92,373	–4,951	–5.36%
Other liabilities	1,658,474	1,729,266	–70,792	–4.09%
Liabilities of the disposal group	0	1,267,024	–1,267,024	–100.00%
Subordinated liabilities	1,851,358	1,863,924	–12,567	–0.67%
Equity	1,982,785	2,058,109	–75,323	–3.66%
Shareholders’ equity	1,250,803	1,192,694	58,110	4.87%
Non-controlling interest	731,982	865,415	–133,433	–15.42%
TOTAL LIABILITIES AND EQUITY	**44,100,093**	**46,464,844**	**–2,364,751**	**–5.09%**

Changes in the Group's equity

Euro thousand	Subscribed capital [1]	Capital reserves	Retained earnings	Currency reserve	IAS 39 valuation reserves [2]: Available for sale reserve	IAS 39 valuation reserves [2]: Hedging reserve	Shareholders' equity	Non-controlling interest	Equity
As at 1 January 2010	1,339,346	0	32,861	–41,771	–149,393	–2,970	1,178,072	943,243	2,121,315
Comprehensive income *			14,599	–14,405	–100,464	–3,734	–104,004	9,837	–94,167
Dividends paid							0	–13,143	–13,143
Change in treasury stocks	–105		–86				–190		–190
Change due to reclassifications shown under non-controlling interest and capital increases			248				248	–13,667	–13,419
As at 30 June 2010 [3]	1,339,241	0	47,621	–56,176	–249,857	–6,705	1,074,125	926,270	2,000,395
As at 1 January 2011	**1,339,193**	**0**	**79,507**	**–45,219**	**–183,572**	**2,785**	**1,192,694**	**865,415**	**2,058,109**
Comprehensive income *			513	11,829	46,662	–724	58,279	25,825	84,104
Dividends paid							0	–8,836	–8,836
Change in treasury stocks	–137		–104				–241		–241
Change due to reclassifications shown under non-controlling interest and capital increases			71				71	–150,422	–150,350
As at 30 June 2011 [3]	**1,339,056**	**0**	**79,987**	**–33,390**	**–136,910**	**2,061**	**1,250,803**	**731,982**	**1,982,785**

* Comprehensive income (Income and changes in reserves)	1-6/2011 Shareholders' equity	1-6/2011 Non-controlling interest	1-6/2011 Equity	1-6/2010 Shareholders' equity	1-6/2010 Non-controlling interest	1-6/2010 Equity
Consolidated net income	513	15,058	15,571	14,599	19,796	34,395
Currency reserve	11,829	11,076	22,905	–14,405	–8,271	–22,676
thereof from application of the average rates of exchange in income statement	–45	–42	–88	–378	–381	–759
Available for sale reserve (including deferred taxes)	46,662	127	46,789	–100,464	–60	–100,524
Hedging reserve (including deferred taxes)	–724	–437	–1,161	–3,734	–1,627	–5,362
Comprehensive income	58,279	25,825	84,104	–104,004	9,837	–94,167

[1] Subscribed capital corresponds to the figures reported in the financial statements of Österreichische Volksbanken-Aktiengesellschaft.
[2] As at 30 June 2011, the available for sale reserve included deferred taxes of euro 45,150 thousand (30 June 2010: euro 82,102 thousand).
The hedging reserve contains deferred taxes in the amount of euro –819 thousand at the balance sheet date (30 June 2010: euro 1,879 thousand).
[3] In the figures as at 30 June 2010 the disposal group accounted for an amount of euro –6,759 thousand in the currency reserve (disposal group Real Estate) and for an amount of euro 124 thousand in the available for sale reserve (disposal group VB Linz+Mühlviertel).

Cash flow statement

from continued operations

Euro thousand	1-6/2011	1-6/2010
Cash and cash equivalents at the end of previous period (= liquid funds)	1,982,446	3,008,042
Cash flow from operating activities	74,009	–364,759
Cash flow from investing activities	194,035	94,402
Cash flow from financing activities	–16,631	–97,603
Cash and cash equivalents at the end of period (= liquid funds)	2,233,859	2,640,082

NOTES

Interim Financial Statements as at 30 June 2011

1) General

The interim report as at 30 June 2011 of Österreichische Volksbanken-Aktiengesellschaft (VBAG) has been prepared in accordance with all IFRS/IAS published by the International Accounting Standards Board (IASB) as well as all interpretations (IFRIC/SIC) issued by the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee respectively as adopted for use in the European Union. These interim financial statements comply with IAS 34 Interim financial reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at 31 December 2010.

These condensed consolidated interim financial statements have not been audited or reviewed.

In preparing this interim report the estimates and assumptions were the same as those applied to the consolidated financial statements as at 31 December 2010.

There were no events or changes in circumstances for goodwill that would indicate an impairment, therefore no impairment tests were carried out for these goodwill.

The interim consolidated financial statements have been drawn up in euro 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.

2) Changes in the Group structure

In the first half of 2011, capital increases took place in seven subsidiaries at which in one company the share in the company changed insignificantly. Furthermore shares of little account were acquired from free float of one subsidiary. The takeover of these non-controlling interests 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 statements.

A company belonging to segment real estate was newly included into the scope of consolidation, as the company is no longer immaterial for the presentation of the consolidated financial statements. The results from previous years of this company amounting to euro 122 thousand were recognised directly in equity.

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 deal was closed 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. Result of deconsolidation to the amount of euro –3,924 thousand is presented in income of the disposal group.

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 disposal group segment Real Estate

Euro thousand	1-6/2011	1-6/2010
Net interest income	0	32,247
Risk provisions	0	–9,837
Net fee and commission income	0	1,470
Net trading income	0	888
General administrative expenses	0	–10,288
Other operating result	–3,924	–9,120
thereof impairment of goodwill	0	–461
Income from financial investments	0	–1,193
Result for the period before taxes	**–3,924**	**4,166**
Income taxes	0	–991
Result for the period after taxes	**–3,924**	**3,176**
Profit attributable to shareholders of the parent company	**–3,924**	**–548**
Profit attributable to non-controlling interest	0	3,723

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
Assets	**1,719,470**

Liabilities of disposal group 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**

In the income of the disposal group 1-6/2010 is also included the sale of VB Linz+Mühlviertel with the contract date 25 June 2010. The deconsolidation took place on 6 August 2010.

Profit and loss of disposal group segment Retail

Euro thousand	1-6/2010
Net interest income	2,967
Risk provisions	623
Net fee and commission income	1,172
Net trading income	28
General administrative expenses	–3,977
Other operating result	32
Income from financial investments	21
Result for the period before taxes	866
Income taxes	–217
Result for the period after taxes	650
Profit attributable to shareholders of the parent company	633
Profit attributable to non-controlling interest	17

As at 15 March 2011, 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 9,032 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 of deconsolidation result of Bonifraterska

Euro thousand	
Assets proportional	106,665
Liabilities proportional	71,508
Disposal of net assets proportional	–35,157
Revenues	44,189
Deconsolidation result	9,032

3) Subsequent events

On 14 July 2011 shareholders of Volksbank International AG (VBI) and Sberbank of Russia signed a term sheet covering the basic points of contract of sale of 100% of shares of VBI, whereof VBAG holds 51%. Volksbank Romania S.A. is excluded from this transaction. Closing should take place until the end of 2011.

The combination of Österreichische Volksbanken-Aktiengesellschaft and Investkredit Bank AG is in progress and is set to be completed by the second half of 2011. The necessary resolutions were voted upon on 19 May 2011 at the annual general meetings of VBAG and Investkredit. As a result – subject to approval by the Financial Market Authority – in the second half of 2011, the banking operations of Österreichische Volksbanken-Aktiengesellschaft will be transferred to Investkredit Bank AG as the assuming company by way of an universal succession through de-merger. The name of the combined bank will then be changed to Österreichische Volksbanken-AG. It is expected that VBAG's core shareholders will redeem euro 300 million of the participation capital held by the Republic of Austria before the de-merger of VBAG and Investkredit.

No other events took place during the period of the interim report that had any significant effect on the interim financial statements as at 30 June 2011.

4) Notes to the income statement

Net interest income

Euro thousand	1-6/2011	1-6/2010
Interest and similar income	987,011	1,012,768
Interest and similar income from	959,827	981,108
liquid funds	9,129	11,662
credit and money market transactions with credit institutions	43,934	27,579
credit and money market transactions with customers	569,033	558,588
debt securities	153,545	149,123
derivatives in the investment book	184,185	234,156
Current income from	16,030	20,095
equities and other variable-yield securities	4,544	1,773
other affiliates	1,473	1,053
companies measured at equity	3,050	2,041
investments in other companies	6,964	15,228
Income from operating lease and investment property	11,154	11,565
rental income investment property	6,427	5,970
income from operating lease contracts	4,727	5,595
rental income	18,751	21,826
depreciations	–14,024	–16,232
Interest and similar expenses of	–607,038	–615,528
deposits from credit institutions (including central banks)	–142,170	–135,770
deposits from customers	–94,478	–99,446
debts evidenced by certificates	–291,886	–305,506
subordinated liabilities	–27,146	–25,933
derivatives in the investment book	–51,359	–48,872
Net interest income	379,972	**397,241**

Starting December 2010, changes in value of investment property assets are reported in position financial investments. The comparative figures have been restated accordingly.

Net interest income according to IAS 39 categories

Euro thousand	1-6/2011	1-6/2010
Interest and similar income	987,011	1,012,768
Interest and similar income from	959,827	981,108
financial investments at fair value through profit or loss	9,109	10,396
derivatives in the investment book	184,185	234,156
financial investments not at fair value through profit or loss	766,532	736,556
financial investments available for sale	84,776	79,196
financial investments at amortised cost	641,643	617,479
of which financial lease	99,945	105,133
of which unwinding	6,511	5,025
financial investments held to maturity	40,113	39,881
Current income from	16,030	20,095
financial investments at fair value through profit or loss	2,090	1
financial investments available for sale	10,889	18,053
companies measured at equity	3,050	2,041
Operating lease operations (including investment property)	11,154	11,565
Interest and similar expenses of	–607,038	–615,528
financial investments at fair value through profit or loss	–1,016	–948
derivatives in the investment book	–51,359	–48,872
financial investments at amortised cost	–554,663	–565,708
Net interest income	379,972	**397,241**

Risk provisions

Euro thousand	1-6/2011	1-6/2010
Allocation to risk provisions	–245,151	–322,941
Release of risk provisions	118,327	134,020
Allocation to provisions for risks	–3,716	–4,880
Release of provisions for risks	2,804	4,945
Direct write-offs of loans and advances	–2,403	–8,360
Income from loans and advances previously written off	590	3,457
Risk provisions	**–129,548**	**–193,758**

Net fee and commission income

Euro thousand	1-6/2011	1-6/2010
Fee and commission income from	118,776	115,787
lending operations	28,744	25,625
securities businesses	32,754	35,290
payment transactions	29,260	27,290
foreign exchange, foreign notes and coins transactions	15,990	14,285
other banking services	12,027	13,297
Fee and commission expenses from	–33,762	–28,349
lending operations	–12,294	–10,093
securities businesses	–6,740	–6,165
payment transactions	–4,244	–3,074
foreign exchange, foreign notes and coins transactions	–7,915	–6,440
other banking services	–2,569	–2,577
Net fee and commission income	**85,014**	**87,438**

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

Starting in December 2010, the result of the sales activities of the trading department is allocated to net fee and commission income and not in net trading income as before. The comparative figures have been restated accordingly.

Net trading income

Euro thousand	1-6/2011	1-6/2010
Equity related transactions	2,269	–6,791
Exchange rate related transactions	3,890	26,077
Interest rate related transactions	15,816	11,738
Net trading income	**21,976**	**31,024**

General administrative expenses

Euro thousand	1-6/2011	1-6/2010
Staff expenses	–148,673	–144,178
Other administrative expenses	–121,487	–120,732
Depreciation of fixed tangible and intangible assets	–17,749	–16,669
General administrative expenses	**–287,908**	**–281,578**

Income from financial investments

Euro thousand	1-6/2011	1-6/2010
Result from financial investments at fair value through profit or loss / macro hedges	**–33,536**	**20,519**
Result from financial investments at fair value through profit or loss and from underlying instruments for macro hedges	–33,466	20,523
Result from revaluation of derivatives	–70	–4
Result from fair value hedges	**–25**	**0**
Result from revaluation of underlying instruments	102,923	–234,109
Result from revaluation of derivatives	–102,948	234,109
Result from valuation of other derivatives in the investment book	**1,027**	**–21,710**
Exchange rate related transactions	–202	–63
Interest rate related transactions	1,189	–22,112
Credit related transactions	–823	472
Other transactions	863	–7
Result from available for sale financial investments (including participations)	**–13,640**	**3,723**
Realised gains / losses	4,038	1,317
Income from revaluation	421	2,830
Impairments	–18,099	–424
Result from loans & receivables financial investments	**2,141**	**–4,315**
Realised gains / losses	2,165	510
Income from revaluation	0	5,120
Impairments	–23	–9,946
Result from held to maturity finacial investments	**–4,547**	**–4,777**
Realised gains / losses	2,803	3,106
Income from revaluation	0	263
Impairments	–7,350	–8,146
Result from assets for operating lease and investment property assets as well as other finacial investments	**722**	**428**
Realised gains / losses	728	728
Change in value investment properties	–6	–300
Income from financial investments	**–47,859**	**–6,133**

Since December 2010, changes in value of investment property assets were reported in this position. The results of participations are part of available for sale financial investments beginning with December 2010. The comparative figures have been restated accordingly.

Impairments of available for sale and of held to maturity financial investments also include impairments of bonds of Greek to the amount of euro 17,251 thousand respectively euro 7,350 thousand. Concerning available for sale securities, the available for sale reserve was reclassified to profit or loss. Held to maturity securities were impaired to 79% of net present value. Securities of Greek not included in the replacement programme were not impaired, as there does not exist any triggering event for an impairment.

In the first half of 2011, an amount of euro 2,362 thousand (1-6/2010: euro 191 thousand) previously recognised in the available for sale reserve was reclassified and shown in the income statement.

Euro thousand	1-6/2011	1-6/2010
Result from financial investments, which are measured at fair value through profit and loss	**–32,540**	**–1,491**
Financial instruments at fair value through profit or loss	–33,466	20,523
Fair value hedges	–25	0
Other derivatives in investment book	957	–21,714
Investment property assets	–6	–300
Result from financial investments, which are not measured at fair value through profit and loss	**–15,318**	**–4,641**
Realised gains / losses	9,733	5,661
Available for sale financial investments	4,038	1,317
Loans & receivables financial investments	2,165	510
Held to maturity financial investments	2,803	3,106
Operating lease assets and other financial investments	728	728
Income from revaluation	421	8,213
Available for sale financial investments	421	2,830
Loans & receivables financial investments	0	5,120
Held to maturity financial investments	0	263
Impairments	–25,472	–18,515
Available for sale financial investments	–18,099	–424
Loans & receivables financial investments	–23	–9,946
Held to maturity financial investments	–7,350	–8,146
Income from financial investments	**–47,859**	**–6,133**

5) Notes to the consolidated statement of financial position

Loans and advances to credit institutions and customers

Euro thousand	30 Jun 2011	31 Dec 2010
Loans and advances to credit institutions	5,627,807	6,431,879
Loans and advances to customers	23,649,804	23,614,938
Loans and advances to credit institutions and customers	**29,277,612**	**30,046,816**

Loans and advances to credit institutions and customers are measured at amortised cost.

Risk provisions

Euro thousand	Individual impairment credit institutions	Individual impairment customers	Portfolio based allowance	Total	Of which disposal group
As at 1 Jan 2010	539	1,177,271	79,237	1,257,047	23,355
Currency translation	0	16,617	834	17,452	499
Reclassification	0	7,062	–90	6,973	–10,291
Unwinding	0	–5,025	0	–5,025	0
Utilisation	0	–37,053	0	–37,053	–142
Release	0	–113,590	–21,660	–135,250	–1,229
Addition	0	308,839	24,625	333,464	10,523
As at 30 Jun 2010	539	1,354,121	82,947	1,437,607	22,714
As at 1 Jan 2011	**872**	**1,470,404**	**56,880**	**1,528,155**	**5,623**
Changes in the scope of consolidation	0	–5,623	0	–5,623	–5,623
Currency translation	0	5,097	222	5,319	0
Reclassification	0	2,800	–81	2,719	0
Unwinding	0	–6,511	0	–6,511	0
Utilisation	0	–68,347	0	–68,347	0
Release	0	–114,365	–3,962	–118,327	0
Addition	0	241,019	4,132	245,151	0
As at 30 Jun 2011	**872**	**1,524,473**	**57,191**	**1,582,535**	**0**

The additions include an amount of euro 16,797 thousand (1-6/2010: euro 7,693 thousand), which is caused by allocation due to interest past-due. Loans and advances to credit institutions and customers include non-interest-bearing receivables amounting to euro 666,361 thousand (31 December 2010: euro 660,866 thousand). The reclassification item reflects the regrouping of provisions.

Trading assets

Euro thousand	30 Jun 2011	31 Dec 2010
Debt securities	774,622	349,050
Equity and other variable-yield securities	49,487	151,655
Positive fair value from derivatives	1,401,199	1,662,775
exchange rate related transactions	38,014	44,274
interest rate related transactions	1,154,774	1,410,090
other transactions	208,411	208,411
Trading assets	2,225,308	**2,163,480**

Financial investments

Euro thousand	30 Jun 2011	31 Dec 2010
Financial investments at fair value through profit or loss	710,296	763,764
Debt securities	637,139	699,625
Equity and other variable-yield securities	73,156	64,140
Financial investments available for sale	4,775,616	4,655,391
Debt securities	4,516,518	4,391,013
Equity and other variable-yield securities	259,097	264,377
Financial investments loans & receivables	1,770,207	1,837,891
Financial investments held to maturity	1,544,437	1,736,721
Financial investments	8,800,555	**8,993,767**

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	30 Jun 2011	31 Dec 2010	1 Jul 2008
Carrying amount	656,279	773,727	1,140,363
Fair value	638,548	733,487	1,140,363
Available for sale reserve with reclassification	–42,342	–47,416	–79,177
Available for sale reserve without reclassification	–110,056	–84,884	–79,177

Amounts of available for sale reserves are shown under consideration of deferred taxes. The reclassification did not have any effect on the income statement.

Participations

Euro thousand	30 Jun 2011	31 Dec 2010
Investments in unconsolidated affiliates	557,133	569,758
Participating interests	72,242	73,175
Investments in other companies	75,316	74,987
Participations	704,691	**717,920**

All participations are measured at amortised cost as their fair value cannot be determined without an unreasonable amount of effort. None of the Group's participations are listed on a stock exchange.

Other assets

Euro thousand	30 Jun 2011	31 Dec 2010
Deferred items	41,081	24,524
Other receivables and assets	648,412	202,451
Positive fair value from derivatives in the investment book	875,970	1,145,537
Other assets	**1,565,463**	**1,372,512**

Amounts owed to credit institutions

Euro thousand	30 Jun 2011	31 Dec 2010
Central banks	546,425	570,042
Other credit institutions	13,915,044	13,807,088
Amounts owed to credit institutions	**14,461,469**	**14,377,129**

The amounts owed to credit institutions are measured at amortised cost.

Amounts owed to customers

Euro thousand	30 Jun 2011	31 Dec 2010
Measured at fair value through profit or loss	22,254	21,934
Measured at amortised cost	7,701,125	7,289,998
Saving deposits	207,072	125,718
Other deposits	7,494,054	7,164,280
Amounts owed to customers	**7,723,379**	**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.

The carrying amount of the amounts owed to customers designated at fair value through profit or loss declines the redemption amount at maturity by euro 163 thousand (31 December 2010: the carrying amount exceeded the redemption amount at maturity by euro 84 thousand).

Debts evidenced by certificates

Euro thousand	30 Jun 2011	31 Dec 2010
Mortgage and local authority bonds	236,088	233,244
Bonds	14,713,359	15,888,266
Debts evidenced by certificates	**14,949,447**	**16,121,510**

Debts evidenced by certificates are measured at amortised cost.

Trading liabilities

Euro thousand	30 Jun 2011	31 Dec 2010
Negative fair value from derivatives		
exchange rate related transactions	8,017	41,095
interest rate related transactions	975,703	1,203,412
other transactions	212,923	212,923
Trading liabilities	**1,196,644**	**1,457,430**

Other liabilities

Euro thousand	30 Jun 2011	31 Dec 2010
Deferred items	44,235	39,154
Other liabilities	806,583	495,650
Negative fair value from derivatives in the investment book	807,656	1,194,463
Other liabilities	**1,658,474**	**1,729,266**

Subordinated liabilities

Euro thousand	30 Jun 2011	31 Dec 2010
Subordinated liabilities	922,472	936,458
Supplementary capital	928,885	927,466
Subordinated liabilities	**1,851,358**	**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 (31 December 2010: euro 300,000 thousand).

Equity

In April 2011, Volksbanken Holding e.Gen. cancelled the waiver declaration towards DZ PB-Beteiligungsgesellschaft mbH concerning the use of their voting rights from the preferred bearer shares. Starting with 20 May 2011 Volksbanken Holding e.Gen. exercises its voting rights from the preferred bearer shares and therefore from this day forward the voting rights of the shareholders correspond to their capital share.

6) Own funds

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

Euro thousand	30 Jun 2011	31 Dec 2010
Subscribed capital (less treasury stocks)	1,839,055	1,839,193
Open reserves (including differential amounts and non-controlling interests)	890,240	983,086
Funds for general banking risks	10,868	10,821
Intangible assets	–39,285	–39,379
Net loss	–24,254	–101,975
Core capital (tier I capital) before deductions	2,676,624	2,691,746
Deductions from core capital (50% deduction pursuant to section 23 (13) Austrian Banking Act)	–79,927	–79,112
Core capital (tier I capital) after deductions	2,596,697	2,612,634
Supplementary capital	361,345	382,080
Eligible subordinated liabilities	473,081	564,841
Hidden reserves pursuant to section 57 (1) Austrian Banking Act	64,013	64,092
Supplementary capital (tier II capital) before deductions	898,439	1,011,013
Deductions from supplementary capital (50% deduction pursuant to section 23 (13) Austrian Banking Act)	–79,927	–79,112
Supplementary capital (tier II capital) after deductions	818,512	931,901
Deductions from own funds pursuant to section 103e (13) Austrian Banking Act	–23,443	–23,385
Short-term subordinated liabilities (tier III capital)	50,137	41,844
Eligible qualifying capital	**3,441,903**	**3,562,994**
Capital requirement	2,145,370	2,230,461
Surplus capital	1,296,533	1,332,533

Tier I ratio (in relation to the assessment base pursuant to section 22 Austrian Banking Act – credit risk)	10.62%	10.26%
Equity ratio (solvency ratio) (in relation to credit risk after deduction of capital requirements for market and operational risk)	13.30%	13.24%
Tier I ratio (in relation to the risks pursuant to section 22 (1) no. 1-5 Austrian Banking Act)	9.68%	9.37%
Equity ratio (in relation to the risks pursuant to section 22 (1) no. 1-5 Austrian Banking Act)	12.83%	12.78%

Open reserves include the hybrid tier I capital totalling euro 300,000 thousand (31 December 2010: euro 300,000 thousand).

The risk-weighted assessment base as defined in the Austrian Banking Act and the ensuing equity requirement show the following changes

Euro thousand	30 Jun 2011	31 Dec 2010
Risk-weighted assessment base pursuant to section 22 Austrian Banking Act - credit risk	**24,450,813**	25,453,573
Of which 8% minimum capital requirement for credit risk	**1,956,065**	2,036,286
Capital requirement for position risk in debt instruments, equities, foreign exchange and commodities – market risk	**50,137**	53,595
Capital requirement for operational risk	**139,168**	140,580
Total capital requirement	**2,145,370**	**2,230,461**

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. 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 the first half of 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.

7) Financial assets and liabilities

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

Euro thousand	Held for trading	At fair value through profit or loss	Held to maturity	Available for sale	Amortised cost	Carrying amount - total	Fair value
30 Jun 2011							
Liquid funds	0	0	0	0	2,233,859	2,233,859	2,233,859
Loans and advances to credit institutions	0	0	0	0	5,627,807	5,627,807	5,627,794
Loans and advances to customers	0	0	0	0	23,649,804	23,649,804	21,901,984
Trading assets	2,225,308	0	0	0	0	2,225,308	2,225,308
Financial investments	0	710,296	1,544,437	4,775,616	1,770,207	8,800,555	8,675,328
Participations	0	0	0	704,691	0	704,691	704,691
Derivatives – investment book	875,970	0	0	0	0	875,970	875,970
Financial assets – total	**3,101,278**	**710,296**	**1,544,437**	**5,480,307**	**33,281,678**	**44,117,995**	**42,244,935**
Amounts owed to credit institutions	0	0	0	0	14,461,469	14,461,469	14,458,079
Amounts owed to customers	0	22,254	0	0	7,701,125	7,723,379	7,721,422
Debt evidenced by certificates	0	0	0	0	14,949,447	14,949,447	14,811,785
Trading liabilities	1,196,644	0	0	0	0	1,196,644	1,196,644
Derivatives – investment book	807,656	0	0	0	0	807,656	807,656
Subordinated liabilities	0	0	0	0	1,851,358	1,851,358	1,337,977
Financial liabilities – total	**2,004,300**	**22,254**	**0**	**0**	**38,963,398**	**40,989,953**	**40,333,563**

Euro thousand	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	0	0	0	0	1,982,446	1,982,446	1,982,446
Loans and advances to credit institutions	0	0	0	0	6,431,879	6,431,879	6,431,877
Loans and advances to customers	0	0	0	0	23,614,938	23,614,938	21,984,658
Trading assets	2,163,480	0	0	0	0	2,163,480	2,163,480
Financial investments	0	763,764	1,736,721	4,655,391	1,837,891	8,993,767	8,805,721
Participations	0	0	0	717,920	0	717,920	717,920
Derivatives – investment book	1,145,537	0	0	0	0	1,145,537	1,145,537
Financial assets – total	**3,309,017**	**763,764**	**1,736,721**	**5,373,311**	**33,867,154**	**45,049,967**	**43,231,639**
Financial assets of the disposal group	1,285	5	0	20,127	168,271	189,689	184,066
Amounts owed to credit institutions	0	0	0	0	14,377,129	14,377,129	14,372,766
Amounts owed to customers	0	21,934	0	0	7,289,998	7,311,931	7,310,305
Debts evidenced by certificates	0	0	0	0	16,121,510	16,121,510	15,782,581
Trading liabilities	1,457,430	0	0	0	0	1,457,430	1,457,430
Derivatives – investment book	1,194,463	0	0	0	0	1,194,463	1,194,463
Subordinated liabilities	0	0	0	0	1,863,924	1,863,924	1,325,627
Financial liabilities – total	**2,651,893**	**21,934**	**0**	**0**	**39,652,562**	**42,326,388**	**41,443,172**
Financial liabilities of the disposal group	1,607	0	0	0	1,153,060	1,154,667	1,154,667

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
30 Jun 2011			
Financial assets			
Trading assets	621,401	1,603,906	2,225,308
Financial investments	4,390,773	1,095,138	5,485,911
at fair value through profit or loss	538,412	171,883	710,296
available for sale	3,852,361	923,255	4,775,616
Derivatives – investment book	0	875,970	875,970
Total	**5,012,174**	**3,575,015**	**8,587,189**
Financial liabilities			
Amounts owed to customers	0	22,254	22,254
Trading liabilities	0	1,196,644	1,196,644
Derivatives – investment book	0	807,656	807,656
Total	**0**	**2,026,554**	**2,026,554**
31 Dec 2010			
Financial assets			
Trading assets	366,793	1,796,687	2,163,480
Financial investments	4,554,242	864,913	5,419,155
at fair value through profit or loss	635,594	128,170	763,764
available for sale	3,918,648	736,743	4,655,391
Derivatives – investment book	0	1,145,537	1,145,537
Total	**4,921,035**	**3,807,136**	**8,728,171**
Financial assets of the disposal group	5	1,285	1,290
Financial liabilities			
Amounts owed to customers	0	21,934	21,934
Trading liabilities	0	1,457,430	1,457,430
Derivatives – investment book	0	1,194,463	1,194,463
Total	**0**	**2,673,826**	**2,673,826**
Financial liabilities of the disposal group	0	1,607	1,607

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 credit spreads or transactions which are done on active markets in similar products. If necessary, the prices of the system are adopted.

8) Number of staff

Number of staff employed during the business year, including disposal groups

	Average number of staff		Number of staff at end of period	
	1-6/2011	1-6/2010	30 Jun 2011	31 Dec 2010
Domestic	1,405	1,527	1,379	1,443
Foreign	6,058	6,304	6,057	6,185
Number of staff – total	**7,463**	**7,831**	**7,436**	**7,628**

The number of staff employed in disposal groups is as follows

	Average number of staff		Number of staff at end of period	
	1-6/2011	1-6/2010	30 Jun 2011	31 Dec 2010
Real Estate disposal group				
Domestic	0	30	0	27
Foreign	0	76	0	70
Number of staff Real Estate disposal group	**0**	**106**	**0**	**97**
Retail disposal group				
Domestic	0	74	0	0
Number of staff disposal groups – total	**0**	**180**	**0**	**97**

9) Sales outlets

	30 Jun 2011	31 Dec 2010
Domestic	1	1
Foreign	451	548
Total	**452**	**549**

10) Segment reporting

Segment reporting by business segments

Euro thousand	Corporates	Retail	Real Estate	Financial Markets	Investment Book/Other Operations	Consolidation	Total
Net interest income							
1-6/2011	**61,455**	**270,647**	**45,225**	**18,212**	**–13,925**	**–1,642**	**379,972**
1-6/2010	61,789	277,709	42,994	15,693	308	–1,253	397,241
RIsk provisions							
1-6/2011	**–23,704**	**–102,665**	**–7,591**	**0**	**4,412**	**0**	**–129,548**
1-6/2010	–29,808	–145,256	–16,865	359	–2,188	0	–193,758
Net fee and commission income							
1-6/2011	**7,884**	**43,233**	**2,686**	**26,632**	**12,559**	**–7,980**	**85,014**
1-6/2010	4,461	41,914	1,721	29,070	15,647	–5,376	87,438
Net trading income							
1-6/2011	**1,355**	**2,110**	**1,716**	**16,769**	**26**	**0**	**21,976**
1-6/2010	974	20,334	–3,698	15,308	–1,894	0	31,024
General administrative expenses							
1-6/2011	**–35,074**	**–185,782**	**–20,088**	**–24,911**	**–34,195**	**12,142**	**–287,908**
1-6/2010	–34,799	–177,117	–18,232	–22,019	–38,417	9,005	–281,578
Other operating result							
1-6/2011	**135**	**856**	**3,429**	**37**	**–9,139**	**–2,520**	**–7,203**
1-6/2010	102	–936	1,990	–36	7,002	–2,376	5,746
Of which impairment of goodwill							
1-6/2011	***0***	***0***	***0***	***0***	***0***	***0***	***0***
1-6/2010	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Income from financial investments							
1-6/2011	**–2,164**	**1,254**	**909**	**729**	**–48,588**	**0**	**–47,859**
1-6/2010	2,538	4,311	604	–160	–13,425	0	–6,133
Income from the disposal group							
1-6/2011	**0**	**0**	**–3,924**	**0**	**0**	**0**	**–3,924**
1-6/2010	0	0	4,166	0	866	0	5,033
Result for the period before taxes							
1-6/2011	**9,887**	**29,653**	**22,362**	**37,468**	**–88,850**	**0**	**10,521**
1-6/2010	**5,259**	**20,960**	**12,679**	**38,216**	**–32,100**	**0**	**45,013**
Income taxes including taxes of disposal group							
1-6/2011	**–438**	**–6,856**	**–3,650**	**–9,367**	**25,362**	**0**	**5,050**
1-6/2010	–731	–2,718	–3,634	–9,109	5,574	0	–10,618
Result for the period after taxes							
1-6/2011	**9,450**	**22,797**	**18,712**	**28,101**	**–63,488**	**0**	**15,571**
1-6/2010	**4,528**	**18,242**	**9,045**	**29,106**	**–26,526**	**0**	**34,395**
Total assets							
30 Jun 2011	**7,254,171**	**16,851,112**	**4,736,597**	**2,748,384**	**30,285,745**	**–17,775,915**	**44,100,093**
31 Dec 2010	7,374,687	16,511,555	6,558,529	2,881,483	31,074,522	–17,935,932	46,464,844
Loans and advances to customers							
30 Jun 2011	**6,344,250**	**12,804,170**	**4,140,292**	**0**	**2,035,247**	**–1,674,154**	**23,649,804**
31 Dec 2010	6,523,666	12,661,008	4,265,806	0	2,082,695	–1,918,238	23,614,938
Amounts owed to customers							
30 Jun 2011	**496,019**	**5,192,843**	**185,613**	**1,510,277**	**442,639**	**–104,012**	**7,723,379**
31 Dec 2010	828,408	4,890,608	125,025	1,329,611	384,061	–245,781	7,311,931
Debts evidenced by certificates including subordinated liabilities							
30 Jun 2011	**1,779,613**	**419,059**	**1,155,658**	**0**	**16,908,588**	**–3,462,113**	**16,800,804**
31 Dec 2010	848,846	416,225	245,964	0	19,898,689	–3,424,289	17,985,435

Segment reporting by regional markets

Euro thousand	Austria	Central and Eastern Europe	Other Markets	Total
Net interest income				
1-6/2011	75,210	264,705	40,057	379,972
1-6/2010	80,502	272,661	44,078	397,241
Risk provisions				
1-6/2011	–16,508	–102,871	–10,169	–129,548
1-6/2010	–49,887	–142,924	–946	–193,758
Net fee and commission income				
1-6/2011	38,998	43,007	3,009	85,014
1-6/2010	43,575	42,033	1,829	87,438
Net trading income				
1-6/2011	15,690	5,125	1,161	21,976
1-6/2010	16,064	15,055	–95	31,024
General administrative expenses				
1-6/2011	–95,495	–179,591	–12,822	–287,908
1-6/2010	–98,780	–171,269	–11,529	–281,578
Other operating result				
1-6/2011	–13,838	6,533	102	–7,203
1-6/2010	9,067	–3,394	73	5,746
Income from financial investments				
1-6/2011	11,525	1,992	–61,375	–47,859
1-6/2010	–6,783	6,615	–5,965	–6,133
Income from the disposal group				
1-6/2011	–3,924	0	0	–3,924
1-6/2010	–8,277	12,629	681	5,033
Result for the period before taxes				
1-6/2011	**11,657**	**38,900**	**–40,036**	**10,521**
1-6/2010	**–14,519**	**31,405**	**28,126**	**45,013**

11) Quarterly financial data

Euro thousand	4-6/2011	1-3/2011	10-12/2010	7-9/2010	4-6/2010
Net interest income	193,466	186,507	192,070	186,948	204,723
Risk provisions	–63,176	–66,372	–78,496	–92,054	–87,174
Net fee and commission income	43,463	41,550	40,747	38,721	44,384
Net trading income	14,629	7,347	6,918	1,713	29,050
General administrative expenses	–146,990	–140,918	–136,596	–132,952	–145,748
Other operating result	–11,205	4,002	–26,302	–1,036	–2,461
Income from financial investments	–56,324	8,465	32,200	16,721	–16,594
Income from the disposal group	–3,924	0	–12,637	9,848	–2,753
Result for the period before taxes	**–30,061**	**40,582**	**17,903**	**27,909**	**23,427**
Income taxes	10,171	–5,121	–19,502	–2,096	–6,100
Income taxes of the disposal group	0	0	1,452	–3,577	–2,897
Result for the period after taxes	**–19,890**	**35,461**	**–147**	**22,236**	**14,430**
Result attributable to shareholders of the parent company	**–31,067**	**31,579**	**26,217**	**14,605**	**7,228**
Result attributable to non-controlling interest	11,176	3,882	–26,364	7,631	7,202

STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the condensed interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements and of the principal risks and uncertainties for the remaining six months of the financial year.

Vienna, 25 August 2011

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
Market/International Activities