VOLKSBANK AG

ANNUAL REPORT

2012

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

Translation by BBi (Scotland) Ltd.

KEY FIGURES OF VOLKSBANK AG

Euro million	2012	2011	2010
Statement of financial position [1]			
Total assets	**27,667**	**41,135**	**46,550**
Loans and advances to customers	10,056	12,717	23,615
Amounts owed to customers	2,542	2,713	7,312
Debts evidenced by certificates	9,912	13,452	16,122
Subordinated liabilities	621	1,729	1,864
Own funds			
Core capital (tier I) after deductions	1,709	2,305	2,613
Supplementary capital (tier II, tier III) after deductions	759	1,021	950
Eligible qualifying capital	2,467	3,326	3,563
Assessment base credit risk	13,443	22,947	25,454
Capital requirement market risk	95	121	54
Capital requirement operational risk	87	144	141
Surplus capital	1,210	1,225	1,333
Core capital ratio [2]	**10.9 %**	**8.8%**	**9.4%**
Equity ratio [2]	**15.7 %**	**12.7%**	**12.8%**
Income statement [3]			
Net interest income	220.3	394.4	506.6
Risk provisions	–366.9	–103.6	–279.6
Net fee and commission income	58.2	94.3	100.9
Net trading income	32.2	2.9	36.8
General administrative expenses	–263.5	–299.3	–349.8
Restructuring cost	0.0	–41.5	0.0
Other operating result	771.6	–365.3	–0.9
Income from financial investments	–1.5	–441.1	–15.4
Income from discontinued operation	48.6	–132.0	40.8
Result before taxes	**499.1**	**–891.2**	**39.5**
Income taxes	–158.4	–98.1	–28.5
Result after taxes	**340.6**	**–989.3**	**11.0**
Non-controlling interest	–28.1	30.0	–1.1
Consolidated net income	**312.6**	**–959.3**	**9.9**
Key ratios [4]			
Operating cost-income-ratio	84.8%	60.9%	54.3%
ROE before taxes	62.7%	–71.5%	–0.1%
ROE after taxes	40.9%	–79.4%	–0.1%
ROE consolidated net income	53.4%	–118.7%	0.9%
ROE before taxes (regulatory)	37.4%	–53.7%	–0.1%
Resources [3]			
Staff average	1,960	3,120	3,606
of which domestic	1,178	1,315	1,362
of which abroad	782	1,805	2,244
Staff at end of period	1,912	2,038	3,540
of which domestic	1,137	1,253	1,353
of which abroad	775	785	2,187
Number of sales outlets	2	2	238
of which domestic	1	1	1
of which abroad	1	1	237

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

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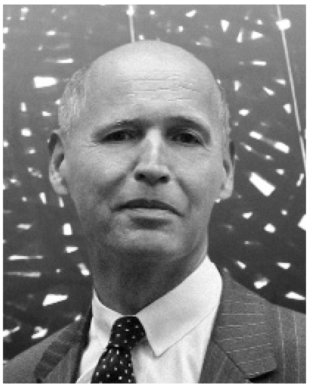
INTRODUCTION FROM THE CHIEF EXECUTIVE OFFICER



Stephan Koren
CEO and Chairman
of the Managing Board

VBAG and VBAG Group experienced dramatic changes in 2012. Following long and difficult negotiations, the Bank was partially nationalised in April due to heavy losses in 2011. This partial nationalisation was accompanied by very strict requirements imposed by the European Commission and the Republic of Austria. VBAG needs to be dramatically down-sized, and its strategic direction has to be completely reconfigured.

VBAG is being profoundly restructured at the moment, meaning that the bank's own business in Austria and abroad has to be wound down or sold. Numerous examples indicate that such a restructuring process often consumes a considerable amount of capital. For this reason, the Managing Board felt and still feels that it is imperative to push ahead with restructuring as quickly and rigorously as possible. This will enable the Bank not only to minimise the resulting costs but also, crucially, to regain its viability as quickly as possible, in order to shape both its future and that of the sector.

We have made substantial progress in implementing this strategy in recent months. We were able to reduce the Group's total assets from year-end 2011 to year-end 2012 by euro 13.5 billion and risk-weighted assets (based on total risk) over the same period by euro 9.5 billion. Despite the costs associated with this reduction of assets, we were able to improve our capital ratios. VBAG Group's tier I ratio (in relation to total risk) reached 10.9% as of 31 December 2012 (8.8% at the end of 2011) and the equity ratio (in relation to total risk) was 15.7% (after 12.7% at the end of 2011). This capital base represents a buffer that will enable us to continue reducing the size of our balance sheet in the current year.

As a central organisation with a wide range of powers to control and direct, VBAG must play a completely new strategic role in the sector. We have to realize synergies and improve efficiencies both within the sector and between VBAG and the sector. Only in this way will there be a permanently successful business model for the Volksbanks. Implementing this is our joint task.

VBAG has received significant public funding and taxpayers have a right to expect that the necessary changes are being made in order to ensure a successful future for the sector. I am convinced that we can accomplish this task, as long as VBAG itself and the rest of the sector are sufficiently willing to make changes.

The Bank's recovery and restrengthening is a process that takes time. I anticipate that during this year and in 2014 we will be highly occupied with restructuring issues and the challenges they present. However, I am optimistic that, by 2015, we will increasingly begin to see the positive results of the uniform sector-wide control.

I would like to thank all of our employees, whose great commitment has helped us to master the challenges we have faced in recent months. At the same time, I hope that they will continue their committed work in what are certain to be difficult times ahead.

Vienna, in April 2013

Stephan Koren
CEO and Chairman of the Managing Board

REPORT OF THE SUPERVISORY BOARD

of Österreichische Volksbanken-Aktiengesellschaft pursuant to section 96 of the Austrian Stock Corporation Act (Aktiengesetz) for the 2012 business year

Johann Georg Schelling
Chairman
of the Supervisory Board

1. The Supervisory Board of Österreichische Volksbanken-Aktiengesellschaft (the "COMPANY" or "VBAG") held five ordinary and seven extraordinary meetings during the 2012 business year. During these meetings and in other discussions and committees, the Board examined management's actions to verify that they were lawful, expedient, and cost effective, and it also reviewed the COMPANY's position, performance and proposed business policies.

The Supervisory Board took note of the reports from the COMPANY'S Managing Board and adopted the necessary resolutions.

The chairs of the Supervisory Board's committees (Risk, Approvals, Audit, and HR and Remuneration) regularly reported to the Supervisory Board on the work of their committees. This gave the Supervisory Board sufficient opportunity to fulfil its duty to stay informed about and oversee the work of the Managing Board.

2. The Approvals Committee met on four occasions during 2012 to deal with matters falling within its area of competence. All members regularly took part in these meetings.

The Audit Committee met on three occasions during 2012 to review the audit of both the COMPANY and the consolidated financial statements and to monitor the internal control system, the internal audit system and the risk management system. The majority of the committee's members took part in all meetings.

The HR and Remuneration Committee met four times during 2012. In connection with its responsibilities as a remuneration committee, it addressed the principles of the remuneration policy. In addition, in connection with its responsibilities as an HR committee, it made recommendations on filling vacancies on the Managing Board and dealt with matters concerning the employment contracts of the members of the Managing Board. The majority of the committee's members took part in all meetings.

During the four meetings it held in 2012, the Risk Committee looked in detail at risk issues, risk strategy and the current risk position of the COMPANY and other significant Group companies. The majority of the committee's members took part in all meetings.

3. During the 2012 business year, the Supervisory Board dealt extensively with the proposed measures to stabilise VBAG in the long term and to reduce its size, and after thorough discussion, it approved these measures. The Annual General Meeting on 26 April 2012 adopted resolutions to create a banking association under section 30a of the Austrian Banking Act (Bankwesengesetz), with VBAG as the central organisation, and to allow for the Republic of Austria to become a shareholder. The steps required to implement this are set out in the restructuring plan agreed to with the European Commission.

4. The Supervisory Board received regular updates regarding the progress made with the measures to reduce VBAG's size and about the implementation of the banking association. By filling vacancies on the Managing Board during 2012, the Supervisory Board ensured that the steps required to stabilise VBAG in the longer term and to reduce its size were implemented promptly.

5. The VBAG financial statements as at 31 December 2012 (the "FINANCIAL STATEMENTS"), including the management report and notes, and the consolidated financial statements as at 31 December 2012 (the "CONSOLIDATED FINANCIAL STATEMENTS"), including the Group management report, were audited by KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft ("KPMG") and, no grounds for objection having been found, received an unqualified audit opinion.

6. The Supervisory Board took note of the report submitted by the Managing Board and, following review by the Audit Committee, examined the FINANCIAL STATEMENTS, including the management report, and the CONSOLIDATED FINANCIAL STATEMENTS, including the Group management report, in accordance with section 96 (1) of the Austrian Stock Corporation Act. The Supervisory Board's examination did not result in any grounds for objections. In particular, the FINANCIAL STATEMENTS and the CONSOLIDATED FINANCIAL STATEMENTS were deemed by the Supervisory Board to be properly prepared. As a result, the Supervisory Board approves the FINANCIAL STATEMENTS, including the management report, meaning that they are now adopted in accordance with section 96 (4) of the Austrian Stock Corporation Act, as are the CONSOLIDATED FINANCIAL STATEMENTS, including the Group management report. The Supervisory Board also agrees with the results of the audit, which were discussed in detail with KPMG in the Audit Committee.

7. Since the FINANCIAL STATEMENTS show a loss, the Managing Board has made no recommendation as to the appropriation of funds. The VBAG Supervisory Board has also not passed a corresponding resolution, since the FINANCIAL STATEMENTS do not report a profit.

8. The Supervisory Board notes that the COMPANY complied with the objectives set out in section 2 of the Articles of Association and as mandated by its shareholders.

9. The Supervisory Board would like to thank the Managing Board and all employees for their commitment and dedication in this difficult economic environment.

Vienna, 21 March 2013

On behalf of the Supervisory Board of
Österreichische Volksbanken-Aktiengesellschaft:

Johann Georg SCHELLING,
born 27 December 1953,
Chairman of the Supervisory Board

CORPORATE GOVERNANCE AT ÖSTERREICHISCHEN VOLKSBANKEN-AKTIENGESELLSCHAFT

Corporate Governance Code

After receiving authorisation from the Supervisory Board, the VBAG Managing Board opted to comply with the requirements of the Austrian Code of Corporate Governance (Österreichischer Corporate Governance Kodex, referred to hereinafter as the "Code") in 2013 and henceforth to publish a Corporate Governance Report.

This decision was guided by the concept that good corporate governance is significant to the way in which VBAG is evaluated and accepted as a company.

By introducing the Code, the Managing Board is pursuing, among other things, the goal of responsible management and control focused on long-term value creation, while at the same time creating a high degree of transparency for shareholders, customers, management, the Supervisory Board, employees and the public at large.

The rules set out in the Code are subdivided into

- "L" rules, which are based on mandatory legal provisions,
- "C" rules, from which companies may deviate, although they are required to provide an explanation if they do so, and
- "R" rules, which constitute recommendations.

Starting in 2014, VBAG's Corporate Governance Report will be publicly available at www.volksbank.com. The Code itself is publicly available at www.corporate-governance.at.

An external body will annually audit VBAG's implementation and compliance with the individual rules of the Code.

Commitment to comply with the rules of the Code

VBAG expects to comply with all L and R rules, but will deviate from the three C rules noted below:

Rule 2:

The "one share one vote" principle will not be applied while the Republic of Austria (the Austrian government) holds registered shares in the company, since it has the right to appoint up to half of the members of the Supervisory Board (shareholder representatives). The only entity to which it may transfer this right is FIMBAG Finanzmarktbeteiligung Aktiengesellschaft. In the event that the Austrian government transfers the registered shares it holds to FIMBAG, the corresponding right to appoint up to half of the members of the Supervisory Board is also transferred. If FIMBAG later transfers the registered shares it holds in VBAG back to the Republic of Austria (Austrian government), its right to appoint up to half of the members of the Supervisory Board is also transferred back to the Republic of Austria (Austrian government).

Rule 27:

While undergoing reorganisation, VBAG will not apply the criteria set out in rule 27, in conjunction with the appendix to section 39b of the Austrian Banking Act (Bankwesengesetz), relating to the variable remuneration components of the Managing Board.

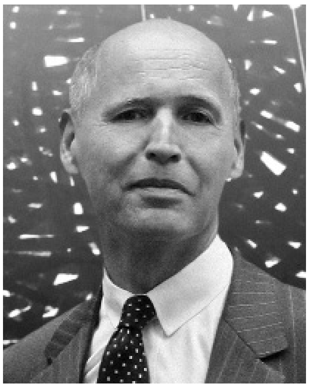
Rule 45:

In respect of Dr Klaus Liebscher and Mr Franz Zwickl, who hold positions on the supervisory boards of other banks and financial services institutions, VBAG will deviate from the rule stating that members of the Supervisory Board may not assume any functions on the boards of other enterprises that are competitors of the company. This gives VBAG access to sector-specific expertise and experience in carrying out the control functions of the Supervisory Board, which is beneficial to the company.

During the 2012 business year, the following individuals served as members of the VBAG Managing Board:

- Mag Gerald Wenzel, born 6 August 1950, appointed for the period from 1 May 2009 until 30 April 2012 (chairman)
- Dr Stephan Koren, born 14 December 1957, appointed for the period from 3 September 2012 until 31 August 2017
- Dkfm Michael Mendel, born 13 June 1957, appointed for the period from 1 January 2009 until 31 December 2016
- Martin Fuchsbauer, MBA, born 24 July 1966, appointed for the period from 1 January 2010 until 31 December 2012
- Mag Wolfgang Perdich, born 10 January 1958, appointed for the period from 1 February 2004 until 30 September 2012
- Dr Rainer Borns, born 7 August 1970, appointed for the period from 6 August 2012 until 31 July 2016

COMPOSITION OF THE MANAGING BOARD STARTING 1 JANUARY 2013



Stephan Koren

CEO
born 14 December 1957,
appointed for the period from
3 September 2012 until 31 August 2017

Responsibilities:
- Issues of common concern to the Managing Board
- General business policy principles
- Management of the Group
- Coordination of the individual business units
- Domestic and international representation of the bank
- Relationships with authorities, the Austrian Financial Market Authority, administrative bodies, central banks, interest groups / the Volksbank sector / other banking sectors and banking sector associations / foreign banks and groups of financial institutions / international associations (C.I.B.P.)
- Contact with the Austrian Cooperative Association (Österreichischer Genossenschaftsverband)
- Contact with the Credit Cooperatives Trade Association (Fachverband für Kreditgenossenschaften) under the Schulze-Delitzsch system, serving on supervisory boards, committees, organisations and panels which promote the goals of the bank and the Volksbank sector
- Committee supervision
- Auditing
- Compliance Office / Money Laundering Officer
- Marketing and communication
- HR management
- Legal affairs
- Business planning and finance
- Credit services

Supervisory board positions or comparable functions in other domestic and foreign companies not included in the consolidation:

Supervisory board roles:
- Wiener Stadtwerke Holding AG (member)
- Österreichische Industrieholding AG (member)
- Wüstenrot Wohnungswirtschaft rGmbH (member)
- Generali Bank AG (member)
- Volksbanken-Beteiligungsgesellschaft m.b.H. (member)
- Schulze-Delitzsch-Haftungsgenossenschaft (member)

Member:

Christoph Raninger

born 3 February 1972,
appointed for the period from
15 February 2013 until 28 February 2017

Responsibilities:
- Research
- Institutional investor relations
- Capital markets/treasury
- VB investments
- Liquidity management
- Commercial banking

Holdings:
- Victoria-Volksbanken Pensionskassen AG
- Volksbank Invest Kapitalanlage GesmbH
- Victoria-Volksbanken Vorsorgekasse AG
- VB Leasing Finanzierung
- Leasing West
- IMMO KAG
- VB Leasing International
- Volksbank Malta Ltd.

Supervisory board positions or comparable functions in other domestic and foreign companies not included in the consolidation:

Supervisory board roles:
- none

Michael Mendel

deputy CEO
born 13 June 1957,
appointed for the period from 1 January 2009
until 31 December 2016

Responsibilities:
- Strategic restructuring projects
- VB Romania
- Strategic risk management
- Operational risk management
- Non-Core Business, corporate customers
- Run-down properties
- Workout properties

Holdings:
- VB Managementberatung
- VBI Beteiligungs GmbH
- Investkredit Investmentbank AG
- IKIB Mittelstandsfinanzierungs AG
- Investkredit Malta
- VB Real Estate Services
- REWO Holding GmbH

Supervisory board positions or comparable functions in other domestic and foreign companies not included in the consolidation:

Supervisory board roles:
- RHÖN-KLINIKUM AG Bad Neustadt / Saale (Mitglied)
- Oesterreichische Kontrollbank-Aktiengesellschaft (member)

Member:
Rainer Borns

born 7 August 1970,
appointed for the period
from 6 August 2012 until 31 July 2016

Responsibilities:
- Implementation of section 30a of the Austrian Banking Act
- VB Services für Banken
- Representing the interests of the bank
- Management support for Volksbanks
- Organisation/IT
- IT infrastructure
- Volksbanks distribution channel

Holdings:
- ARZ
- VB Services für Banken
- VB Factoring

Supervisory board positions or comparable functions in other domestic and foreign companies not included in the consolidation:

Supervisory board roles:
- Bank für Ärzte und Freie Berufe Aktiengesellschaft (chairman)
- ARZ Allgemeines Rechenzentrum GmbH (chairman)
- Volksbanken-Beteiligungsgesellschaft m.b.H. (member)
- Allgemeine Bausparkasse reg. Gen.m.b.H. (member)
- Volksbank Aichfeld-Murboden reg. Gen.m.b.H. (member)
- Volksbanken-Beteiligungsgesellschaft m.b.H. (member)

Managing Board working methods

The work of members of the Managing Board is governed by the Managing Board's rules of procedure. Allocation of business by the Managing Board as a whole is subject to approval by the Supervisory Board. The rules of procedure govern the responsibilities and regulations relating to powers of representation for members of the Managing Board and the areas where approval must be obtained from the Supervisory Board pursuant to a list of transactions requiring approval.

Members of the Managing Board must act with the level of diligence appropriate to a management position. In particular, they must ensure that VBAG meets its obligations as the central organisation of a banking association (section 30a of the Austrian Banking Act) and that the company and the associated banking institutions comply with the directives established by the banking association agreement.

The Managing Board meets on a regular basis (weekly), where members report on current business performance, adopt resolutions and make decisions on matters of strategic importance to the company. In addition, in between meetings, members share information about relevant events on an ongoing basis.

The Managing Board files regular, timely and comprehensive reports with the Supervisory Board about all matters relevant to business development, including the Group's risk position and risk management. The chairman of the Supervisory Board is also in regular contact with the chairman of the Managing Board to discuss the company's strategy, business development and risk management.

During the 2012 business year, the following individuals served as members of the VBAG Supervisory Board:

Prof DDr Hans **Hofinger**, born 27 February 1950, appointed for the period from 29 May 2002 until 26 April 2012 (chairman)
Dr Rainer **Kuhnle**, born 7 January 1967, appointed for the period from 27 May 2004 until 26 April 2012, and from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)
Edwin **Reiter**, born 6 May 1962, appointed for the period from 24 May 2006 until 26 April 2012, and from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)
KR Mag Harald **Berger**, born 16 May 1957, appointed for the period from 17 May 2001 until 26 April 2012
Dr Thomas **Bock**, born 18 April 1963, appointed for the period from 24 May 2006 until 14 March 2012
Franz **Frischling**, born 5 July 1952, appointed for the period from 19 May 2005 until 26 April 2012
KR Erich **Hackl**, born 27 September 1952, appointed for the period from 28 May 2009 until 26 April 2012
Dkfm Wolfgang **Kirsch**, born 19 March 1955, appointed for the period from 27 May 2004 until 26 April 2012
Dipl.-Wi.-Ing. Wolfgang **Köhler**, born 10 November 1959, appointed for the period from 23 September 2009 until 26 April 2012
Dr Jochen **Messemer**, born 28 March 1966, appointed for the period from 28 May 2009 until 26 April 2012
Franz **Nebel**, born 26 July 1959, appointed for the period from 20 May 2010 until 26 April 2012
Mag Anton **Pauschenwein**, born 8 March 1964, appointed for the period from 28 May 2009 until 26 April 2012
Dr Johann Georg **Schelling**, born 27 December 1953, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)
Mag Franz **Zwickl**, born 11 November 1953, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)
Mag Susanne **Althaler**, born 22 March 1959, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)
Dr Richard **Ecker**, born 22 February 1968, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)
Mag Markus **Hörmann**, born 19 September 1963, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)
Mag Klaus **Kumpfmüller**, born 29 November 1969, appointed for the period from 26 April 2012 until 14 February 2013
Dr Klaus **Liebscher**, born 12 July 1939, appointed for an indefinite period, commencing on 28 December 2012
Josef **Preissl**, born 2 March 1959, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)

Composition of the Supervisory Board starting 1 January 2013

Chairman:
Dr Johann Georg **Schelling**, born 27 December 1953, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017). Supervisory board positions in domestic and foreign listed companies: None

First Deputy Chairman
Dr Rainer **Kuhnle**, born 7 January 1967, appointed for the period from 27 May 2004 until VBAG's 43rd Annual General Meeting (2017). Supervisory board positions in domestic and foreign listed companies: None

Second Deputy Chairman:
Mag Franz **Zwickl**, born 11 November 1953, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017). Supervisory board positions in domestic and foreign listed companies: CA Immobilien Anlagen Aktiengesellschaft (member)
Mag Susanne **Althaler**, born 22 March 1959, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017). Supervisory board positions in domestic and foreign listed companies: None
Dr Richard **Ecker**, born 22 February 1968, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017). Supervisory board positions in domestic and foreign listed companies: None
Mag Markus **Hörmann**, born 19 September 1963, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017). Supervisory board positions in domestic and foreign listed companies: None
Mag Klaus **Kumpfmüller**, born 29 November 1969, appointed for the period from 26 April 2012 until 14 February 2013 Supervisory board positions in domestic and foreign listed companies: None
Dr Klaus **Liebscher**, born 12 July 1939, appointed for an indefinite period, commencing on 28 December 2012. Supervisory board positions in domestic and foreign listed companies: None
Josef **Preissl**, born 2 March 1959, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017). Supervisory board positions in domestic and foreign listed companies: None
Edwin **Reiter**, born 6 May 1962, appointed for the period from 24 May 2006 until VBAG's 43rd Annual General Meeting (2017). Supervisory board positions in domestic and foreign listed companies: None
Dipl.-Ing Dr Thomas **Steiner**, born 28 January 1980, appointed for an indefinite period, commencing on 27 February 2013. Supervisory board positions in domestic and foreign listed companies: None

Works council delegates:
Hans **Lang**, born 17 October 1953, since 8 June 2004
Dipl.-BW (FH) Hermann **Ehinger**, born 12 October 1958, since 3 March 2010
Ing Otto **Kantner**, born 5 September 1949, since 1 October 2012
Dipl.-Ing Wolfgang **Agler**, born 11 May 1957, since 1 October 2012
Dr Matthäus **Thun-Hohenstein**, born 22 February 1963, since 13 April 2005

Supervisory Board committees:

Approvals Committee
- Edwin Reiter, chairman
- Klaus Kumpfmüller (until 14 February 2013)
- Susanne Althaler
- Josef Preissl

Works council delegates:
- Hans Lang
- Dipl.-BW (FH) Hermann Ehinger

Audit Committee
- Mag Franz Zwickl, Vorsitzender
- Dr Rainer Kuhnle
- Dr Richard Ecker
- Mag Klaus Kumpfmüller (until 14 February 2013)

Works council delegates:
• Hans Lang
• Dipl.-BW (FH) Hermann Ehinger

Risk Committee
• Josef Preissl, chairman
• Mag Susanne Althaler
• Mag Klaus Kumpfmüller (until 14 February 2013)
• Edwin Reiter

Works council delegates:
• Dipl.-BW (FH) Hermann Ehinger
• Dr Matthäus Thun-Hohenstein

HR and Remuneration Committee
• Dr Johann Georg Schelling, chairman
• Dr Rainer Kuhnle
• Mag Markus Hörmann
• Mag Franz Zwickl

Works council delegates:
• Hans Lang
• Ing. Otto Kantner

Working methods and activities of the Supervisory Board and its committees

The Supervisory Board is required to carry out its activities in accordance with law, the company's Articles of Association and the Supervisory Board's rules of procedure. The Supervisory Board is responsible for overseeing the activities of the Managing Board, including whether the Managing Board's activities further the company's business purpose and benefit its members and whether VBAG is complying with its obligations as a central organisation under section 30a of the Austrian Banking Act. The Supervisory Board exercised these responsibilities during the twelve meetings that it held during 2012.

The Approvals Committee is responsible for approving assets which exceed a specific threshold determined by the Supervisory Board, in accordance with section 9 (1) g. It is also responsible for approving the acquisition and sale of investments, provided their book value does not exceed euro 2,000,000.00. It made the assessments required of it during the four meetings it held during 2012.

The Audit Committee

is responsible for

i) Overseeing the accounting process;
ii) Monitoring the effectiveness of the internal control system, the internal audit system and the risk management system;
iii) Supervising the audit of the company and the consolidated financial statements;
iv) Verifying and monitoring the independence of the auditors for the company and the consolidated financial statements, including with respect to additional services performed for VBAG and/or the Group;
v) Verifying the company financial statements and undertaking preparatory work for their approval, verifying the proposal for the appropriation of funds, verifying the company management report and reporting the results of the audit to the Supervisory Board;
vi) Verifying the consolidated financial statements and the Group management report;
vii) Carrying out preparatory work for the Supervisory Board's recommendation on the selection of auditors for the company and the consolidated financial statements

It discussed these matters at the three meetings it held during 2012.

Risk Committee

The Risk Committee is responsible for dealing with risk issues (including market, credit, liquidity and operational risks), in particular risk control standards and mechanisms and the current risk position (based on the Managing Board's quarterly risk report) of VBAG and its major Group companies. It discussed these matters at the four meetings it held during 2012.

HR and Remuneration Committee

The HR and Remuneration Committee is responsible for concluding contracts with members of the Managing Board and for making decisions regarding their remuneration and the related bonus system. It is also responsible for monitoring policies, practices and incentive schemes relating to remuneration, in each case having regard to the management, monitoring and limitation of risks in accordance with section 39 (2b) points 1-10 of the Austrian Banking Act. Furthermore, it monitors equity and liquidity levels, while also taking into account the long-term interests of the bank's shareholders, investors and employees. It discussed remuneration policy principles at the four meetings it held during 2012. In addition, it exercised its responsibilities as an HR committee by making recommendations on filling vacancies on the Managing Board and dealt with matters concerning the employment contracts of the members of the Managing Board.

Each of the committees described above is empowered to make decisions on matters within its area of competence.

Information regarding the activities of the Supervisory Board and its committees is available in the report of the Supervisory Board.

Commitment to promote women in board and management positions

Equal opportunity and diversity are important to VBAG, particularly regarding gender, age, cultural background, etc. VBAG is also mindful of work-life balance in connection with the advancement of women.

In addition, as an employer, VBAG is working to eliminate the imbalance between the salaries of male and female employees that sometimes arises.

Supervisory Board independence

All elected members of the Supervisory Board have declared themselves to be independent within the meaning of the general requirement set out in the Code. A member of the Supervisory Board is deemed to be independent if he or she has no business or personal relationship with the company or its Managing Board that constitutes a material conflict of interest and that might therefore influence the behaviour of that member.

Remuneration report

Disclosure of information on the remuneration of the Managing Board and the Supervisory Board:

Remuneration of members of the Managing Board

Compensation for the 2012 business year, in euro:

	Fixed compensation	Other compensation	Variable compensation	Total
Stephan Koren	180.287,35	20.264,48	0	200.551,83
Michael Mendel	472.142,96	134.981,63	0	607.124,59
Martin Fuchsbauer	362.000,10	67.776,62	0	429.776,72
Rainer Borns	157.323,47	21.491,32	0	178.814,79

Members of the Managing Board do not receive performance- or results-based pay.

The heading "Other compensation" includes contributions to pension and retirement funds and to benefit funds (under the new severance payment system – Abfertigung Neu), as well as various benefits in kind.

There is no stock-option or share-transfer scheme for members of the Managing Board.

Principles and prerequisites of the pension scheme:
The pension scheme is a defined-contribution scheme for all members of the Managing Board. The collective pension-fund bargaining agreement for commercial credit cooperatives was made applicable to members of the Managing Board. All members of the VBAG Managing Board who have a valid contract and a mandate to serve on the Board are eligible to join the scheme.

Principles governing the pension entitlements and claims of members of the Managing Board when they leave office:

The contracts of all members of the Managing Board are subject to the new severance payment system.

Compensation (excl. travelling cost) paid to Supervisory Board members during the 2012 business year, in euro:

	Attendance fee and daily allowance	Sup. Board compensation	Total
Hans Hofinger	944.71	25,000.–	25,944.71
Harald Berger	901.42	5,000.–	5,901.42
Thomas Bock	–	5,000.–	5,000.–
Franz Frischling	1,002.86	6,142.47	7,145.33
Erich Hackl	886.59	5,000.–	5,886.59
Wolfgang Kirsch	101.74	5,000.–	5,101.74
Wolfgang Köhler	508.70	5,000.–	5,508.70
Jochen Messemer	508.70	5,000.–	5,508.70
Franz Nebel	334.29	5,000.–	5,334.29
Anton Pauschenwein	770.32	5,000.–	5,770.32
Walter Zandanell	901.12	5,000.–	5,901.12
Johann Georg Schelling	828.45	–	828.45
Rainer Kuhnle	1,685.97	8,000.–	9,685.97
Franz Zwickl	828.45	–	828.45
Susanne Althaler	1,104.60	–	1,104.60
Richard Ecker	712.18	–	712.18
Markus Hörmann	683.11	–	683.11
Klaus Kumpfmüller	1,075.53	–	1,075.53
Klaus Liebscher	–	–	–
Josef Preissl	1,104.60	–	1,104.60
Edwin Reiter	1,627.83	6,857.53	8,485.36
Hans Lang	–	–	–
Wolfgang Agler	–	–	–
Hermann Ehinger	–	–	–
Otto Kantner	–	–	–
Matthäus Thun-Hohenstein	–	–	–
Total:	**16,511.17**	**91,000.–**	**107,511.17**

In general, there are no stock-option plans for the members of the Supervisory Board.

Supervisory Board compensation system

Compensation for members of the Supervisory Board is set by the Annual General Meeting as a total amount. The amount of compensation paid to individual members of the Supervisory Board is based on the role they perform on the Supervisory Board and/or its committees and on the number of positions held.

D&O insurance

VBAG maintains directors and officers liability insurance.

MANAGEMENT REPORT

MANAGEMENT REPORT

Report on business development and the economic situation

Economic environment in 2012

International developments

The economic environment in the USA was relatively robust in 2012. Early estimates indicate that the gross domestic product grew by 2.2%, somewhat stronger than in the previous year. This comes in spite of a surprisingly sharp decline in the fourth quarter, which was brought about by a reduction in public spending due to significant cuts in the area of defence and a fall in inventory levels. However, the centre of attention was the USA's fiscal policy. Although the threatened "fiscal cliff" involving automatic tax rises and spending cuts was avoided, some of the measures nonetheless went into effect in March 2013. Japan's gross domestic product also rose by around 2% in 2012, although quarterly growth rates were negative in the second half of the year. Economic growth was comparably weak in many emerging countries in 2012. However, unlike the development in industrialised countries, the pace picked up in many places towards the end of the year.

European Monetary Union

In contrast to the USA, economic output in the euro zone declined year-on-year. The major exporting countries in the core of Europe, including Austria and Germany, achieved positive growth rates for the year as a whole, although economic output fell in the fourth quarter. Overall, gross domestic product in the euro zone fell by 0.6% in real terms in 2012. While there was a brief period of stability at the start of the year, the contraction in economic output that began in the fourth quarter of 2011 once again took hold in the second quarter of 2012 and intensified appreciably by the end of the year.

Demand in euro zone peripheral countries suffered as a result of strict austerity policies and the restraint in consumer spending, which was aggravated by high levels of unemployment. This caused economic output to decline significantly in Spain, Italy, Portugal and Cyprus. Greece was once again the poorest performer, with gross domestic product shrinking by more than 6%.

The debt crisis in the euro zone continued to be the overriding issue in 2012. Despite several set-backs, such as the difficulty experienced by Greece in forming a government, progress was made during the year. For example, Greece received a second aid package, and the Spanish financial sector received support in the form of a bail-out package from the euro zone countries. The European Central Bank (ECB) announced its intention to enter into "outright monetary transactions" (OMT) in August, and this resulted in an increased willingness to invest in government bonds, leading to an improvement in the financing terms available to states. The ECB intends to purchase government bonds of countries which receive funds from the European Stability Mechanism (ESM) and thus implement a controlled programme of economic reforms. The programmes implemented so far appear to be effective, as can be seen both in the fiscal data – such as the positive primary budget balance in Italy since 2011 – and in the competitiveness of euro zone peripheral countries. The differences in unit labour costs between core and peripheral countries have been declining gradually since 2008. In addition, current account deficits in countries in crisis, most notably Portugal and Greece, fell in 2012.

Austria

The Austrian economy noticeably lost momentum in 2012. In the fourth quarter of 2011, which was the point at which the current recession began in the euro zone as a whole, Austria was able to avoid a fall in gross domestic product (GDP). The first three quarters of 2012 even brought a slight increase in real economic output. However, GDP in Austria fell in real terms in the fourth quarter of 2012. Even net exports, which until then had been the only notable driver of growth on the consumption side, made no contribution to growth in the fourth quarter. According to estimates by the Austrian Institute of Economic Research (Wirtschaftsforschungsinstitut – WIFO), real economic growth stood at 0.8% for the year as a whole.

According to initial estimates, the construction and real estate sectors increased their output throughout the year. From January to October, output from the construction industry grew by 7.4% compared to the same period in the previous year. Vorarlberg, Burgenland, Vienna and Styria did particularly well. Production of goods also grew in all four quarters, although the manufacturing sector, including mining, energy and water, declined in the final quarter. Retail sales slackened off appreciably during the year. Weak Christmas business meant that sales in December 2012 were 1.5% lower than in December 2011 in real terms. The summer tourism season saw an increase both in the number of visitors and the number of overnight stays. According to WIFO estimates, the automobile, transport, accommodation and gastronomy sectors saw virtually no growth in the fourth quarter.

Unemployment remained at record low levels for Europe. The jobs market deteriorated over the course of the year, with job vacancies falling by 22% between the third and fourth quarters.

In line with the waning economic and consumer momentum and helped along by base effects in oil prices, consumer price inflation fell considerably against 2011. The main drivers continue to be expenditures for housing, food and fuel. However, at 2.4% according to the consumer price index, or an estimated 2.6% according to the European harmonised index of consumer prices (HICP), inflation was somewhat higher than in the euro zone as a whole, as well as higher than the ECB's target level for the euro zone.

Central and southern Europe

All of the economies of central and southern Europe fell short of their potential growth in 2012. Hungary, the Czech Republic, Croatia and Serbia were in recession. GDP in Slovakia and Poland grew by around 2%.

Romania

The economy in Romania stabilised in 2012. Quarterly growth rates hovered around 0%, and the finance ministry expects to see real GDP growth of 0.3% for the year as a whole. Industrial production and retail both stagnated, although retail lost significant momentum towards the end of the year, with sales dropping below the level seen in the previous year. Nonetheless, private consumption showed positive quarterly and annual growth rates in the final quarter of the year. The development of the real estate market was weak in 2012. The residential real estate sector, however, was supported to a certain degree by rising employment, an increase of wages in real terms and by a stable exchange rate between RON and EUR or CHF. In the non-residential sector, transaction volumes decreased. Despite a drop in supply, the Bukarest office real estate market was characterised by moderately growing vacancy rates and slightly decreasing rent levels. Agriculture suffered from adverse weather conditions and recorded a fall in production of almost 30% in the third quarter. As a result of factors such as the rise in the cost of food following the drought in the summer of 2012, inflation rose over the course of the year. At 4.6% (HICP) in December 2012, inflation was far above the national bank's target range of 2.5% +/– one percentage point. Although by April 2012 it had reduced its base rate in three stages by a total of 75 basis points, the national bank left interest rates unchanged from that point on. Despite weak economic growth, the unemployment rate fell in the period to December 2012 by one percentage point to 6.5%. The current account deficit fell by 15% compared to 2011, and only 32% of it was covered by direct investment, which also fell. The stand-by agreement with the IMF has been extended by two months.

Financial sector

In late February 2012, the ECB carried out its second round of 36-months LTRO financing. On 5 July, the ECB's Monetary Policy Committee cut the interest rate for the euro system's main refinancing instruments by 25 basis points to 0.75%. The interest rates for the deposit facility and marginal lending facility were also both cut by 25 basis points to 0.00% and 1.50%, respectively. The programme for the conditional purchase of bonds (OMT), which the central bank had announced in August, was confirmed in September. Euro money market rates fell considerably in response, with the three-month rate falling from around 1.35% at the start of the year to 0.19% at the end of the year.

Conditions in the financial markets improved in the second half of 2012. European policies to combat the crisis began to have an effect. Bond yields for countries in crisis fell considerably as a result. The Italian bond market performed particularly well. Yields for Italy were once again significantly below those for Spain by the end of the year. Yields of German government bonds also fell during the year, although they were clearly above the historic low seen in the middle of the year. Yields in "safe havens" also continued to fall in 2012. Yields of Austrian government bonds experienced a considerable drop of more than 100 basis points, reaching 1.75% at the end of the year for 10-year bonds, only a few basis points above the historic low seen at the start of December 2012.

The US Federal Reserve's Open Market Committee announced a specific inflation target for the first time in January 2012. Under this target, the Fed is pursuing a longer-term inflation rate of 2.0%. The central bank left the corridor for the Federal Funds Rate at between 0% and 0.25% during the year. After repeatedly indicating that it would extend the period of low interest rates, the Fed ultimately decided in December to link the end of low interest rates to a numerical target for the unemployment rate. It explained that as long as inflation was expected to remain below 2.5% in the medium term, the low base-rate corridor should be maintained until the unemployment rate falls to 6.5%.

The majority of stock markets rose significantly in 2012. This was attributable to the described progress made in efforts to overcome the debt crisis, as well as to stronger measures taken by the Federal Reserve to support the US economy and positive economic data from the USA and Asia. In addition, markets were confident that the impending fiscal cliff in the USA in early 2013 would be avoided. The ATX rose during the year from 1,892 to 2,401 points – an increase of just under 27%.

The debt crisis in the euro zone had a marked effect on the euro during 2012. Having previously fallen in value against the US dollar, the euro recovered somewhat during the year. The Swiss franc moved laterally in relation to the euro over the last year. The Swiss National Bank maintained its policy of not permitting the franc to become stronger than CHF 1.20 to 1.00 euro. During the first three quarters of 2012 the Romanian leu continued the downward trend that has prevailed since 2007, although it recovered in the fourth quarter, limiting devaluation for the year to around 2%.

Business development

The consolidated result for the 2012 business year under IFRS (after taxation and minority interest) was euro 313 million. Due to differences in accounting rules applicable to the individual, single entity financial statements (Austrian Commercial Code – Unternehmensgesetzbuch or UGB) and the consolidated financial statements (IFRS), VBAG's individual, single entity result for the year was euro –131 million. The main reason for this is the difference in the accounting treatment of the participation capital issued in 2008.

Under the UGB, the 2008 participation capital (PS 2008) is shown as equity, whereas under IFRS it is treated as liability. According to IAS 39 AG 8 , future gains from redemptions below par are to be recognised as soon as the company's estimate changes as to future cash flows. This applies to PS 2008 and to supplementary capital which participates in losses. Under the UGB, the capital reduction of PS 2008 has no impact on profit and loss, and income from the redemption below par of supplementary capital bonds will have a P&L effect only when such income is realised, i.e. at the maturity date of the respective supplementary capital bonds.

VBAG Group is undergoing an extensive restructuring process. Under the conditions set by the European Commission, business areas and holdings that are not part of VBAG's core business must be wound down or sold in the medium term, in line with their repayment profiles. This has a negative effect on results, due in large part to the difficult economic environment and the resulting haircuts on the run-down portfolio.

The Group posted a loss on its operating activities in the 2012 business year and a clearly negative result is expected in 2013 as well. Specific non-recurrent effects are explained in more detail in the sections dealing with the individual items of the financial statements.

Consolidated result for the 2012 business year

The result before taxes was euro 499 million. The consolidated result after taxes and minority interest was euro 313 million.

The stabilisation measures agreed to by VBAG's owners and by the Republic of Austria on 27 February 2012 were adopted by the Annual General Meeting on 26 April 2012, authorised by the European Commission and the Austrian Financial Market Authority (Österreichische Finanzmarktaufsicht, hereinafter "FMA") in September 2012 and recorded in the Austrian Commercial Register on 28 September 2012. The capital reduction and the subsequent capital increase resulted in a rise of equity and own funds as defined by the Austrian Banking Act (Bankwesengesetz) at the single entity level, retroactively as of 31 December 2011. For the purposes of these consolidated financial statements, which have been prepared under IFRS, these measures were recognised as at 28 September 2012 when they became legally effective.

The sale of Volksbank International (now Sberbank Europe AG) was finalised on 15 February 2012, and the VBI sub-group was deconsolidated as of this date. All of VBAG's holdings in the VICTORIA Volksbanken insurance companies in Austria and in central and eastern Europe were also sold in February.

The sale of Selini Holding GmbH closed on 12 April 2012. This holding was originally part of the Europolis group, and its disposal means that all assets in the Europolis group business area have now been sold.

The consolidated financial statements include the results for both VBI and Selini up to the closing date, and the deconsolidation result is presented under income from discontinued operation.

Disposals were also made in the VB Real Estate Services group. A contract for the sale of Immoconsult Asset Leasing GmbH (Asset Leasing) was signed on 17 July 2012. The sale closed on 5 September 2012. A further twelve companies of the Real Estate business field were sold during the reporting period.

The sale of the Frankfurt branch's portfolio to Deutsche Zentral-Genossenschaftsbank, as stipulated in the term sheet of 27 February 2012, took place during the first half of 2012. The remaining assets were sold to international investors or taken on by VBAG during the second half of the year. The Frankfurt branch was dissolved on 21 December 2012 following the corresponding entry in the Commercial Register maintained by the Frankfurt am Main district court.

Hybrid tier I capital with a nominal value of euro 242 million was bought back in July 2012. During the fourth quarter, tier II capital of euro 212 million was bought back or repaid. The results from these buybacks are shown under "Other operating result". Income arising from the adjustment of the carrying amounts of participation capital and supplementary capital in accordance with IAS 39 AG 8 is also shown under "Other operating result".

In accordance with the agreement of 27 February 2012, the Republic of Austria provided VBAG with an asset guarantee on 15 March 2013, up to a maximum amount of euro 100 million. The asset guarantee is effective retroactively as of 31 December 2012 and ends not later than 31 December 2015. Since the asset guarantee was concluded after 31 December 2012, its effects are not reflected in these consolidated financial statements, since IFRS does not permit it to be applied retroactively. In the single entity financial statements, which have been prepared under the Austrian Commercial Code, the effect of this guarantee is reflected in the release of specific provisions and is therefore included in the calculation of consolidated own resources as at 31 December 2012.

All of these measures contribute to a strengthening of VBAG's capital position. The sale of the VBI sub-group made a particular contribution to improving the consolidated equity ratios. The tier I ratio (based on total risk) stood at 10.9% as at 31 December 2012 (31 December 2011: 8.8%), while the equity ratio (based on total risk) stood at 15.7% (31 December 2011: 12.7%).

Results in detail

As part of the restructuring process, changes were also made to segment reporting starting 1 January 2012. The Financing, Financial Markets/Investment Book and Other Operations segments represent the areas forming VBAG's core business. The Non-core Corporates, Non-core Retail, Non-core Real Estate and Non-core Investment Book segments are the areas to be wound down or disposed of, in line with their repayment profiles.

The comparative figures for the prior period include the results for VB Romania (VB RO) for January to September 2011. VB Romania has been measured at equity since October 2011.

Net interest income for 2012 amounted to euro 220 million, which was lower than in the prior year by euro 174 million. The prior-year figure for net interest income includes euro 46 million relating to VB RO. As a result of the restructuring, net interest income fell to euro 36 million in the Non-core Corporates segment and to euro 20 million in the Non-core Real Estate segment. The reduction in the Financial Markets/Investment Book segment is partly due to interest rate elasticity – adjustment to the lower level of interest rates took place more rapidly on the assets side than on the liabilities side – and partly to the deliberately high liquidity buffer.

Net fee and commission income for the reporting period amounted to euro 58 million, which represents a decline of euro 36 million compared to the previous year. Euro 7 million of this is attributable to VB RO no longer being included in the Non-core Retail segment. The decline in sales of structured investment products in the Financial Markets segment led to a reduction in net fee and commission income. The decline in the Other Operations segment is a result of the fact that income from cost allocations is being recognised in the "Other operating result" starting in 2012. Net trading income increased by euro 29 million to euro 32 million.

General administrative expenses fell by euro 36 million to euro 264 million. The prior-year figures include euro 43 million relating to VB RO. In the prior year, other administrative expenses included the reversal of a provision amounting to euro 17 million. This accounts for the increase seen in the Other Operations segment. Adjusted for the disposal group, the number of employees fell by 126 compared to the end of 2011 and stood at 1,912 at the end of 2012. Of these, 775 are employed outside of Austria.

The other operating result for the 2012 reporting period amounted to euro 772 million. In accordance with IAS 39 AG 8, the carrying amounts of financial liabilities must be recalculated if the estimates of future cash flows change. The capital reduction affects participation capital, which is shown as a financial liability in the IFRS financial statements. In addition, supplementary capital bonds are loss-participating and will therefore be redeemed below par. The new carrying amount of these financial liabilities was determined by discounting future cash flows using the original effective interest rate. The difference between the original liabilities and the new carrying amount is euro 648 million and is shown under this item. Because of the uncertainty surrounding the future business model, the valuation in the prior year was based on contractual cash flows over the full term, in accordance with IAS 39.9. Income from the buy-back of hybrid tier I capital, which took place in July 2012, amounted to euro 143 million. The buy-back of tier II capital in the reporting period resulted in income of euro 40 million. The deconsolidation of Asset Leasing caused an expense of euro 12 million. A tax audit resulted in recognition of an expense of euro 19 million in respect of a liability for capital gains tax. The bank levy, which is also included in this balance-sheet item, amounted to euro –46 million for the reporting period (2011: euro –36 million). The figures for the prior year include a deconsolidation result of euro –294 million from the derecognition of VB RO and euro 9 million from the sale of the "North Gate" real estate project. The impairment of the Investkredit goodwill and brand, which was taken in the third quarter of 2011, resulted in a charge of euro –56 million.

Risk provisions for the 2012 business year stood at euro 367 million. This represents an increase of euro 263 million compared to the prior-year figure of euro 104 million. The calculation of the portfolio-based allowance was adapted, leading to an increase in of euro 125 million, which was allocated across the individual segments and is partly responsible for the rise in risk costs. Along with the additional specific provisions that were necessary, risk provisions in the Non-core Real Estate segment increased by euro 212 million and in the Non-core Corporates segment by euro 90 million year-on-year. The deconsolidation of Volksbank Romania accounts for a risk provisions decrease of euro 40 million.

Income from financial investments amounted to euro –1 million for the reporting period, which was higher than in the prior year by euro 440 million. Income from the sale of the VICTORIA Volksbanken insurance companies amounted to euro 18 million in the reporting period. A valuation income of euro 30 million from the surplus of effective fair value hedges was recorded. Open derivative positions in the investment book generated a positive valuation result of euro 23 million during the reporting period (compared to a valuation loss of euro 52 million in the prior year). This income is offset by impairments of euro 53 million on investment property in the Non-core Real Estate segment and impairments of euro 20 million on investments in real estate companies. In the prior year this item included impairments of euro 178 million on Greek government bonds and on securities whose value is linked to baskets of various country risks (including Greece) and an impairment of euro 142 million on the participation capital in Kommunalkredit.

Income taxes include euro 19 million relating to the payment of tax arrears arising from a tax audit. Deferred taxes resulting from the valuation of supplementary capital in accordance with IAS 39 AG 8 and impairments of deferred tax assets contributed to the increase in the tax expense.

The sale of VBI AG and its subsidiaries closed on 15 February 2012. The deconsolidation result of euro 15 million and the result for the period from 1 January to 15 February 2012 of euro 21 million (including consolidation) are presented under "Income from discontinued operation".

Income from discontinued operation also includes Selini GmbH and the Vremena Goda project, which was valued at equity. The sale closed on 12 April 2012. The deconsolidation result amounted to euro 13 million. A result of euro 0.1 million was recognised for the period from 1 January to 12 April.

Statement of financial position and own funds

As at 31 December 2012, total assets amounted to euro 27.7 billion, which was lower than at the end of 2011 by euro 13.5 billion. Deconsolidation of the VBI sub-group resulted in a decline of euro 8.8 billion.

Loans and advances to customers continued to fall and stood at euro 10.1 billion as at 31 December 2012. Declines were registered mainly in the Non-core Corporates and Non-core Real Estate segments.

Amounts owed to customers stood at euro 2.5 billion – a slight decline compared to the figure at the end of 2011.

Debts evidenced by certificates stood at euro 9.9 billion as at 31 December 2012, which represents a decline of euro 3.5 billion compared to 31 December 2011. This reduction is due mainly to repayments made.

VBAG Group's own funds amounted to euro 2.5 billion as at 31 December 2012. The tier I ratio based on total risk was 10.9% (31 December 2011: 8.8%). The equity ratio based on total risk was 15.7% (31 December 2011: 12.7%). Eligible own funds exceed the regulatory requirement by around euro 1.2 billion.

In connection with the implementation of the Association of Credit Institutions in accordance with section 30a of the Austrian Banking Act, the Managing Board resolved to apply for the IRB approach to be set aside. With effect from 30 September 2012, the FMA authorised the change from an internal ratings-based approach under section 22b of the Austrian Banking Act to the standardised credit risk approach under section 22a (1) in conjunction with section 22 (2) of the Austrian Banking Act for the purposes of calculating the assessment base for credit risk at the consolidated level. Only three institutes were affected by this.

Non-financial performance indicators

Human Resources

The overriding issue in 2012 was the restructuring of the Group and the sector as a whole under section 30a of the Austrian Banking Act. In keeping with our sense of social responsibility, we are reducing the size of the workforce under a redundancy programme that was negotiated with VBAG's employee representatives and VB Real Estate Services GmbH. Staff numbers were significantly reduced by voluntary terminations under the redundancy programme, as well as by natural attrition. In addition, great emphasis was placed on internal mobility (the internal job market).

The merger of VBAG with Investkredit Bank AG, which was recorded in the Austrian Commercial Register on 28 September 2012, was a major milestone, as was the spin-off of the IT Infrastructure business area to Kapsch IT Services for finance and industries GmbH. The former Investkredit branches in Frankfurt, Warsaw and Prague were also closed. Individual business areas and their employees were transferred from the Österreichischer Genossenschaftsverband (ÖGV) to VBAG in a "Teilbetriebsübergang" arrangement, which ensures that all rights and duties associated with employment contracts are transferred in full.

All detailed information provided in this report relates solely to employees in Austria at the Group level, unless tables indicate otherwise.

Changes in employment

Restructuring and down-sizing efforts continued during 2012. The number of employees in the Group fell to 1,912 by the end of 2012, primarily as a result of the sale of VBI and the spin-off of VB RO. Of these, 1,137 were employed in Austria and 775 outside of Austria.

Number of employees, full-time equivalent at year-end

	2008	2009	2010	2011	2012
Austria	1,502	1,433	1,416	1,325	1,137
Outside of Austria	6,753	6,307	6,115	4,871*	775*
Total	**8,255**	**7,740**	**7,531**	**6,196**	**1,912**

* excludes VB RO (consolidated at equity at 30.9.2011)

Staff turnover

Staff turnover increased from 6.3% to 18.4% (VBAG: 21.2%) as a result of the HR measures carried out (winding down, spin-off). Excluding measures relating to the restructuring, Group staff turnover was 12.9%.

As a percentage, rounded	2008	2009	2010	2011	2012
Staff turnover*	15.0	12.4	12.3	16.3	18.4

* all persons leaving, including those who retired

Employee age/length of service

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

In years	2008	2009	2010	2011	2012
Average age	36.4	37.0	38.6	39.3	40.0
Average length of service	7.1	7.1	8.2	8.7	10.3

Age groups

The number of employees under the age of 30 declined, as did the number of employees between the ages of 30 and 50, while the number of employees over the age of 50 increased slightly.

As a percentage, rounded	2008	2009	2010	2011	2012
Employees under 30	27.4	28.2	18.2	15.0	14.2
Employees between 30 and 50	62.3	61.2	69.2	71.0	69.1
Employees over 50	10.4	11.0	12.6	14.0	16.7

Composition by gender

The number of women as a proportion of the Group's workforce rose to more than 55%.

As a percentage, rounded	2008	2009	2010	2011	2012
Proportion of female employees	46.9	48.1	53.7	51.6	55.9

Part-time employment

The number of part-time employees in the Group increased, primarily as a result of the statutory entitlement to reduced working hours for employees on parental leave.

As a percentage, rounded	2008	2009	2010	2011	2012
Proportion of part-time employees	13.6	12.1	15.1	18.1	19.4

The proportion of employees with an academic degree was 35.3% (2011: 37.7%).

Employee representation

Within the Group in Austria, elected works councils currently represent the interests of 85.7% of the workforce (2011: 87.9%). In connection with the merger of VBAG and Investkredit, the companies' works councils were combined. The VBAG works council and the VB Real Estate Services GmbH works council are available to all employees of the VBAG Group to discuss work-related matters.

Pension scheme

A pension fund has been set up at VICTORIA-Volksbanken-Pensionskassen AG, a subsidiary of VBAG, and at VICTORIA-Volksbanken-Versicherungs AG for employees of VBAG and the majority of Group companies. All employees who have worked for the company for at least five years are entitled to draw a pension. The employer contributes a minimum of 2.7% of the pension assessment basis to the pension fund for each employee each year (in accordance with the arrangements in collective bargaining agreements or the corresponding company agreement). The Volksbanks' pension scheme also offers employees the opportunity to make their own contributions. Employees may contribute 25%, 50%, 75%, or 100% of the amount contributed by the employer.

Training

Fourteen managers successfully completed the "Managing with mediation skills" internal training course (with the "Conflict culture" training team) in 2012. VBAG places particular emphasis on training that strengthens the organisation. This includes coaching for managers, team-building exercises in a variety of business areas and an extension of the agreement with Consentiv! (a free advisory service for employees). In addition, a workshop entitled "Resilience as skill" was developed and offered to employees. In the areas being wound down (Corporates, Real Estate), special measures were implemented to help employees deal with the change in their roles (winding down portfolios rather than acquisitions).

Employees in the VBAG Group in Austria took advantage of an average of 2.3 training days. The figure was 3.7 days for managers and 2.1 days for non-managerial staff.

Most training sessions in 2012 were once again booked for the free internal training initiative WIN (Wissen Intern Nutzen, or Using Knowledge Internally), as well as for the Volksbank Akademie (the central training provider), for training courses run by external providers, and for targeted in-house training. The WIN training programme has been a core component of staff development for many years and is constantly being enhanced in line with demand. A total of 656 people took advantage of this training opportunity, attending 68 sessions covering 27 WIN training topics.

Training days	2008	2009	2010	2011	2012
Per employee	5.8	5.9	3.4	2.7	2.3
Per manager	n/a	n/a	3.9	4.2	3.7
Per non-managerial employee	n/a	n/a	3.3	2.4	2.1

Major organisational and IT projects

Above all, 2012 was dominated by major changes brought about by the banking association set up under section 30a of the Austrian Banking Act between VBAG and the member banks, and it was marked by the restructuring of VBAG and its processes and systems.

Changes in the banking association

VBAG and the Volksbanks were required to set up the main elements of a banking association by 30 September 2012, and thanks to a combined effort by all members of the association, this was accomplished. This programme had implications for planning, liquidity and risk management, internal control systems, accounting activities, reporting systems and internal auditing for all banks in the association. The programme was accompanied by a change project in the banks to implement the changeover to the new banking association and its new joint goals.

However, the new association goes beyond mere changes in the way its members work together and the taking of an "association approach" to a wide range of processes and data, even though this alone poses a tremendous, completely novel challenge, particularly from a technical point of view, and will require follow-up work over a number of years. Rather, it also makes it necessary to enhance cost synergies. The sector views this need as an opportunity to standardise processes, implement unified data and IT systems and improve the allocation of roles within the sector. For this reason, several major projects were begun in 2012 with the aim of generating process-related and technical cost savings. These will lead to a clearer allocation of roles within the sector and provide them with better technical support. In addition, it allows the Volksbanks to focus more closely on their core skills and to outsource back-office activities to various specialists inside and outside the association.

VBAG's system of internal controls was expanded further and aligned with the control systems in the Volksbanks, as required by the banking association agreement. The system is being enhanced on an ongoing basis, and a process of continual improvement has been initiated.

A key development in the area of payment transactions during 2012 was the continued migration to SEPA (Single Euro Payments Area). The SEPA End-Date Regulation requires the single payment area to be in place for debits and credits by 31 January 2014. VBAG is driving this project for the Volksbank sector in Austria, which is well prepared for the conversion and has already successfully completed many of the steps associated with it.

The functionality and services offered by our internet banking system were expanded, and these now allow also smaller companies to use online banking for their daily banking transactions. A project to implement online banking optimised for mobile devices (smartphones, tablet PCs) was also carried out in 2012. The implementation phase for the new "Volksbank Mobile Banking" system was completed in December, and a test phase was launched throughout Austria using Volksbank employees. Other useful Volksbank services were also developed, like the Volksbank app, which offers interesting news and services for everyone and helps Volksbank customers carry out their mobile banking transactions in a highly secure environment. The service will be launched in spring 2013.

Major VBAG projects

One of the legal requirements for the banking association was the merger of Österreichische Volksbanken-AG with Investkredit Bank AG, in the form of a legal, technical and procedural combination of the two companies. Extensive preparation was undertaken in advance of the project, which ensured that from an IT standpoint, all data and systems continued to be available after the merger and that the company's organisational and procedural structures were adapted to the needs of the merged bank. The project was concluded at the start of October 2012 on time and without issue.

Another major project involved the first phase in the introduction of a new front-, middle- and back-office system for treasury and commercial products, with all interest rate derivatives and FX options now being depicted in one system, Murex. Further project phases call for integration of all remaining treasury and commercial products into the system, replacing the current front- and back-office systems.

The IT Infrastructure business area was spun off to Kapsch IT Services for finance and industries GmbH, to which the related employees were also transferred.

A key development in the field of international payment transactions during 2012 was the introduction of SWIFT Alliance Access and Incentage Process Cockpit (IPC). The more modern technical standards will lead to significant cost savings.

Press relations and internal communication

In terms of communications, 2012 was also a year of major change, as a result of VBAG's restructuring and the formation of the Volksbank banking association.

Accordingly, internal communication has been particularly important in recent times, whether it be explaining vital changes/subjects to employees or informing them about them in a timely manner. These changes included the partial nationalisation of VBAG, the appointment of the new CEO, the European Commission's restructuring plan and the formation of the Volksbank banking association. Internal communication activities involved a dialogue with employees, including offering them the opportunity to discuss matters with the Managing Board, discussions based on specific topics, workshops, mailings and information on the intranet.

However, open communication is indispensable not just within the company and with stakeholders but also with the media. Open communication has always been the guiding principle, especially in difficult periods, since the changes in the VBAG Group have attracted a great deal of attention from the media.

Significant events after the balance sheet date

Christoph Raninger was appointed to the VBAG Managing Board on 15 February 2013, where he is responsible for the Markets division.

In accordance with the agreement of 27 February 2012, the Republic of Austria provided VBAG with an asset guarantee on 15 March 2013, up to a maximum amount of euro 100 million. The asset guarantee is effective retroactively as of 31 December 2012 and ends not later than 31 December 2015. Since the asset guarantee was concluded after 31 December 2012, its effects are not reflected in these consolidated financial statements, since IFRS does not permit it to be applied retroactively. Under IAS/IFRS rules, a receivable arising from the assumption of bad debts must be discounted to the reporting date. The earn-out clause included in this asset guarantee constitutes a liability that likewise must be discounted to the relevant reporting date. In the single entity financial statements, which have been prepared under the Austrian Commercial Code (UGB), the asset guarantee means that specific provisions amounting to euro 100 million were reversed, and this was recognised in the 2012 business year because the asset guarantee is deemed to be effective retroactively according to UGB. Under IFRS, the net balances arising from the discounting of the receivable and the discounting of the liability under the earn-out clause are shown under "Other operating result".

Report on the company's expected performance and risks

Economy and financial markets

Monthly data published since the end of 2012, such as the Industrial Production Index and the Purchasing Managers' Index, indicate that the fourth quarter of 2012 may have marked the economic low point for the "core euro zone". The slight recovery in the USA and in key emerging countries also suggests the same. However, spending cuts in the USA, which took effect in March 2013 after a two-month postponement, will diminish the beneficial effect that the US economy has on Europe.

Exports are expected to continue to be the main drivers of economic growth in Austria. In Romania as well, growth in exports and an improvement in the balance of trade will be key to establishing positive growth once again. If weather conditions are normal, the farming sector can also be expected to provide a (one-off) boost to growth as a result of base effects. According to estimates by the sector expert Buildecon, construction activity is expected to emerge from a long period of stagnation and grow in the current year (+2.9% in real terms) and the following year (+2.2%). This applies both to the residential property sector and to all of the non-residential sector. Construction activity is expected to continue to decline only in the commercial property sub-segment. This suggests that the troubled Romanian property sector may have already crossed its low point, particularly if wages grow in real terms (the European Commission is forecasting an increase of 1.7% in 2012) and exchange rates remain stable.

The weak starting point, as well as a number of uncertainties surrounding the continuation of austerity policies in Europe, point to a persistently difficult economic environment, in spite of the opportunities referred to above. The ongoing negotiations in the USA about the federal budget and the instability in many oil-exporting countries present further risks. On the financial markets, the easing of tension that began in 2012 continued into the first weeks of trading in 2013. Nonetheless, further setbacks are to be expected.

Business performance

The planned capital and restructuring measures were approved by the Annual General Meeting on 26 April 2012 and, following their approval by the European Commission and by the FMA, were recorded in the Austrian Commercial Register on 28 September 2012. This laid the foundation for the bank's stabilisation and continued existence. Investkredit was merged into VBAG with retroactive effect to 31 December 2011. The capital reduction and the subsequent capital increase were also undertaken retroactively to 31 December 2011.

The Association of Credit Institutions according to section 30a of the Austrian Banking Act, with its pillars of a joint liability scheme and a joint funding scheme, is the starting point for the process of restructuring the company. VBAG Group will focus exclusively on its core business, its role as central organisation of the Austrian Volksbanks. Business areas outside this sphere (Non-core Business) are to be wound down or sold, in line with their repayment profiles which may have a negative effect on results.

Due to the negative single entity result in 2012, interest payments on upper tier II bonds are not possible in the current business year. In 2013 as well a single entity loss is likely and consequently interest payments on upper tier II bonds are not to be expected in 2014.

Material risks and uncertainties

Risk management

Responsibility for risk management at the Managing Board level lies with the Chief Risk Officer (CRO), who is a member of the Managing Board. The duties, powers and responsibilities associated with the risk management process are clearly defined and specified at all lower levels.

The quantification of risk and risk coverage capital, as well as risk management, is performed centrally by the Strategic Risk Management and Group Risk Control organisational units, which are independent of the front-office functions. VBAG's subsidiaries are actively involved in the ongoing development of risk management methods and processes. This makes it possible to establish a common understanding of risk and make efficient use of the expertise within the Group at an early stage. It also provides the basis for consistent risk measurement and control within the VBAG Group.

Risk management activities in 2012 were primarily determined by the consequences of the Republic of Austria becoming VBAG's second-largest shareholder and by VBAG's new role as the central organisation of a newly founded Volksbank banking association.

The sale of Volksbank International (VBI) closed in February 2012. This represented an important milestone in the reform strategy of the VBAG Group. The sale of the VBI group led to a significant reduction in risk-weighted assets, as well as to a considerable reduction in VBAG's overall risk.

The implementation of the new banking association structure under section 30a of the Austrian Banking Act in September 2012 was a further step in the reform process. As the central organisation, VBAG must ensure that the banking association has management, accounting and control procedures in place to record, evaluate, control and monitor the risks associated with banking business and operations and with remuneration policies and practices (section 39 (2) of the Austrian Banking Act). The requisite powers of the central organisation were formulated in the fourth quarter of 2012 and went into effect at the end of 2012. Work commenced in 2012 to harmonise and reorganise the methods, processes and systems previously used in the risk management systems of VBAG and the Volksbanks, in accordance with the principle of "One Assocation – One System". We will continue to push ahead with this work in 2013 as part of a project specifically set up for this purpose.

Risk management activities also concentrated on preparing for the new regulatory requirements under Basel III. The associated projects, preparations, test calculations and changes to systems and processes are already at an advanced stage, even though it is still uncertain when Basel III will come into force.

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

Compliance

VBAG is subject to the provisions of the Austrian Regulation on Compliance for Issuers (Emittenten Compliance Verordnung). On this basis, an internal Compliance Code was enacted several years ago, along with the establishment of a Compliance department headed by a Compliance Officer. The work of the Compliance Office is overseen directly by the VBAG Managing Board. In organisational terms, it is part of CEO Stephan Koren's primary portfolio. The Compliance Office defines and monitors the necessary processes and procedures for compliance with external and internal regulations in the areas of securities compliance, management of conflicts of interest and the duties of care relating to the prevention of money laundering, terrorism financing and fraud.

Combating money laundering and terrorism financing

In the year under review, VBAG further expanded its range of internal tools for preventing and combating money laundering. A "Manual for the Prevention of Money Laundering, Terrorism Financing and Fraud" was created. The purpose of this set of regulations is to improve employee understanding of the topic by offering a wide range of practical examples. The technical infrastructure was also adapted to reflect the continuously evolving monitoring requirements. In addition to technical measures to prevent money laundering and terrorism financing and to combat fraud, comprehensive and ongoing employee training is key to raising their awareness of these issues. Employees are given training in both face-to-face sessions and in the form of electronic learning programmes, which they complete at their workstations. Employees are also informed regularly via a proprietary compliance database (CIS) about current issues concerning the fight against money laundering and fraud. This serves to ensure that the VBAG Group complies fully with the regulatory requirements in this area in the best possible way.

Combating fraud

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

Report on research and development

VBAG is not involved in research and development in the traditional sense. However, the VBAG Group has supported the Rudolf Sallinger Fund for many years. This fund promotes academic publications concerning the challenges faced by SMEs. The Fund supports both young academics and SMEs, which benefit from the results of university research. For more than 30 years, the Rudolf Sallinger Fund has awarded prizes to over 400 young academics for their outstanding work. In addition, VBAG supports university students working on their theses by making experts available for interviews and responding to questionnaires. The Group also sees the development of innovative products and services as a key part of its mission.

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

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

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

Environment for controlling

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

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

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

Risk assessment

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

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

Control measures

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

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

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

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

Information and communication

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

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

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

Monitoring

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

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

The internal auditing department also performs monitoring and supervisory functions.

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

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

On 31 December 2012, the following shareholders held an interest in the share capital.

	EUR Tsd.	%
Shareholders with qualified holdings		
Volksbanken Holding eGen	289,101	50.1
Republic of Austria	250,000	43.3
Other shareholders		
DZ Bank AG	21,879	3.8
ERGO Group	8,751	1.5
Raiffeisen Zentralbank Österreich AG	5,317	0.9
Volkskreditbank AG	510	0.1
Free float and treasury stocks	1,771	0.3
Total	**577,329**	**100.0**

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

Vienna, 21 March 2013

STRATEGIC SEGMENTS

FINANCING SEGMENT

The Financing segment is made up of the commercial banking business areas – syndicated financing, subsidies and export finance, VB Leasing Finanzierungsgesellschaft m.b.H. and VB Factoring Bank AG.

The Financing segment is tasked with supporting the regional Volksbanks in the management of existing customer relationships and providing advisory and support services in relation to new business opportunities.

Performance during the business year

The pre-tax segment result declined year-on-year and stood at euro 20 million as of 31 December 2012. The decrease is attributable to the fact that in the previous year risk provisions in an amount of euro 16 million could be reversed.

Commercial banking business – syndicated financing

As part of VBAG's restructuring, SME/syndicated financing business with the Volksbanks was defined as core business, thus confirming its strategic importance for the banking association. Despite extensive loan repayments, new business allowed us to keep lending volumes at a stable level in 2012. We were also able to improve margins on existing business, in part as a result of higher refinancing costs.

The syndicated financing team understands the Volksbanks' business model and is dedicated to collaborations, partnerships and long-term relationships with customers. It brings together the strengths of the regional Volksbanks with the range of services offered by VBAG, with the stated aim of creating value for all parties. The experienced team in the syndicated finance department assists the Volksbanks in providing services and financing to Austrian SMEs by

- Participating in joint market development, thus strengthening the profitability of the Volksbanks and their position in the market
- Making available comprehensive product expertise for Austrian corporate customers, thus increasing overall income for the banking association
- Supporting the Volksbanks' customers during periods of growth, allowing the Volksbanks to become their customers' principal banks
- Structuring financing using products that minimise risk and protect liquidity, including subsidy management.

Subsidies and export financing

During the 2012 business year, the subsidies and export financing business area clearly showed that VBAG Group's new organisational structure is taking hold in the Volksbanks' core business of financing and supporting SMEs in Austria (banking association business). However, as a result of the uncertain economic environment, the past business year was also characterised by a reluctance to invest in innovation, expansion of capacity or foreign branches.

The subsidies and export financing business area provides support to banking association business in the form of advice and product knowledge, and it is also responsible for ongoing subsidies and export finance in the Non-core Business segment.

Subsidies and export financing are among the banking association's core products, since they reduce credit risk through the associated public guarantees and allow project-specific refinancing to be provided by subsidy agencies.

The local Volksbanks are the sole providers of VBAG's new subsidised loans, using them to help Austrian SMEs grow.

Performance of select product groups

At the end of 2012, the total volume of ERP loans fell from around euro 200 million (at 31 December 2011) to around euro 193 million. The year-on-year decline is primarily due to the fact that the Volksbanks' SME customers mainly apply for small loans, in line with the Group strategy. In terms of numbers, however, individual loans once again rose significantly, from 361 at the end of 2011 to 426 ERP loans (including 289 micro ERP loans), in spite of scheduled and unscheduled repayments in the Non-core Business area. During 2012, 126 ERP loans (including 73 micro ERP loans) with a lending volume of around euro 55 million were paid out, either partially or in full.

In terms of ERP approvals, the Volksbank Group was once again one of the best-performing trustee banks, ranking 5th among the top 20.

Exposure to short-term OeKB (Österreichische Kontrollbank) business (Kontrollbank refinancing and revolving credit) fell to a level of around euro 19 million, as planned. This is attributable to the new strategic focus on SMEs, which will henceforth transact this type of financing solely via the export fund.

The volume of financing for SME customers in the Volksbank sector under the Austrian Export Fund stood at around euro 38 million (141 loans) at the end of 2012, below the long-term average level of around euro 50 million. The reason for this was the large number of loan repayments stemming from the discontinuation of SME limits for the Volksbanks' customers.

As at 31 December 2012, the volume of OeKB equity finance deals for corporate customers had been reduced further, in line with the plan, from around euro 425 million (54 loans) at the end of 2011 to euro 292 million (40 loans), since the majority of these finance deals are allocated to the bank's Non-core Business.

Soft loan exposure rose by euro 6.3 million, compared to 2011, to around euro 55 million as a result of existing loan commitments.

In the area of trade finance, the bank is concentrating predominantly on documentary business, involving letters of credit and guarantees for customers in the Volksbank sector.

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

VBLF was set up in 2011 as a wholly owned subsidiary of VBAG. Together with two subsidiaries and two affiliated companies, it is responsible for the leasing activities of the VBAG Group in Austria.

VBLF has a strong regional focus. Its distribution network consists of nine branches throughout Austria. As well as selling its own products, VBLF primarily provides services to the Austrian Volksbanks.

VBLF provides services for a large and diverse customer base. This means that it has to develop individual financial solutions tailored to the needs of each customer group. For this reason, in addition to creating individual financial solutions, VB Leasing also offers tailored services. VBLF services its customers in the business areas of cars, transport, office automation and machinery. With its extensive expertise in all types of lease financing, VBLF is well positioned on the Austrian leasing market. VBLF's comprehensive range of services is the result of close cooperation with banks and financial service providers, as well as dealers and manufacturers in the capital goods industry. It has important relationships with Honda, Toyota, Konica Minolta and ACP, to name but a few.

A very good year in 2012

Since its formation, VBLF group has aimed for a granular portfolio structure and has followed an approval policy based on a balancing of risk and return. Thanks to stable margin levels coupled with a continued downwards risk trend, VBLF was able to improve on 2011's very good results in 2012.

In 2012 VB Leasing Finanzierungsgesellschaft m.b.H. concluded new business worth euro 324 million, corresponding to 22,000 new contracts.

Growth was seen in all areas of the business. The number of new contracts exceeded that of 2011, already a record year. The spread on the Euribor over the year as a whole was satisfactory. Despite the difficult situation in the wider economy, very few write-downs were required. Furthermore, repayments of doubtful debts from previous years continued to be high.

VB Factoring Bank AG

As expected, growth in the fourth quarter was more moderate than in the first three quarters of the reporting year. Revenues also declined as a result of the restructuring of VBAG. The company purchased receivables of euro 1.6 billion in 2012, an increase of 2.8% on the previous year. Its share of the Austrian factoring market stands at 14% (2011: 17%).

The bank cooperates closely with the regional Volksbanks, in its role as a sector specialist. The majority of business volume once again came from cooperation with the Volksbank banking association: the share of turnover with the Volksbanks increased once again, reaching euro 923.9 million, or 59% of the total turnover.

Outlook for the Financing segment

With the implementation of the banking association, the syndicated finance department has become central to VBAG's role as the head organisation of the association. The syndicated finance department will continue to concentrate on expanding business relationships with existing customers jointly with the Volksbanks, while balancing risk and return and creating value for all parties.

In the subsidies and export financing area, we are very satisfied with the demand for ERP loans from the Volksbanks' SME corporate customer segment. Together with large ERP loans, the volume of new ERP loans for the Volksbanks' customers in 2013 is expected to be in line with 2012.

Volumes for short- and long-term OeKB financing will decline further in 2013, due to the new strategic focus on SMEs. At the same time, however, we expect there to be a noticeable increase in Export Fund lending for the Volksbanks' SME customers.

Since many SMEs anticipate that the supply of credit will contract as a result of the BASEL III discussions, and capital markets do not yet represent an alternative source of funding for this segment, we expect to see a general increase in demand for subsidised loans and export finance in 2013. We plan to meet this demand by developing special financing solutions for Austrian SMEs.

Although the markets are recovering, VB Leasing Finanzierungsgesellschaft m.b.H. will continue to pursue its rigorous risk policy with regard to creditworthiness, asset security and risk diversification. It will give particular attention to implementing a pricing policy in line with risks.

One of the major goals for 2013 is to give factoring a more important role in the Volksbank banking association and to increase the number of customers. VB Factoring Bank will continue its business strategy unchanged in the current year, and it expects to see further growth.

FINANCIAL MARKETS/INVESTMENT BOOK SEGMENT

The Financial Markets/Investment Book segment includes the Capital Markets, Treasury and Volksbank Investments organisational units, as well as Liquidity Management. Immo Kapitalanlage AG and the online bank LiveBANK are also part of this segment.

The main role of the Financial Markets/Investment Book segment is to service, advise and support the banks of the Association of Volksbanks and institutional customers. The Treasury business area is the central unit for money market and capital market transactions and provides the Volksbanks with the full range of treasury products for proprietary businessand for hedging transactions for their customers. Capital Markets is responsible for managing the investment book and for asset liability management. Liquidity management is responsible for controlling liquidity centrally for the entire Volksbank sector. Volksbank Investments is an innovative product supplier for the Volksbanks and offers a wide range of products, from traditional funds, certificates and alpha investments to asset management.

Performance during the business year

The pre-tax result in the Financial Markets/Investment Book segment reached euro 746 million in 2012. The result from the adjustment of the carrying amounts of PS 2008 and of upper tier II capital according to IAS 39 AG 8 in a total amount of euro 648 million as well as the profit from the repurchase of hybrid tier I capital and tier II capital of euro 183 million were reported in this segment. Net interest income declined, which is due firstly to interest rate elasticity – adaption to the lower level of interest took place faster on the assets side than on the liabilities side – and secondly to the deliberately high liquidity buffer. A fall in sales of structured investment products led to a reduction in net fee and commission income, and the high volume of tax expenses is attributable to passive deferred taxes on the adjustment of the carrying amounts of PS 2008 and upper tier II bonds.

Treasury

The Treasury business area is the intermediary for money market and capital market transactions for VBAG Group and the Association of Volksbanks. Its principal role is to procure short- and long-term liquidity, manage interest rate and currency risks, and to provide treasury services and order management to the Volksbanks. It also deals with customers directly through sales to institutional customers. Despite difficult conditions in the market, Treasury made a significantly higher contribution to results than budgeted in 2012.

Execution Market

In an environment characterised by the ECB's policy of low interest rates, good control of short-term Group liquidity helped to maintain a stable liquidity base. This provided the ideal foundation on which to manage interest rate risks in the money markets and capital markets, helping to ensure a positive contribution to the interest result. All money market transactions were carried out in compliance with regulatory liquidity requirements.

MUREX, a new front-to-back system for derivative transactions, came on line in late October 2012. The new infrastructure makes it easier to hedge market price risks efficiently and to develop, structure and implement products for customers. The technical merger of VBAG and Investkredit, which also took place in the autumn, was implemented in the Treasury business area efficiently.

Execution Volksbanks

Historically low interest rates in the money markets and capital markets were the central theme in the services provided to the Volksbanks in 2012. We assisted a growing number of customers in converting from variable interest rates to fixed interest rates, thereby allowing them to take advantage of favourable interest rates for ongoing refinancing activities.

The uncertainty surrounding the future direction of the exchange rate with the Swiss franc caused many foreign-currency borrowers to exit the Swiss franc. Working closely with the Volksbanks, we converted a volume of around CHF 1 billion. Electronic trading and order-routing platforms were made available to the Volksbanks, facilitating the processing of this volume. In addition, market and product information was provided on a regular basis.

Commission business for securities showed significant growth in 2012. Because of low interest rates, the business was predominated by corporate bonds with higher interest rates and inflation-linked products, as well as mortgage bonds, which have once again become attractive due to existing tax advantages and relatively high yields.

Consulting

There were significant organisational changes during the business year relating to the support provided to the Volksbanks for business for their own account. The support unit for the Volksbanks (VBC – Volksbanken Consulting) was merged with VBAG's ALM team. This made it possible to increase synergies in the area of interest-rate risk management. The stated aim is to provide the Volksbanks with comprehensive support and efficient, rapid processes in general bank management and investment activities.

Direct Sales / Execution

Low interest rates and, from a corporate standpoint, attractive credit spreads led to a high level of issuing activity in 2012 – only in 2009 were more corporate bonds issued in the European investment grade segment. As a result, the Treasury team focused on providing support and assistance to Austrian companies in the issuance of their securities.

Institutional customers in Austria and Germany have reacted very positively to the reorganisation of the Volksbank sector (joint liability scheme under section 30a of the Austrian Banking Act). We enjoyed particular success in placing registered bonds and promissory note bonds with institutional customers.

Capital Markets

Within VBAG Group, the Capital Markets business area is responsible for managing the strategic investment book. The portfolio contains all securities holdings required for regulatory purposes and banking operations, amounting to around euro 4.5 billion, and other capital market investments of around euro 1.1 billion.

In 2012 the financial markets were dominated by the sovereign debt crisis in euro zone peripheral countries. In the second half of the year, despite weak economic data in the euro area, investors became markedly less risk-averse because of the expansionary monetary policies pursued by central banks and the unlimited purchases of government bonds by the ECB. As a consequence, risk premiums on bonds of all grades and sectors decreased substantially.

In this context, and as part of the Group's restructuring, the strategy primarily focused on winding down Non-core business:

- We reduced the amount of exposure to euro zone peripheral countries by euro 370 million.
- We took advantage of the marked decrease in risk premiums on asset-backed securities and in the fourth quarter sold risk-bearing assets worth more than euro 1 billion.
- We reduced the CDS portfolio from euro 1.6 billion to euro 280 million during the year. The portfolio now contains only positions with a remaining life of less than one year.

New business in the strategic investment book was restricted to purchases of liquid bonds for the portfolio required for regulatory purposes and banking operations.

Asset Liability Management (ALM)

Asset Liability Management is responsible for controlling VBAG Group's long-term interest rate risks and currency risks. The market risks arising from positions on the balance sheet are taken over by ALM and are subject to active management.

Management of interest rate risks aims to capture all material risks arising from assets, liabilities and off-balance-sheet positions in the investment book. In order to achieve this aim, it is necessary to analyse both the income effect and the present-value effect of fluctuations in interest rates and to use these analyses to develop control measures to reduce risk and optimise income at the overall bank level.
The Market Risk Control department uses a variety of limits to measure and monitor interest rate risk. The total limit is determined by the Managing Board based on regulatory limits and the bank's risk and business strategy. Risk measurement covers all the main forms of interest rate risk. All of VBAG's interest-sensitive positions are presented in a monthly report.

Liquidity management

The authorisation of the Association of Volksbanks under section 30a of the Austrian Banking Act extended the areas of responsibility of Österreichische Volksbanken-AG with respect to its function as the central unit for managing the liquidity of the Volksbanks.

Working closely with the Volkbanks, VBAG implemented a new funds transfer pricing system and a clearly defined system of rules for joint liquidity management. The focus was on optimal use of the collateral available within the Association, both for the liquidity buffer and to meet the regulatory requirements.

The liquidity buffer held by Österreichische Volksbanken-AG stood at around euro 4 billion as at 31 December 2012, meaning that the budgeted value was achieved.

Issuance management

The covered bond programme made it possible to improve liquidity across the entire Association of Volksbanks. Loan receivables of around euro 700 million that had been held by member banks were transferred to the VBAG coverage pool under a trustee agreement.

Volksbank Investments

Assets under management stood at approximately euro 7.1 billion as at 31 December 2012, slightly below the previous year's level of euro 7.4 billion. After declining throughout 2012, the trend reversed near the end of the year. The first weeks of the new year showed significant growth in income, particularly in the area of certificates.

Securities customers continued to opt for the safest possible products. Surveys show that the preference for capital preservation and guarantee concepts will continue in the longer term, which fits in well with Volksbank Investments' strategic position as a leading provider in this sector.

Focus on systematic investment processes

In 2012 bond business focused on issuing products designed to actively manage the risk of price declines due to interest rate changes using a systematic, rule-based investment process. The market response to these products has been extremely positive.

The investment process for equities, which is based on a systematic approach that does not include forecasts, was also developed further. The first stage in the process involves a monthly quantitative screening. Based on this, regional, sector and country recommendations are then made. Finally, the fund management team determines which individual shares to purchase. This means that investment decisions are based on comprehensible, tried and tested investment processes that bring results in the long term. At the same time, the qualitative decisions are precisely defined, ensuring the necessary flexibility and permitting changes to be made to allow for changed market conditions.

New initiative: "Investing in times of low interest rates"

In 2012 financial advisors were faced with the challenge of demonstrating that a difficult market can still offer significant opportunities. As a result, Volksbank Investments launched a new initiative, "Investing during a crisis", in the first half of the year. This approach centres on investing at favourable times to increase share ratios. The products offered as part of this initiative worked well and helped to make the Volksbanks more competitive.

Due to low interest rates, yields from safe cash deposits were well below the rate of inflation. It is expected that the policy of low interest rates will continue, meaning that negative returns in real terms remain a likely prospect. As a result, Volksbank Investments put together a new range of products in the fourth quarter of 2012, in line with the new initiative "Investing in times of low interest rates".

Volksbank Investments retail funds perform well

The volume of Austrian investment funds grew slightly in 2012, although this was more the result of significant price increases seen in some areas. Overall, net cash outflows amounted to more than euro 390 million, with funds performing differently from category to category. Equity funds rose considerably in the second half of the year, achieving net growth of around euro 500 million. Bond funds also recovered, especially during the fourth quarter. However, mixed funds performed particularly poorly, with net outflows of around euro 430 million. Special and large-scale investor funds also fell strongly in 2012.

Volksbank Investments saw double-digit volume growth for both equity and alpha funds in 2012, and bond funds also increased slightly overall. Even mixed funds, which came under heavy pressure on the whole market, remained close to the levels seen in the previous year. The total reduction in volume of around 4%, to euro 2.7 billion (2011: euro 2.8 billion), is attributable to the area of special funds, where several high-volume funds were closed or cut back.

Turnaround in certificates segment following a difficult 2012

After posting sometimes very high growth rates in previous years, the Austrian certificate market was only slightly higher at the end of 2012 than the level seen in the previous year. Total market volume for structured products in Austria (open interest, excluding interest rate products) stood at around euro 5.6 billion as at 31 December 2012.

Volksbank Investments certificates fell significantly overall, since it was not always possible to find replacements for maturing products. The certificate volume stood at euro 1.8 billion as at 31 December 2012 (2011: euro 2.2 billion). After a difficult fourth quarter, the situation turned around at the end of the year, with improved prospects for increased sales.

Volksbank Investments reacted to the volatile markets in 2012 by issuing more partial protection certificates with very attractive features. These allow investors to benefit from growing, laterally moving or even falling markets. In addition, for customers wishing to spread their issuer risk, an issuer platform was set up that allows them to access a pool of external suppliers.

Volksbank Investments continues to maintain a central market position in the certificates segment, with a total market share of just under 32%. In the guarantee certificate category, Volksbank Investments' market share stands at more than 37%.

Proportion of sustainable products rises to more than 18%

An important part of our strategy is increasing the proportion of sustainable products – both retail funds and certificates have seen growth in this area. As at 31 December 2012, 18.2% of products were sustainable (2011: 16.6%). Including sustainable asset management, Volksbank Investments handles a sustainable investment volume of more than euro 860 million, and with a market share of around 10% for this product category, it is one of the top three providers in Austria.

Asset management as a strategic growth area

The volume of asset management mandates grew once again in 2012, reaching almost euro 2.5 billion at year-end. Volksbank Investments' expertise in institutional asset management is also confirmed by its management of the Group's own pension fund, which performed significantly better than the market average over the past five years.

Working closely with the regional Volksbanks, we made renewed efforts to gain new customers. The target groups for this are companies, including SMEs, institutions such as professional associations, pension funds and private foundations.

Immo Kapitalanlage AG

Immo Kapitalanlage AG manages <immofonds1>, an open-ended real estate fund with a volume of around euro 254 million. Small private investors in particular invest in this fund and its broadly diversified real estate portfolio, consisting mainly of commercial properties in Austria and Germany. Investing in these two economically solid countries guarantees stable values and sustainable rental income.

Outlook for the Financial Markets/Investment Book segment

It is expected that the Treasury business will continue to face a difficult market environment in the current business year, with sustained low interest rates and a high level of volatility on the money markets and capital markets. A continuation of the trend towards safe investments is expected as well. The implementation of rules to regulate financial markets, such as the preparations for Basel III, OTC derivatives clearing and preliminary work with respect to a tax on financial transactions, means that 2013 will be an exciting and challenging year. In this environment, we aim to continue to offer quality, professional service and individual solutions to the Volksbanks, their customers and VBAG's direct customers, while also guaranteeing that market risks are managed professionally.

In managing the strategic investment book, Capital Markets will continue to focus on reducing investments that are not required for banking operations, taking into account risks and profit/loss effects, as well as on managing the regulatorily mandated portfolio in line with the principles of Basel III.

Now that VBAG's liquidity management team has taken on central control tasks, liquidity planning and budgeting can be carried out at the consolidated banking association level, helping to further strengthen the Association of Volksbanks. The allocation of tasks within the banking association means that member banks can concentrate on their strengths in the area of customer business (acquiring primary deposits), leaving the central institution to focus on assuring long-term liquidity, maintaining a sufficient liquidity buffer for short-term liquidity needs and adhering to regulatory requirements. The aim is to reduce liquidity costs for the entire Association of Volksbanks by optimising and diversifying sources of refinancing.

The Volksbank Investments initiative "Investing in times of low interest rates", which was launched at year-end, will remain the focus in the first months of 2013, as the period of low interest rates is expected to continue in the longer term. For this reason, Volksbank Investments has put together a range of tailored products from the areas of equity investments, bond investments and structured investments, with the emphasis on equities. Since volatility is expected to continue, issues of new partial protection certificates, which enable investors to obtain yields regardless of market trends, will remain an important subject in 2013.

In light of low prevailing interest rates, real estate funds offer attractive returns compared with investments with a similar level of risk, while at the same time constituting a secure financial investment. Because of these factors, there was increased interest in real estate funds during 2012. Immo Kapitalanlage AG expects to continue to see greater sales in the private customer segment. The fact that <immofonds 1> limits investments to Austria and Germany contributed to the fund's attractiveness.

Overall, the Financial Markets/Investment Book segment will further intensify its focus on its core responsibilities in the current year. This will enable the segment to optimise the quality of both its control tasks and the level of service provided to the Volksbanks and customers.

NON-CORE BUSINESS

The main task of the Non-core Business segment is to focus on winding down the loan portfolios that it manages, with the aim of improving the bank's risk-weighted-assets and liquidity positions. This work is being carried out in accordance with a plan that has been approved by the national and international supervisory bodies.

Non-core Business is subdivided into four segments:
- Non-core Corporates
- Non-core Real Estate
- Non-core Retail
- Non-core Investment Book/Other operations

Non-core Corporates

This segment includes the business areas "Corporate Customers Austria", "Leveraged Finance Austria/CEE/Germany", and "International Project Finance and Renewable Energy", as well as activities in the "Private Equity – Fund Investments" area.

Performance during the business year

As of 31 December 2012, the result before taxes was euro –47 million. In the Non-core Corporates segment, risk provisions increased in the period under review and net interest income dropped in 2012 as a result of the declining volume of assets. Assets in a total amount of euro 1.4 billion were wound down and a decrease in risk-weighted assets of euro 1.5 billion was achieved – the planned levels of asset reduction were clearly exceeded in the Non-core Corporates segment.

Corporate Customers Austria/Leveraged Finance Austria/CEE/Germany

Numerous relationships with customers were brought to an end amicably during 2012, leading to a significant improvement in the bank's risk-weighted-assets position. This is partly attributable to the fact that numerous companies are in a good liquidity position and also to the continuing interest shown by banking partners in taking over refinancing from us.

The Frankfurt branch was closed at the end of 2012 and its portfolio sold in two stages. In line with the restructuring agreement with the Republic of Austria, an agreement to sell part of the portfolio to DZ Bank AG was signed on 29 June 2012. This improved the risk-weighted-assets position by around euro 400 million. The bulk of the remaining portfolio was sold to a consortium of private investors at the end of 2012.

The offices in Prague and Warsaw were closed at mid-year.

International Project Finance and Renewable Energy

In addition to actively managing the winding down of the existing portfolio, the segment was also successful in making individual sales transactions on the secondary market. The International Schools Financing sub-segment was also discontinued, and the associated refinancing agreements were terminated.

Private Equity – Fund Investments

The segment implemented measures to release capital from subsidiaries that was no longer needed. Investkredit Investmentbank AG gave up its banking licence and was converted into a GmbH company. No further active business was transacted in 2012, and no further consulting engagements were taken on.

Additional structural simplifications were successfully implemented in 2012, including the liquidation of a subsidiary and other changes in the legal form of companies.

Non-core Real Estate

The Non-core Real Estate segment includes commercial real estate financing carried out by VBAG, real estate lease financing, associated work-out activities under loans and lease financing carried out by REWO Unternehmensverwaltung GmbH and asset management activities carried out by VB Real Estate Services GmbH. In addition to projects in Austria, the segment services customers mainly in CEE and SEE. In line with the strategy for the Non-core Real Estate segment, which calls for winding down all areas in a structured way that preserves their value, the organisational structure was adapted in line with this goal in 2012, and numerous winding-down measures were implemented.

Performance during the business year

The result before taxes for the Non-core Real Estate segment was euro –294 million. Increased risk provisions contributed significantly to the loss. Furthermore, the continuing uncertainty in the real estate markets in central and eastern Europe resulted in impairments of investment property assets, of participations and of financings of land and real estate. Assets declined by euro 595 million year-on-year, as a consequence, net interest income dropped in the 2012 business year. Loans and advances to customers could be reduced compared to the previous year-end by euro 595 million. This is also reflected in lower net interest income in 2012.

Real estate financing

Around three quarters of the total volume is attributable to VBAG real estate financing. The bank has financed commercial real estate projects in this sector for many years. Geographically, the focus in this area is on the Czech Republic, Romania, Poland, Austria and Hungary. The portfolio of loans and advances to customers was reduced by approximately 16% compared to 31 December 2011.

Leasing and Asset Management

The effect of winding-down activities in the real estate leasing sector is only partially discernible because of the large number of consolidated companies. In total, volume was reduced by around euro 240 million through premature termination of contracts and sale of the related properties. This figure also includes the sale of Immoconsult Asset Leasing GmbH – the container leasing business – in the third quarter of 2012. With this transaction, the container financing business was wound down in full and transferred to the buyer. Since 2003 container financing had been allocated to the Real Estate segment as a niche product. The transaction led to an immediate reduction in risk-weighted assets of around euro 180 million.

In addition, the sale of the shares in Selini Holding GmbH (Vremena Goda shopping centre project in Moscow) closed in 2012. The holding was originally owned by the Europolis group.

Other real estate projects were also sold prematurely in Austria, the Czech Republic and Hungary.

A number of companies held by VB Real Estate Services GmbH were sold, liquidated or merged in order to simplify the group structure. The subsidiaries in Hungary and Slovakia were closed.

Non-core Retail

The Non-core Retail segment encompasses the non-real estate leasing operations of the VB-Leasing International group in CEE, as well as the business of Volksbank Romania S.A.

Performance during the business year

The result before taxes in the Non-core Retail segment was euro 80 million as of 31 December 2012. In the previous year, the 1-9/2011 result of Volksbank Romania and the deconsolidation result in an amount of euro –294 million were included. The valuation at equity of Volksbank Romania is euro –2 million in the period under review, while a result of euro –46 million was recorded in the fourth quarter of 2011. The position income of discontinued operation includes the result of the VBI sub-group. Total assets decreased by euro 9 billion in the Non-core Retail segment, euro 8.8 billion of which is attributable to the deconsolidation of the VBI sub-group.

VB-Leasing International Holding GmbH (VBLI)

The situation in the leasing market in central and eastern Europe was inconsistent in 2012. While the Czech Republic, Croatia and Bosnia-Herzegovina struggled with falling volumes of new business, Poland, Slovenia, Serbia, Slovakia and Romania saw very positive signs of growth in the leasing market, despite the weak macro-economic environment. Poland even managed to maintain the level recorded for the 2011 business year.

Noticeable growth was achieved in particular in motor vehicle leasing. At the same time, results from machinery and equipment leasing remained flat or fell as a consequence of the difficult situation in the construction sector and poor harvests and production shortfalls in the farming sector.

Outstanding results

For the second year in succession, subsidiaries in all countries made a profit. Across the group as a whole, the volume of new business in 2012 amounted to euro 946.9 million. In absolute terms, this means 35,101 new contracts. With a result from ordinary operations of euro 45.7 million, VB-Leasing International exceeded its outstanding result from the previous year by 16%.

Success through strategic partnerships

The portfolio of VB-Leasing International is based on two pillars – strategic, long-term partnerships and granularity. In the 2012 business year, the main focus was on strengthening existing partnerships and setting up new ones. For example, the partnership with BMW in Croatia was extended to the Serbian market. At the same time, a collaboration agreement was concluded with Claas – one of the leading manufacturers of farming machinery and equipment – covering Croatia, Serbia and Slovenia. Existing partnerships with Schmitz Cargobull and MAN were strengthened. In Slovenia, VB Leasing Slovenia also developed a pilot project with Linde, the materials-handling specialist. Towards the end of the business year, ISUZU entered into a collaboration agreement with VB Leasing Czech Republic and VB Leasing Slovakia.

Forward-looking sales activities

VB-Leasing International underwent a review of its strategy and organisational structure during the 2012 business year, which resulted in a reorganisation of its sales activities. By organising sales activities in line with sales channels rather than the products being sold, VB-Leasing International will be able to focus even more strongly on its partners and customers and provide products and product variants tailored more closely to demand. Sales activities have been allocated in a targeted manner, and this optimises the quality of service provided and makes the standard of consultancy uniform throughout the group. VB-Leasing International sees this as offering enormous potential for success, as well as the opportunity to put clear distance between it and the competition.

Volksbank Romania S.A.

The difficult market environment meant that the entire banking sector in Romania posted a loss in 2012 for the second year in a row. Volksbank Romania was no exception, likewise ending the year on a loss. This had been expected and included in the budget, although the loss was higher than expected. The main reason for this was increased risk provisions, which needed to be taken because of falling securities values and lower-than-expected sales proceeds, especially in the area of commercial property financing. At the end of the year, the equity ratio was a comfortable 15.6%.

The restructuring process continued and once again produced satisfactory results in 2012. The bank saw deposits increase by approximately 40% and is working towards a further increase of around 30%, or euro 200 million, for 2013.

Non-core Investment Book/Other Operations

This segment contains all parts of the investment book that are to be wound down or sold, in line with their repayment profiles. VB Malta Ltd was likewise assigned to the Non-core Investment Book segment and holding companies of investments in Non-core areas.

Performance during the business year

The result before taxes was euro 59 million in the Non-core Investment Book/Other Operations segment. In the previous year, an impairment of the good will and brand of Investkredit was reported in the other operating result. Furthermore, in 2011 income from financial investments was affected by impairments of Greek sovereign bonds, of credit default swaps and of the participation capital in Kommunalkredit.

Outlook for Non-core Business

We will continue striving in 2013 to reduce our financial commitments while minimising the impact on earnings and to bring relationships with customers to an end in an amicable fashion. In general, we are cautiously optimistic about the environment for our plans for the asset classes in the business area, although we expect that the winding-down process will tend to be slower than in 2012.

Based on the strategy to wind down the Non-core Real Estate segment, the focus in 2013 will continue to be on reducing the degree of risk and the amount of capital tied up in the portfolio.

In 2013 VB-Leasing International will also work on strengthening its network and optimising the service it provides.

Management does not expect the market environment to change in 2013. As a result, the most important goals for Volksbank Romania will be to reduce the bank's losses, keep the equity ratio at a reasonable level and continue with efforts to turn the business around. For this reason the bank initiated several projects designed to enable it to offer retail and SME customers the entire range of products and services at a competitive level and within a stable IT environment.

CORPORATE RESPONSIBILITY

A comprehensive corporate responsibility report will be published in the second half of the year 2013.
Current releases www.volksbank.com

CORPORATE RESPONSIBILITY

VBAG worked intensively on corporate responsibility issues in 2012. Fundamental cooperative values form the basis of its corporate responsibility company ideal, which strikes a balance between economics, ecology, and social responsibility. Since the start of the corporate responsibility project in 2008, VBAG has used corporate responsibility issues and activities to actively position itself on the market and enshrine corporate responsibility as a future-focused issue in the association of Volksbanks.

Several billion euros have already been committed to sustainable and ethical investments in Austria. The social and ecological characteristics of these investments are considered in addition to economic returns. VBAG has worked in cooperation with regional Volksbanks to develop a basic, sustainable financial product. WERTsparbuch, Austria's first ethical regional savings account, will be sold by Volksbanks involved in the corporate responsibility project from the end of the first quarter of 2013. This sustainable investment product combines the qualities of ethics and transparency with the proven strength of the Volksbanks' regional structure. www.wertsparbuch.volksbank.at

VBAG took part in and successfully completed the City of Vienna's "Ökoprofit" environmental programme in 2012. In the area of human resources, particular attention was paid to further development of employees' change management expertise in order to prepare for necessary restructuring. The new VitaReal health room constituted a further health and exercise initiative.

Sustainability through cooperation

The focus in 2012 was on expanding corporate responsibility structures: The Krems-Zwettl, Graz-Bruck, Niederösterreich Süd, and Steirisches Salzkammergut Volksbanks adopted a comprehensive sustainability management system that incorporates the three dimensions of sustainability: economics, ecology, and social matters. At European level, VBAG participated in the first CSR report published by the European Association of Co-operative Banks (EACB).

Environmental and climate protection initiatives

Ecoprofit, which consists of advisory services sponsored by the City of Vienna, seeks to reduce operating costs through efficient use of resources and raw materials, to optimise production processes, and to avoid waste. The criteria for the award given to VBAG included, in particular, the implementation of voluntary steps to reduce environmental impact and the formation of an environmental team within the company. Certification was undertaken by an independent commission consisting of representatives of Vienna council's EcoBusinessPlan. In early 2013, VBAG published its first environmental report for the 2012 business year. The full report can be viewed at www.volksbank.com

Concentration at two locations

VBAG's locations were substantially consolidated in 2012. A number of locations were closed. Following completion of this process, operations have been essentially reduced to two office locations: the new headquarters at Kolingasse 14-16, 1090 Vienna, and a further location at Peregringasse 2-4, 1090 Vienna. Environmental consumption reporting therefore also focused on these two locations from 2012 onwards.

Heating

VBAG is covering its energy needs from 1 January 2012 to 31 December 2013 using only electricity generated from hydropower. All areas are supplied with district heating where conversion to it was technically possible. Accordingly, 98% of office space is supplied with district heating. The significant reduction in total heating requirements is attributable to the reduction of office space to two locations.

Energy consumption	Unit	2010	2011	2012
Consumption of natural gas	kWh	1,889,950	446,560	1,512
Consumption of district heating	kWh	1,920,960	3,719,780	2,302,070
Total heating requirements	kWh	3,810,910	4,166,340	2,303,582
Heating requirements per square metre	kWh per m^2	n.a.*	n.a.*	120,70

* Heating requirements per square metre were not presented for 2010 and 2011 due to relocations during this period.

Business travel

Air miles for business trips constitute a significant proportion of VBAG's operational carbon footprint. The drastic reduction in the number of miles flown is attributable to the sale of Volksbank International AG.

Flights	Unit	2010	2011	2012
Air miles	km	2,854,000	2,209,394	1,128,055

Electricity

Total electricity use declined in 2012 as a result of concentration to just two locations. Wien Energie Vertrieb GmbH & Co KG provided VBAG with a hydropower certificate for 2012 and 2013 which guarantees that power generation for VBAG will not result in any CO_2 emissions and that only electricity generated from hydropower will be supplied to VBAG in 2012 and 2013. The photovoltaic system on the roof of the Group's headquarters is operating as planned and provided 25,734 kWh of green electricity in 2012.

Energy consumption	Unit	2010	2011	2012
Electricity generation from company's own photovoltaic system	kWh	536	27,697	25,734
Electricity consumption	kWh	4,903,711	6,077,866	3,849,434
Electricity consumption per employee*	kWh	n.a.*	n.a.*	4,649,07

* Specific electricity requirements presented in prior reports were based on net floor space. This has been changed as part of environmental management so that the specific value relates to the number of employees.

Waste and cleaning

A comprehensive waste separation campaign involving all VBAG employees was initiated in 2012. In addition, the concentration of operations to two locations resulted in a reduction in the waste volumes presented.

Waste	Unit	2010	2011	2012
Residual waste	kg	140,626	219,946	108,680
Waste paper (data waste) and cardboard	kg	280,026	173,438	64,012
Other waste excluding paper and cardboard	kg	204,327	111,638	26,796
Harmful or hazardous waste	kg	1,310	870	1,684
Total waste	**kg**	**626,289**	**505,892**	**201,171**
Waste costs	euro	105,530	98,019	36,454

Paper

In 2012, consumption per employee was 9,435 sheets, representing a slight reduction compared to the prior-year figure. Double-sided printing became the standard setting for all printer pools at Group headquarters. This measure is intended to reduce paper consumption yet further in the future. 100% recycled paper carrying the EU Ecolabel continues to be procured for local printers on each floor.

Consumption of printing and copying paper	Unit	2010	2011	2012
Printing and copying paper	Sheets	11,749,057	12,229,756	10,727,750
Printing and copying paper	kg	58,745	61,149	54,556
Printing and copying paper per employee	Sheets	8,607	9,879	9,435
Printing and copying paper per employee	kg	43	49	48

Financial Markets

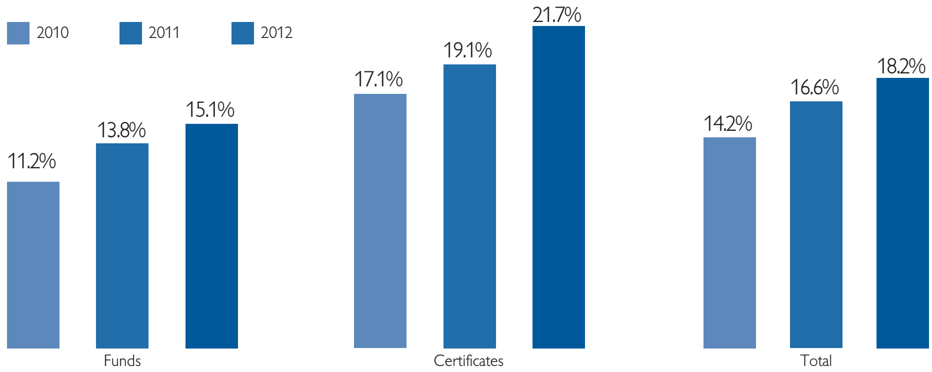
The Financial Markets segment offers a broad range of sustainable investment products. The volume of money invested sustainably has continued to rise in the past few years, as has the percentage it represents in the total volume of all funds and certificates.

At the end of 2012, the proportion of sustainable certificates within the total volume was almost 22%, while sustainable funds made up approximately 15%. Overall, the proportion of sustainable products amounted to 18,2% of total volume (total volume means the sum of all sustainable certificates and retail funds). Three funds with sustainability certification marks are currently available: Volksbank-Mündel-Rent, Volksbank-Mündel-Flex and VB-Ethik Invest. All three funds were reviewed externally and awarded with the Eurosif transparency logo and the Austrian eco-label. Furthermore, the Fix Plus Garant 4/2011 certificate series (and subsequent tranches) was the first certificate to be awarded the Austrian eco-label. More details: www.volksbankinvestments.com

Volume of sustainable fund products at 31 December	2010	2011	2012
euro	255,273,810	275,728,450	306,670,000

Volume of sustainable certificates at 31 December	2010	2011	2012
euro	426,350,000	417,566,000	383,390,000

Share of sustainable products in the overall volume *)



*) Total volume is the sum of certificate volumes and retail fund volumes

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The financial instruments described herein are offered to the public only in countries where this is expressly permitted by the currently valid prospectus or issue terms. The valid prospectus published for the described products pursuant to section 10 (2) of the Austrian Capital Markets Act, including any amendments and additions, can be viewed at www.volksbank.com/prospekt or can be obtained at the headquarters of Österreichische Volksbanken-AG, A-1090 Vienna, Kolingasse 14-16, free of charge. The valid issue terms after completion and further information can be found in the section for the respective product at www.volksbankinvestments.com/prospekt.

Prospekthinweis: The published prospectus and the Key Investor Document (KID) for this investment fund are available in German at www.volksbankinvestments.com and at the headquarters and branch offices of the Volksbank Group. The Key Investor Document is also available in English.

In agreement with the Financial Market Authority (FMA), the management company hereby informs the reader that the Investment Fund Act of 2011 (InvFG) entered into force on 1 September 2011. The statutory procedures mentioned in the fund rules and sales prospectuses make reference to the Investment Fund Act of 1993, since the fund rules were approved on the basis of the legislation applicable at the time of approval. Fund terms are successively modified.

The performance and earnings development of investment funds cannot be predicted with certainty. Past performance (source: OeKB) is not a reliable indicator of the future development of an investment fund. Issue and redemption fees, commissions, and other fees and charges are not taken into account in the calculation of performance and may reduce the indicated gross performance.

Austria is the issuer of securities that exceed the 35% issuer limit for government bonds. The fund terms and conditions have been approved by the Financial Market Authority (FMA).

Sustainable risk minimisation in the area of refinancing

The association of Volksbanks generated considerable income in the area of interest-rate and currency hedging in 2012, using applications including Treasury 4 You (T4U). Volksbanks hedged interest rate risks with VBAG using interest rate ceilings and, increasingly, agreements on fixed interest rates, totalling approximately euro 150 million. Foreign currency risk for CHF loans was reduced accordingly through currency conversions of nearly CHF 1 billion.

Renewable energy in connection with SME business

Renewable energy project financing was reviewed and implemented in 2012 as part of focusing market strategy and sales on the association of Volksbanks, particularly financing in connection with long-term business relationships and with customers of regional Volksbanks. As in past years, these projects involved the following technologies: wind power, photovoltaic, small hydropower and biomass. The existing customer portfolio was therefore expanded only slightly.

The year 2012 was marked by falling equipment prices and investment costs, particularly with respect to photovoltaic energy, a trend that offset progressively lower subsidies in broad sections of Europe.

As a result of growing interest in the profitability of investments in renewable energy, financing was concluded for selected projects and cooperation with the Volksbanks was increased in areas such as events for commercial and private customers. Therefore, not only are industrial corporations expected to enshrine the use of sustainable energy sources in their corporate strategies, but a large number of target customers of the association of Volksbanks are also expected to initiate a range of projects in these technologies in the short to medium term. Building on many years' expertise with procedural and financing techniques, renewable energy will form a permanent key interest of the association organisation.

International trade in climate protection certificates

As a trustee for Austrian companies in the electricity and mineral oil sector and the glass and brick industry, VBAG has invested euro 7 million in KfW's climate protection fund of around euro 83 million. This project purchases emission certificates for fund participants from climate protection projects that reduce greenhouse gases, known as JI/CDM projects.

This enables CO_2 certificates from a foreign wind farm to benefit Austrian industry, for example. By the end of 2012, around 328,000 of these emission certificates from the KfW climate protection fund had been allocated to Austrian companies via VBAG. One certificate corresponds to the emission of one tonne of carbon dioxide equivalent. The annual allocation depends on the mode of operation of the plants that generate emission certificates and is therefore subject to fluctuations.

Active participation in international CO_2 certificate trade

Climate protection certificates transferred via VBAG

Unit	2010	2011	2012
1 certificate = 1 tonne CO_2 equivalent	13,732	136,775	69,583

Sustainable investment of VBAG

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

VBAG is also joint owner (12.6%) of OeMAG, Abwicklungsstelle für Ökostrom AG. The main tasks of OeMAG are acceptance of renewable energy at the prices determined by the Ökostromgesetz (Austrian Green Electricity Act), calculation of the renewable energy quotas, daily allocation of renewable energy to power traders based on renewable energy quotas, management of the newly created subsidy contingents and processing of subsidy applications. The book value of all these investments amounted to euro 1.2 million at the end of 2012.

Leasing and the promotion of ecological mobility

VB LEASING Finanzierungsges.m.b.H. continued with its initiative to reduce the CO_2 emissions of lease-financed cars in 2012. Cooperation projects with car manufacturers whose fleet consumption produces very low average CO_2 emissions were extended and redoubled. In 2012, newly financed leased vehicles had lower CO_2 emissions on average than in the previous year. In the area of IT financing, customers are given the opportunity to recycle their obsolete hardware free of charge. Recycling is performed exclusively by certified partners.

Outlook

The aim for 2013 is to collaborate with further regional Volksbanks in the area of sustainability management and to integrate them gradually into the corporate responsibility project. Furthermore, an additional sustainable financial product will be developed over the course of the business year. Corporate responsibility eductation will be held to boost knowledge and practical skills in the area of sustainability. Financial literacy will form another key training topic in the association of Volksbanks. With regard to environmental management, the focus will be on issues of resource conservation and energy.

A very positive development for sustainability reporting is the VBAG Managing Board's decision to comply with the Austrian Corporate Governance Code in 2013 and henceforth to publish a corporate governance report.

As a result of the Group's structural changes, it was decided not to publish a comprehensive, integrated sustainability report for 2012. A comprehensive corporate responsibility report will be published in the second half of the year. This will be tailored to the new reporting limits and correspond to GRI guidelines. For details about the corporate responsibility project, please visit www. volksbank.com

CONSOLIDATED FINANCIAL STATEMENTS

Income statement

	Note	1-12/2012 Euro thousand	1-12/2011 Euro thousand	Changes Euro thousand	%
Interest receivable and similar income		1,000,383	1,496,082	–495,699	–33.13 %
Interest payable and similar expense		–778,233	–1,055,099	276,866	–26.24 %
Income from companies measured at equity		–1,852	–46,548	44,696	–96.02 %
Net interest income	4	220,297	394,434	–174,137	–44.15 %
Risk provisions	5	–366,916	–103,590	–263,325	>200.00 %
Fee and commission income		86,939	143,016	–56,078	–39.21 %
Fee and commission expenses		–28,731	–48,696	19,965	–41.00 %
Net fee and commission income	6	58,208	94,320	–36,113	–38.29 %
Net trading income	7	32,195	2,927	29,268	>200.00 %
General administrative expenses	8	–263,504	–299,339	35,835	–11.97 %
Restructuring cost	9	0	–41,450	41,450	–100.00 %
Other operating result	10	771,615	–365,348	1,136,962	<–200.00 %
Income from financial investments	11	–1,472	–441,138	439,665	–99.67 %
Income from discontinued operation	2	48,646	–132,005	180,651	–136.85 %
Result before taxes		**499,067**	**–891,188**	**1,390,255**	–156.00 %
Income taxes	12	–156,398	–84,067	–72,331	86.04 %
Income taxes from discontinued operation	12	–2,051	–14,013	11,962	–85.36 %
Result after taxes		**340,618**	**–989,268**	**1,329,886**	–134.43 %
Result attributable to shareholders of the parent company (Consolidated net result)		**312,554**	**–959,305**	**1,271,860**	–132.58 %
thereof from continued operation		265,960	–813,287	1,079,247	–132.70 %
thereof from discontinued operation		46,595	–146,018	192,613	–131.91 %
Result attributable to non-controlling interest		28,064	–29,963	58,027	–193.66 %
thereof from continued operation		19,965	26,457	–6,492	–24.54 %
thereof from discontinued operation		8,099	–56,420	64,519	–114.35 %

Comprehensive income

	1-12/2012 Euro thousand	1-12/2011 Euro thousand	Changes Euro thousand	%
Result after taxes	**340,618**	**–989,268**	**1,329,886**	**–134.43 %**
Other comprehensive income				
Currency reserve	19,678	15,763	3,915	24.84 %
Available for sale reserve (including deferred taxes)				
Change in fair value	93,218	–90,957	184,175	<–200.00 %
Net amount transferred to profit or loss	–12,148	2,583	–14,732	<–200.00 %
Hedging reserve (including deferred taxes)				
Change in fair value (effective hedge)	–2,750	–4,774	2,024	–42.40 %
Net amount transferred to profit or loss	1,468	3,196	–1,728	–54.08 %
Change in deferred taxes arising from untaxed reserve	48	53	–6	–10.94 %
Change from companies consolidated at equity	0	3,640	–3,640	–100.00 %
Other comprehensive income total	**99,513**	**–70,496**	**170,009**	**<–200.00 %**
Comprehensive income	**440,131**	**–1,059,764**	**1,499,896**	**–141.53 %**
Comprehensive income attributable to shareholders of the parent company	**411,316**	**–1,014,223**	**1,425,538**	**–140.55 %**
thereof from continued operation	345,788	–856,636	1,202,425	–140.37 %
thereof from discontinued operation	65,527	–157,586	223,114	–141.58 %
Comprehensive income attributable to non-controlling interest	28,816	–45,542	74,357	–163.27 %
thereof from continued operation	18,095	23,058	–4,963	–21.52 %
thereof from discontinued operation	10,720	–68,600	79,320	–115.63 %

Statement of financial position

	Note	31 Dec 2012 Euro thousand	31 Dec 2011 Euro thousand	Changes Euro thousand	%
Assets					
Liquid funds	13	851,262	430,943	420,318	97.53 %
Loans and advances to credit institutions (gross)	14	7,270,203	7,964,310	–694,107	–8.72 %
Loans and advances to customers (gross)	15	10,055,734	12,717,062	–2,661,328	–20.93 %
Risk provisions (–)	16	–1,067,045	–945,744	–121,302	12.83 %
Trading assets	17	2,568,413	2,102,213	466,201	22.18 %
Financial investments	18	5,561,058	6,795,633	–1,234,575	–18.17 %
Assets for operating lease	19	354,139	308,412	45,7272	14.83 %
Companies measured at equity	20	10,293	12,606	–2,312	–18.34 %
Participations	21	444,562	579,583	–135,020	–23.30 %
Intangible assets	22	13,967	13,778	190	1.38 %
Tangible fixed assets	23	130,676	127,751	2,925	2.29 %
Tax assets	24	55,000	133,985	–78,985	–58.95 %
Current taxes		11,104	22,870	–11,765	–51.44 %
Deferred taxes		43,896	111,116	–67,220	–60.50 %
Other assets	25	1,418,872	2,019,055	–600,183	–29.73 %
Assets of the disposal group	2	0	8,874,996	–8,874,996	–100.00 %
TOTAL ASSETS		**27,667,134**	**41,134,582**	**–13,467,448**	**–32.74 %**
Liabilities and Equity					
Amounts owed to credit institutions	26	9,834,518	11,649,751	–1,815,233	–15.58 %
Amounts owed to customers	27	2,542,128	2,712,738	–170,610	–6.29 %
Debts evidenced by certificates	28	9,912,347	13,452,120	–3,539,773	–26.31 %
Trading liabilities	29	2,073,118	1,631,437	441,681	27.07 %
Provisions	30, 31	167,656	190,310	–22,653	–11.90 %
Tax liabilities	32	162,226	83,693	78,533	93.83 %
Current taxes		16,662	9,315	7,347	78.87 %
Deferred taxes		145,563	74,378	71,186	95.71 %
Other liabilities	33	1,164,197	1,927,828	–763,632	–39.61 %
Liabilities of the disposal group	2	0	7,281,880	–7,281,880	–100.00 %
Subordinated liabilities	34	620,718	1,728,658	–1,107,939	–64.09 %
Equity	36	1,190,227	476,167	714,060	149.96 %
Shareholders' equity		996,451	80,425	916,027	>200.00 %
Non-controlling interest		193,776	395,742	–201,966	–51.03 %
TOTAL LIABILITIES AND EQUITY		**27,667,134**	**41,134,582**	**–13,467,448**	**–32.74 %**

Changes in the Group's equity

					IAS 39 [2] valuation				
Euro thousand	Subscribed capital [1]	Capital reserve	Retained earnings	Currency reserve	Available for sale reserve	Hedging reserve	Shareholders' equity	Non-controlling interest	Equity
As at 1 Jan 2011	**1,339,193**	**0**	**–29,106**	**–45,219**	**–158,893**	**2,785**	**1,108,761**	**865,415**	**1,974,175**
Consolidated net income [3]			–959,305				–959,305	–29,963	–989,268
Change in deferred taxes arising from untaxed reserve			53				53		53
Currency reserve				27,743			27,743	–11,980	15,763
Available for sale reserve (including deferred taxes)					–85,401		–85,401	–2,973	–88,374
Hedging reserve (including deferred taxes)						–952	–952	–626	–1,578
Change from companies measured at equity				3,270	370		3,640		3,640
Comprehensive income	0	0	–959,252	31,013	–85,031	–952	–1,014,223	–45,542	–1,059,764
Dividends paid							0	–4,113	–4,113
Change in treasury stocks	–355		–153				–508		–508
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation			–13,605				–13,605	–420,018	–433,623
As at 31 December 2011 [4]	**1,338,838**	**0**	**–1,002,116**	**–14,206**	**–243,924**	**1,833**	**80,425**	**395,742**	**476,167**
Consolidated net income [3]			312,554				312,554	28,064	340,618
Change in deferred taxes arising from untaxed reserve			48				48		48
Currency reserve				21,606			21,606	–1,928	19,678
Available for sale reserve (including deferred taxes)					78,054		78,054	3,016	81,070
Hedging reserve (including deferred taxes)						–946	–946	–336	–1,282
Change from companies measured at equity				–191	343	–153	0		0
Comprehensive income	0	0	312,602	21,415	78,397	–1,098	411,316	28,816	440,131
Capital increase	484,000						484,000		484,000
Capital decrease	–941,621		941,621				0		0
Dividends paid							0	–533	–533
Change in treasury stocks [5]	4,416		–4,475				–60		–60
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation			–136,730		157,500		20,770	–230,249	–209,478
As at 31 December 2012 [4]	**885,632**	**0**	**110,902**	**7,209**	**–8,026**	**735**	**996,451**	**193,776**	**1,190,227**

1) Subscribed capital correspond to the figures reported in the financial statements of Österreichische Volksbanken-Aktiengesellschaft. As at 31 December 2011 the subscribed capital did not correspond to the figures reported in the financial statements of Österreichische Volksbanken-Aktiengesellschaft. In the seperate financial statements of VBAG the capital measures (capital reduction and increase) were included as at 31 December 2011. According to IFRS these measures could only be included in the consolidated financial statements after legal effect.
2) As at 31 December 2012, the available for sale reserve included deferred taxes of euro 829 thousand (31 December 2011: euro 60,970 thousand). The hedging reserve contains deferred taxes in the amount of euro –291 thousand at the balance sheet date (31 December 2011: euro – 927 thousand).
3) Currency translation differences amountig to euro 98 thousand (2011: euro 5,886 thousand) for shareholders' equity and euro 138 thousand (2011: euro 5,825 thousand) for non-controlling interest resulted from the application of average rates of exchange in the income statement.
4) In the figures as at 31 December 2011 the disposal group Banks CEE accounted for an amount of euro –16,765 thousand in the currency reserve, for an amount of euro –3,456 thousand in the available for sale reserve and for an amount of euro 543 thousand in the hedging reserve. At the same time the the disposal group Selini accounted for an amount of euro 746 thousand in the currency reserve.
5) The change in treasury stocks includes the reclassification of capital reduction.

Cash flow statement

in Euro thousand	1-12/2012	1-12/2011
Annual result (before non-controlling interest)	**340,618**	**–989,268**
Non-cash positions in annual result		
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	–593,395	203,737
Allocation to and release of provisions, including risk provisions	311,894	323,020
Gains from the sale of financial investments and fixed assets	–25,714	–20,436
Non-cash changes in taxes	126,136	71,471
Changes in assets and liabilities from operating activities		
Loans and advances to credit institutions	1,892,771	–2,126,919
Loans and advances to customers	2,561,867	4,034,845
Trading assets	–31,849	190,819
Financial investments	1,096,232	1,210,181
Assets for operating lease	–17,789	–21,885
Other assets from operating activities	266,116	–281,829
Amounts owed to credit institutions	–1,968,296	–585,279
Amounts owed to customers	–129,062	102,326
Debts evidenced by certificates	–3,535,927	–2,429,903
Derivates	–34,726	–190,952
Other liabilities	–566,298	–362,007
Cash flow from operating activities	**–307,422**	**–872,078**
Proceeds from the sale or redemption of		
Securities held to maturity	271,473	265,469
Participations	69,328	42,028
Fixed assets	15,437	7,302
Disposal of subsidiaries (net of cash disposed)	–399,403	0
Payments for the acquisition of		
Securities held to maturity	0	–9,238
Participations	–45,944	–43,175
Fixed assets	–20,813	–32,198
Cash flow from investing activities	**–109,922**	**230,187**
Increase of capital	484,000	0
Change in treasury stocks	–60	–508
Change in subordinated liabilities	–458,828	–69,598
Other changes	–13,442	–13,753
Cash flow from financing activities	**11,670**	**–83,859**
Cash and cash equivalents at the end of previous period (= liquid funds)	**1,256,936**	**1,982,685**
Cash flow from operating activities	–307,422	–872,078
Cash flow from investing activities	–109,922	230,187
Cash flow from financing activities	11,670	–83,859
Cash and cash equivalents at the end of period (= liquid funds)	**851,262**	**1,256,936**
Payments of taxes, interest and dividends		
Income taxes paid	–18,940	–21,473
Interest received	1,186,987	2,303,533
Interest paid	–1,046,718	–1,229,065
Dividends received	53,712	9,869

Details of the calculation method of the cash flow statement are shown in Note 3) jj).
Details on the calculation of the disposal of subsidiaries are included in Note 2).

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NOTES

to the consolidated financial statements of Österreichische Volksbanken-Aktiengesellschaft 2012

1) General information

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

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

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

a) Going concern

The VBAG parent company posted significant losses in its separate financial statements for the 2011 business year, which raised the threat of failing to meet regulatory solvency limits in the medium term and created doubts as to the company's ability to continue as a going concern.

The owners of VBAG and the Republic of Austria reached an agreement on stabilisation measures on 27 February 2012, which were agreed in the Annual General Meeting on 26 April 2012 and approved by the FMA and EU Commission in September 2012. These measures included a capital reduction followed by a capital increase, and the merger of Investkredit with VBAG with retroactive effect from 31 December 2011. These measures were implemented when they were entered into the Commercial Register on 28 September 2012. The merged institution will become the central organisation in the banking association pursuant to section 30a of the Austrian Banking Act (with its liability and liquidity association pillars). It was also approved by the FMA, and will focus on its role as the top institution in this association.

Capital adequacy as of 31 December 2012 shows that requirements have been surpassed at both individual institution level and consolidated level. The individual institution's surplus own funds amounted to euro 0.75 billion, while the VBAG Group's surplus own funds totalled euro 1.21 billion. VBAG expects to exceed capital ratios again in its budgeted figures for 2013.

Significant restructuring measures were implemented as at 31 December 2012. VBAG's Managing Board assumes that stability measures still outstanding will in all likelihood be carried out, and that preparation of the consolidated annual financial statements based on a going-concern premise is justified.

VBAG has an indirect 51% holding in Volksbank Romania S.A. (VB RO) via two intermediate companies. This participation is not part of VBAG's core business, and the current VBAG Group strategy requires it to be disposed of. The entire carrying amount of the participation was written off in 2011, while VBAG still had refinancing facilities in place amounting to euro 1.4 billion as of 31 December 2012.

Based on VB RO's current planning, VBAG sees no indication that VB RO's business development will differ significantly from the budget in 2013. The Managing Board also expects the refinancing credit line to be repaid in part as provided for in the 2013 budget. Accordingly, there was no reason to impair this refinancing, even though there are conceivable stress scenarios in view of the difficult and volatile economic environment that could impact the carrying amount of the refinancing provided by VBAG to VB RO. However, this is not currently foreseeable.

2) Presentation and changes in the scope of consolidation

In Real Estate segment 30 companies were newly included into the scope of consolidation, as these companies are no longer immaterial for the presentation of the consolidated financial statements due to the reduction of business. The results from previous years in the amount of euro 7,563 thousand were recognised directly in equity. Through the inclusion of these companies in the scope of consolidation, loans and advances to credit institutions and customers from finance lease increased by the amount of euro 89,409 thousand as well as investment property assets by an amount of euro 100,942 thousand. These assets offset in addition with Group-internal funding, amounts owed to credit institutions and customers totalling euro 60,564 thousand.

UBG-Bankenbeteiligungs GmbH has been newly included in the scope of consolidation. This is a holding company which holds participations in companies including Raiffeisen Zentralbank Österreich Aktiengesellschaft (RZB). As a result, there was a shift within the participations item from shares in unconsolidated affiliates to investments in other companies. The inclusion of previous-year results amounting to euro 15,084 thousand was recognised as a reclassification directly in equity, whereby euro –142,416 thousand was recorded in retained earnings and euro 157,500 thousand in the available for sale reserve.

Discontinued Operation

Earnings from discontinued operations consist of the discontinued operation VBI in the amount of euro 35,852 thousand and the discontinued operation Selini in the amount of euro 12,793 thousand.

As at 8 September 2011 the contract of sale of Volksbank International AG (now: Sberbank Europe AG, short: VBI) to the Russian Sberbank was signed. The sale was concluded with various conditions precedent, which must be fulfilled by the time the deal is closed. The closing took place as at 15 February 2012. The purchase price for 100% of shares consists of a fixed amount of euro 585 million reduced by an amount of euro 80 million as a take over of losses for the fourth quarter 2011 as well as a variable component based on the changes of equity of VBI group for the first three quarters of 2011. VB RO is not included in this transaction. Starting with 8 September 2011, VBI group is shown as a disposal group or discontinued operation as the VBI group represents a major line of business of the Group. The comparative figures in the income statement were restated accordingly. The result of deconsolidation is shown in the result from discontinued operation.

Calculation of deconsolidation result of VBI

Euro thousand	
Assets proportional	4,762,755
Liabilities proportional	4,525,420
Currency reserve proportional	–12,367
Available for sale reserve proportional	–3,433
Hedging reserve proportional	–76
Disposal of net assets proportional	**–253,210**
Revenues proportional	268,532
Deconsolidation result	**15,322**

Profit and loss of discontinued operation VBI (including deconsolidation result)

Euro thousand	1 Jan - 15 Feb 2012	2011
Net interest income	24,137	272,775
Risk provisions	6,399	–196,875
Net fee and commission income	5,412	73,071
Net trading income	627	3,128
General administrative expenses	–17,344	–225,365
Other operating result	12,932	–46,803
thereof deconsolidation result	15,322	0
thereof impairment of goodwill	0	–10,895
Income from financial investments	3,690	–13,064
Result for the period before taxes	**35,852**	**–133,132**
thereof consolidation	2,203	1,607
Income taxes	–2,051	–11,180
Result for the period after taxes	**33,801**	**–144,313**
Profit attributable to shareholders of the parent company	**25,703**	**–87,893**
Profit attributable to non-controlling interest	8,099	–56,420

Assets of disposal group VBI

Euro thousand	31 Dec 2011
Liquid funds	825,992
Loans and advances to credit institutions (gross)	591,255
Loans and advances to customers (gross)	6,863,031
Risk provisions (–)	–375,661
Trading assets	9,766
Financial investments	668,908
Assets for operating lease (including investment property)	20,135
Participations	3,699
Intangible assets	41,706
Tangible fixed assets	88,920
Tax assets	13,991
Other assets	55,423
Assets	**8,807,166**
thereof consolidation	–1,298,362

Liabilities of disposal group VBI

Euro thousand	31 Dec 2011
Amounts owed to credit institutions	2,077,630
Amounts owed to customers	4,689,536
Debts evidenced by certificates	239,487
Debts evidenced by certificates	1,185
Provisions	13,634
Tax liabilities	5,722
Other liabilities	111,480
Subordinated liabilities	66,735
Liabilities	**7,205,410**
thereof consolidation	–2,519,567

Cash flow of discontinued operation VBI

Euro thousand	1 Jan - 15 Feb 2012	2011
Cash and cash equivalents at the end of previous period (= liquid funds)	**825,992**	**749,659**
Cash flow from operating activities	–168,633	67,112
Cash flow from investing activities	9,774	20,976
Cash flow from financing activities	802	–11,756
Cash and cash equivalents at the end of period (= liquid funds)	**667,936**	**825,992**

Cash and cash equivalents in the amount of euro 668 million, assets in the amount of euro 8,668 million and liabilities in the amount of euro 8,794 million were derecognised as part of the deconsolidation. The change in the cash flow statement in the amount of euro –399 million is calculated on the basis of the selling price of euro 269 million less cash and cash equivalents in the amount of euro 668 million.

Number of staff which was employed in disposal group VBI

	Average number of staff		Number of staff at reporting date	
	2012	2011	31 Dec 2012	31 Dec 2011
Domestic	10	63	0	72
Foreign	512	3,968	0	4,086
Total number of staff	**522**	**4,031**	**0**	**4,158**

The average number of staff was calculated for the entire fiscal year 2012, which means 12 month, resulting in a decrease in comparison to 2011.

As at 22 December 2011 the contract of sale of shares in Selini Holding GmbH was signed. Closing took place as at 12 April 2012. The sale was concluded with various conditions precedent, which had to be fulfilled by the time the deal was closed. The purchase price consists of a base price which represents the proportional value of investment property as well as adjustments for other assets and liabilites in Selini Holding GmbH itself and the holdings in between. An earn-out clause which was included in the purchase agreement stipulates that the buyer has to pass on 50% of a positiv increase of market value of the real estate project in 2012. The fair value calculation is based on an interest rate of 9%. The amount will be fixed after the finalisation of the local financial statements. Starting with 22 December 2011 Selini Holding GmbH and Trastona Holding Ltd. (Vremena Goda project) which is measured at equity are shown as disposal group or discontinued operation, as they represent a major line of business of the Group as part of the Europolis group which was deconsolidated at the beginning of 2011. The comparative figures in the income statement were restated accordingly. The result of deconsolidation is shown in result of income from discontinued operation.

Calculation of deconsolidation result of Selini

Euro thousand	
Assets proportional	65,288
Liabilities proportional	74,127
Currency reserve proportional	421
Disposal of net assets proportional	**9,260**
Revenues proportional	3,407
Deconsolidation result	**12,667**

Profit and loss of discontinued operation Selini

Euro thousand	1 Jan-12 Apr 2012	2011
Net interest income	–640	5,353
Net trading income	782	–157
General administrative expenses	–15	–145
Other operating result	12,667	0
thereof deconsolidation result	12,667	0
Result for the period before taxes	**12,793**	**5,051**
Income taxes	0	–2,833
Result for the period after taxes	**12,793**	**2,218**
Profit attributable to shareholders of the parent company	**12,793**	**2,218**
Profit attributable to non-controlling interest	0	0

Assets of a disposal group Selini

Euro thousand	31 Dec 2011
Loans and advances to credit institutes	3,232
Companies measured at equity	58,457
Other Assets	6,141
Assets	**67,830**

Liabilities of a disposal group Selini

Euro thousand	31 Dec 2011
Amounts owed to credit institutions	64,469
Amounds owed to customers	11,984
Other liabilities	18
Liabilities	**76,471**

Due to the fact that discontinued operation Selini has no liquid funds and no cash flow from investing or financing activities, the cash flow from operating activities is also zero.

The disposal group Selini does not employ any staff.

Deconsolidation 2012

As at 2 July 2012, a contract concerning the sale of VB Real Estate neun GmbH was concluded. According to this contract, all rights and obligations were transfered with 30 June 2012. Therefore the deconsolidation took place in the first half-year 2012. The purchase price consists of proportional value for real estates owned by the company as well as adjustments for other assets and liabilities in the company as at 30 June 2012. The final purchase price will be defined afte the financial statements for the reporting date is set up. The result of deconsolidation is shown in other operating result with an amount of euro −98 thousand.

Calculation of deconsolidation result of VB Real Estate Leasing neun GmbH

Euro thousand	
Assets proportional	20,491
Liabilities proportional	19,770
Disposal of net assets proportional	**−721**
Revenues proportional	623
Deconsolidation result	**−98**

A contract of sale for Immoconsult Asset Leasing GmbH was signed on 17 July 2012. The purchase was closed with various conditions precedent, which must be fulfilled by the time the deal is closed. Closing took place on 5 September 2012. This date is also the deconsolidation date for the company. The purchase price consists of a fixed amount which represents the loans and advances from financial lease owed by Immoconsult Asset Leasing GmbH as well as assets and liabilities in the company.

Calculation of deconsolidation result of Immoconsult Asset Leasing GmbH

Euro thousand	
Assets proportional	167,146
Liabilities proportional	146,484
Disposal of net assets proportional	**−20,662**
Revenues proportional	8,330
Deconsolidation result	**−12,332**

Deconsolidation 2011

In the course of the sale of VBI the shares of Volksbank Romania S.A. (VB RO) were demerged from VBI to VBI Beteiligungs GmbH (VBI Bet). Shares in VBI Bet are hold by VBAG with 51%, DZ Bank AG/WGZ Bank AG and Banque Populaire Caisse d'Epargne each with 24,5%. In a shareholder agreement the shareholders stipulated a joint control of VB RO. Therefore VBI Bet as well as VB RO and its subsidiary VBRO Services SRL were deconsolidated as at 30 September 2011 and VBI Bet as well as VB RO are measured at equity starting on this date. The result for the period 1 January to 30 September 2011 is shown in the respective positions in income statement. The measurement of equity quartes of the year 2012 is recognised in net interest income in the position income from companies measured at equity.

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. In the fourth quarter 2011 a slight adjustment of purchase price occured, for which reason the consolidated financial statements as at 31 December 2011 show a result of deconsolidation of euro 9,761 thousand.

In a contract dated 29 June 2010, the shares in Europolis AG were sold to CA Immo CEE Beteiligungs GmbH and CA Immobilien Anlagen AG. The closing was on 31 December 2010; the right of disposal over the shares was transferred to the buyers at the end of 31 December 2010. Therefore the deconsolidation took place as at 1 January 2011. In 2011, a deconsolidation result with an amount of euro −3,924 thousand was shown in income from discontinued operation.

Number of consolidated companies

	31 Dec 2012			31 Dec 2011		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	3	2	5	6	11	17
Financial institutions	31	27	58	26	22	48
Other enterprises	34	37	71	35	31	66
Total	**68**	**66**	**134**	**67**	**64**	**131**
Companies consolidated at equity						
Credit institutions	0	1	1	0	1	1
Other enterprises	3	0	3	3	1	4
Total	**3**	**1**	**4**	**3**	**2**	**5**

Number of unconsolidated companies

	31 Dec 2012			31 Dec 2011		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	29	48	77	51	84	135
Associated companies	37	20	57	44	31	75
Companies total	**66**	**68**	**134**	**95**	**115**	**210**

The unconsolidated companies in their entirety were deemed immaterial to the presentation of a true and fair view of the net assets, liabilities, financial position and profit or loss of the Group. Beside quantitative criteria like total assets and result after taxes also the effect of consolidation on specific positions as well as on the true and fair view of the consolidated financial statements is taking into account for the assessment of materiality. The calculation of the quantitative characteristics was based on the latest available financial statements of the companies and the Group's consolidated financial statements for 2012.

The complete list of companies included in the consolidated financial statements, companies measured at equity, as well as the unconsolidated companies including detailed information, can be found at the end of the notes. (see note 54, 55, 56)

3) Accounting principles

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

The VBAG Group's consolidated financial statements for 2012 and the comparative figures for 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS; previously International Accounting Standards, IAS) and thus comply in full with the provisions set out in section 245a of the Austrian Commercial Code and section 59a of the Austrian Banking Act governing consolidated financial statements prepared in accordance with internationally recognised accounting principles.

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

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

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

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

a) Changes to accounting standards

In December 2010, the IASB published amendments to IAS 12 Income Taxes. These will also lead to changes in the scope of application of SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets. The amendment includes a partial clarification of the treatment of taxable temporary differences in connection with the application of the fair value model from IAS 40. In the case of real estate held as financial investments, it is often difficult to judge whether existing differences will reverse during continued use or in the course of a sale. The amendment works on the basic assumption that a sale will trigger the reversal. The amendment is to be applied retrospectively for financial years beginning on or after 1 January 2012. There will be no major changes to VBAG's consolidated financial statements.

b) New accounting standards

New accounting standards already endorsed by the European Union

In June 2011 the IASB published IAS 19 Employee Benefits. The amended IAS 19 has abolished the so/called corridor method and prescribes accounting directly for actuarial gains and losses in other comprehensive income. Furthermore, under the amended IAS 19 expected income from plan assets and the interest expense from the pension obligation are replaced by a uniform net interest component. The service cost to be calculated later will, in future, be recorded fully in the period of the related change in the plan. The revision of IAS 19 also changes the requirements for benefits from termination of the employment relationship and enhanced presentation and disclosure obligations. The pronouncement was adopted under EU law and is applicable to all financial years beginning on or after 1 January 2013. Earlier application is permitted. Due to the fact that VBAG Group applies the corridor-method, a change of application as at 31 December 2012 would lead to an increase in provision for pensions amounting to euro 8,846 thousand (31 December 2011: euro 8,588 thousand) and in provisions for severance payments amounting to euro 2,940 thousand (31 December 2011: euro 1,708 thousand) 20. This standard was not adopted prematurely in the VBAG Group.

The IASB published amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures in 2011. These amendments specify and expand the requirements and disclosures for offsetting financial instruments. It is still only possible to offset financial assets and financial liabilities if there is currently a legally enforceable right to offset the recorded amounts against each other, if there is an intention to settle the financial instruments on a net basis or to realise the financial asset and settle the financial liability simultaneously. The amendments expand and clarify the application guidance with regard to the criteria of "currently" and "simultaneously". They also prescribe additional disclosures to be made in the notes with regard to offsetting financial instruments. These amendments were adopted by the EU in December 2012 and are applicable for business years beginning on or after 1 January 2013. The amendments are not currently expected to have a significant impact on VBAG's consolidated financial statements.

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

IFRS 10 replaces the rules for consolidated financial statements in IAS 27 Concolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. Based on the currently applicable principles IFRS 10 sets out, using a comprehensive controlling concept, which companies are to be included in the consolidated financial statements. The pronouncement additionally offers guidelines on the interpretation of the principle of control in doubtful cases. Accordingly, an investor controls another entity when it has rights to variable returns from its invol- vement with the investee and has the ability to influence the business activities of the investee which are significant for economic success. Substantial changes to the current rules can occur in situations in which an investor holds less than half of the voting rights in an entity, but due to other methods has the possibility to determine the significant business activities of the other entity. The influence of this rule on the consolida- ted financial statement of VBAG Group is currently being examined.

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

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

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

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

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

In May 2011 the IASB published IFRS 13 Fair Value Measurement. The new pronouncement does not determine to what extent certain assets and liabilities are to be measured at fair value but only determines the term fair value and standardises the disclosure requirements for measurement at fair value. The new pronouncement is applicable to financial years beginning on or after 1 January 2013 and was adopted by the EU in December 2012. Earlier application is permitted. Most changes resulting from IFRS 13 relating to financial instruments have already been introduced, above all through changes to IFRS 7 Financial Instruments: Disclosures. Consequently, VBAG Group only expects minor effects with regard to financial assets and liabilities.

New accounting standards not yet adopted by the European Union

Five standards were amended as part of the annual improvement project. Adapting the wording in individual IAS/IFRS is designed to clarify existing regulations. There are also amendments that affect accounting, recognition, valuation and disclosures in the notes. The standards concerned are IAS 1, IAS 16, IAS 32, IAS 34 and IFRS 1. These amendments have not yet been adopted by the EU and are applicable for business years beginning on or after 1 January 2013. The impact of these amendments on VBAG's consolidated financial statements is currently being examined.

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

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

c) Application of estimates and assumptions

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

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

- Alternative investment measurement methods are used to assess the recoverability of financial instruments for which no active market is available. Some of the parameters taken as a basis when determining fair value are based on assumptions concerning the future.
- The assessment of the recoverability of intangible assets, goodwill, investment properties and property, plant and equipment is based on assumptions concerning the future.
- The recognition of deferred tax assets is based on the assumption that sufficient tax income will be generated in future in order to realise existing tax loss carryforwards.

- Assumptions regarding the interest rate, retirement age, life expectancy and future salary increases are applied when measuring existing long-term employee provisions.
- Provisions are measured on the basis of cost estimates from contractual partners, past experience and investment calculation methods.
- Assessments are regularly carried out for liabilities and impairment not recognised in the balance sheet due to guarantees and contingencies in order to determine whether on-balance sheet recognition in the financial statements is to be carried out.

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

d) Consolidation principles

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

The financial statements of the fully consolidated companies and the companies consolidated using the equity method were prepared on the basis of the Group's balance sheet date of 31 December 2012.

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

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

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

e) Currency translation

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

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

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

f) Net interest income

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

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

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

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

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

g) Risk provisons
Risk provisions reflect the allocation to and release of provisions for impairments of loans and advances on individual and portfolio basis (see note 3)n)). Loans and advances directly written off and receipts from loans and advances already written off are also recognised in this item. Furthermore, this item contains additions to and releases of provisions for risks.

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

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

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

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

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

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

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

k) Restructuring cost
In this position expenses for the restructuring of the VBAG Group is recognised. This item includes expenses for the redundancy programme which consists only of staff expenses in connection with the reduction of business.

l) Other operating result
In addition to the result from measurement or repurchasing of financial liabilities, impairment of goodwill and the deconsolidation result from the disposal of subsidiaries, this item contains all results from the Group's other operating activities. Hire purchase transactions as well as operating expenses and insurance contributions which are passed on to customers are netted and recognised in other operating income, as this procedure presents a fairer view of the economic nature of these transactions.

m) Income from financial investments
This item contains all realised and unrealised results from financial investments at fair value through profit or loss and all derivatives reported in the investment book. The result from interest or dividends is recognised in net interest income.

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

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

n) Financial assets and liabilities

Recognition

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

Derecognition

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

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

Offsetting

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

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

Amortised cost

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

Fair value measurement

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

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

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

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

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

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

Impairment

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

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

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

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

The amount of impairment for assets carried at amortised cost is calculated as the difference between the carrying amount and the net present value of the future cash flows, taking any collateral into account, discounted using the effective interest rate of the asset. The impairment amount is reported in the income statement. In the event that the reason for impairment ceases to exist at a later date, the impairment loss is reversed through profit or loss. The amount of risk provisions for non-securitised receivables is presented in a separate account. Securitised receivables are impaired or revalued directly. Non-securitised receivables are impaired directly if the asset is derecognised and the risk provision allocated up to the date of recognition was insufficient.

Portfolio-based allowances are calculated for homogeneous portfolios. The parameters listed below are used in assessing the amounts of these value adjustments:
- Historical loss experience with non-performing loans
- The estimated losses for the following period
- The estimated period between the occurrence of the loss and its identification (loss identification period 30 – 360 days; 2011: 30 – 180 days)
- Management's experienced judgment as to whether the expected losses in the current period are greater or lower than suggested by historical data.

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

Financial instruments designated at fair value through profit or loss

The Group makes use of the option to irrevocably designate financial instruments at fair value through profit or loss. Allocation to this category is performed if one of the three following criteria is met:
- Groups of financial assets and financial liabilities are managed on a fair value basis in accordance with a documented risk management and investment strategy.
- Fair value measurement can be demonstrated to prevent inconsistencies in the valuation of financial assets and liabilities.
- A financial instrument contains an embedded derivative that is generally required to be reported separately from the host agreement at fair value.

Interest, dividends and relating commission income and expenses are recognised in the corresponding items in profit and loss for financial assets and liabilities in the investment book measured at fair value through profit or loss. Result of fair value measurement is shown in income from financial investments.

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

Derivatives
Derivatives are always recognised in income at their fair value.

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

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

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

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

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

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

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

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

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

Real Estate leasing contracts have a basically maturity of 10 to 20 years, movable goods leasing for the retail section have a basically maturity of 3 to 6 years. The interest rate of the customer for the lease agreement is fixed for the whole maturity at the time the contract is closed. The effective interest rate can be adapted to changes on capital markets through an interest adjustment clause. Property leasing contracts are mostly based on part-amortisation, while movable goods leasing are basically full pay out contracts. Car leasing contracts are placed as part amortisation contracts as well as full pay out contracts.

p) Risk provisions
Provisions for individual and portfolio-based impairment are recognised in order to cover the specific risks inherent to banking (see Chapter 3)n)). Provisions are also recognised for potential losses from investments in high-risk countries; these are based on the standard international valuations for such types of investments. For further details, see section n) Financial assets and liabilities.

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

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

r) Financial investments

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

At fair value through profit or loss

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

Available for sale

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

Loans & receivables

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

Held to maturity

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

These financial instruments are recognised at amortised cost in accordance with the effective interest method. Any sale or reallocation of a substantial part of these financial instruments which does not occur on a date that is close to the redemption date or is attributable to a non-recurring isolated event that is beyond the Group's control and that could not have been reasonably anticipated, results in the reallocation of all held to maturity financial investments to the available for sale category for the two subsequent fiscal years. In 2012 and 2011, no such reallocations took place.

s) Assets for operating lease (inclusive investment property)

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

All land and buildings that meet the definition of investment property as set out in IAS 40 are reported at market value. Annual measurement of domestic and foreign land and buildings is essentially based on RICS standards (Royal Institution of Chartered Surveyors). The RICS defines market value (sale value) as the estimated amount for which a property could be sold on the date of valuation by a willing seller to a willing buyer in an arm's-length transaction after a suitable marketing period, wherein the parties had each acted knowledgeably, prudently and without compulsion. These calculations are earnings calculations prepared on the basis of current rent lists and lease expiry profiles, and are subject to assumptions regarding market developments and interest rates. Residual value methods are used for properties under construction. Comparative value methods are also used for plots of land where development is not expected in the near future. Yields are defined by appraisers and reflect the current market situation as well as the strengths and weaknesses of the given property. The real estate portfolio is valued almost exclusively by external appraisers. Colliers International, Cushman & Wakefield, DTZ, Jones Lang Lasalle and JKT Immobilien GmbH were commissioned to act as independent appraisers for foreign investment properties. In Austria, appraisals are carried out by CBRE GmbH, Heimo Kranewitter and PKF hotelexperts GmbH. External appraisers are paid a fixed fee which does not depend on the appraised market value of the property.

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

t) Participations

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

Companies over which the Group exercises a significant influence are measured using the equity method. All other participations are recognised at their respective fair values. Fair values are determined by reference to quoted market prices on active markets, or by using a valuation method if there is no active market. Valuation methods include using recent arm's-length market transactions between knowledgeable, willing and independent business partners, as well as discounted cash flow techniques and valuations using multiples. If discounted cash flow procedures are used, the discount rates applied are based on the current recommendations of the Expert Committee of the Austrian Chamber of Public Accountants and Tax Advisers and international financial information service companies. These ranged between 7.9% and 9.6% in 2012. Market risk premiums used in these calculations range between 5% and 6% and beta values between 0.9% and 1.2%, while discounts of up to 20% are applied to illiquid instruments. Additional sovereign risks were not observed. Procedures are also used where fair values are determined by adapting available market data for similar financial instruments. Participations whose fair value cannot be determined without an unreasonable amount of effort are carried at cost. Impairment is recorded for losses in value. If the reason for impairment ceases to exist, the impairment loss is reversed and recognised directly in equity with due consideration of deferred taxes.

u) Intangible and tangible fixed assets

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

Goodwill is not depreciated on a straight-line basis, but instead is tested for impairment at least once a year in accordance with IAS 36, or more frequently if events or changes in circumstances indicate that impairment may have occurred. Impairment testing is performed for the cash-generating units (CGUs) to which goodwill is allocated.

In the course of the acquisition of Investkredit Bank AG in 2005, the Investkredit brand was recognised as intangible asset. In line with IAS 38, an intangible asset is considered as having an unlimited useful life if, based on an analysis of all relevant factors, there is no foreseeable limit on the period in which the asset is likely to generate net cash flows for an entity. The Investkredit brand was completely written off in the 2011 business year due to restructuring in the VBAG Group. The Investkredit brand was derecognised from intangible assets following the merger of Investkredit and VBAG.

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

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

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

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

v) Tax assets and liabilities

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

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

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

w) Other assets

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

x) Liabilities

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

y) Employee benefits

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

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

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

Actuarial gains and losses are treated in accordance with the so-called corridor method, meaning that contributions are recognised in income when the cumulative unrecognised actuarial gains or losses exceed 10% of the present value of the defined benefit obligation for pensions or severance payments or the fair value of any available external plan assets. In 2012 and 2011, actuarial gains and losses exceeding the corridor were recognised in income in full.

Principal actuarial assumptions

	2012	2011	2010	2009	2008
Discount rate	3.00 %	4.50 %	4.25 %	5.25 %	5.75 %
Expected return on plan assets	3.00 %	4.25 %	4.25 %	5.50 %	5.50 %
Future salary increase	3.50 %	3.50 %	3.50 %	3.50 %	3.50 %
Future pension increase	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %
Fluctuation rate	none	none	none	none	none

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

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

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

z) Other provisions

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

Risk provisions comprise loan loss provisions for contingent liabilities (in particular financial guarantees). Other provisions contain provisions for legal disputes, restructuring and risks arising from real estate projects. Risk provisions allocated and released are recorded under risk provisions in the income statement. Amounts allocated to and released from the restructuring provision are included under restructuring expense, while income and expenses from all other provisions are mainly recognised under other operating result.

aa) Other liabilities

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

bb) Subordinated Liabilities

Subordinated capital is initially recognised at market value plus directly attributable transaction costs. It is subsequently measured at amortised cost using the effective interest method, unless these liabilities were designated as liabilities at fair value through profit or loss. If the instrument participates in a loss, the repayment amount must be regularly adjusted in the subsequent period according to IAS 39 AG 8. To determine the carrying amount of financial liabilities, estimated future cash flows are discounted using the original effective interest rate. Current planning is used to calculate future cash flows for supplementary capital bonds. In the case of instruments which constitute equity according to local legislation and are therefore affected by the capital reduction, the rate following the capital reduction is applied. If future cash flows cannot be reliably determined, the valuation is based on contractual cash flows over the entire term in accordance with IAS 39.9. The difference between the amount originally recorded as a liability and the present value determined in this way is shown under other operating result. The effective interest rate is recorded under interest expense.

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

In addition to subordination, the contractual terms for supplementary capital contain a performance-based interest payment. Interest may only be paid insofar as this is covered by annual profit before changes in reserves of the company issuing the capital. Supplementary capital interests also participate in any loss. The repayment amount is lowered by current losses. Repayment at nominal value is only possible once more if the proven losses are covered by profits.

cc) Equity

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

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

dd) Capital reserves

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

ee) Retained earnings

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

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

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

Credit risk is determined by multiplying on-balance sheet and off-balance sheet exposures on the basis of their relative risks by the risk weighting to be allocated to a counterparty. The procedure for determining risk-relevant parameters (exposure, risk weighting) is based on percentages specified by regulatory requirements (standard approach). The market risk component of the Group is calculated using the standard approach. The capital requirements for operational risk are calculated by multiplying the revenues by the respective percentages for the divisions.
Regulatory own funds can be broken down into three elements:

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

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

Supplementary capital or tier II capital consists of non-current subordinated liabilities and hidden reserves.

Tier III capital consists of current subordinated liabilities.

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

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

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

Outlook on CRD IV / CRR: According to an agreement in the tripartite negotiations between the European Parliament, the European Council and the European Commission, CRD IV / CRR (Basel III) is expected to enter into force on 1 January 2014. This will differentiate between Common Equity Tier I (CET1) and Additional Tier I, whereby CET1 will form the main component of banks' capital in the future. According to transitional provisions, hybrid capital will be allocated as AT1 or T2 and will be subject to phasing out arrangements. In future, non-controlling interest at subsidiary companies will only be allowable against the pro rata minimum own funds requirement. Existing capital components that no longer meet the criteria for CET1, AT1 or T2 will be applied at a rate reduced by 10 percentage points each year. State participation capital is eligible as CET1 until 31 December 2017.

gg) Trustee transactions

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

hh) Repurchase transactions

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

ii) Contingent liabilities

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

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

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

jj) Cash flow statement

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

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

4) Net interest income

Euro thousand	2012	2011
Interest and similar income	998,530	1,449,533
Interest and similar income from	944,603	1,456,514
liquid funds	3,696	12,549
credit and money market transactions with credit institutions	100,836	85,986
credit and money market transactions with customers	465,469	793,819
debt securities	192,496	245,035
derivatives in the investment book	182,107	319,124
Current income from	24,891	–30,413
equities and other variable-yield securities	5,194	11,900
other affiliates	6,501	–186
companies measured at equity	–1,852	–46,548
investments in other companies	15,048	4,421
Income from operating lease and investment property	29,036	23,432
rental income investment property	17,364	15,014
income from operating lease contracts	11,672	8,419
rental income	32,744	36,535
depreciations	–21,073	–28,116
Interest and similar expenses of	–778,233	–1,055,099
deposits from credit institutions (including central banks)	–224,283	–330,091
deposits from customers	–73,431	–119,362
debts evidenced by certificates	–447,387	–547,257
subordinated liabilities	–25,569	3,482
derivatives in the investment book	–7,564	–61,871
Net interest income	**220,297**	**394,434**

Net interest income according to IAS 39 categories:

Euro thousand	2012	2011
Interest and similar income	998,530	1,449,533
Interest and similar income from	944,603	1,456,514
financial investments at fair value through profit or loss	6,090	14,939
derivatives in the investment book	182,107	319,124
financial investments not at fair value through profit or loss	756,406	1,122,451
financial investments available for sale	135,273	140,484
financial investments at amortised cost	590,455	925,802
of which financial lease	184,906	206,360
of which unwinding of risk provisions	1,412	997
financial investments held to maturity	30,678	56,165
Current income from	24,891	–30,413
financial investments at fair value through profit or loss	2,021	2,520
financial investments available for sale	24,722	13,615
companies measured at equity	–1,852	–46,548
Operating lease operations (including investment property)	29,036	23,432
Interest and similar expenses of	–778,233	–1,055,099
derivatives in the investment book	–7,564	–61,871
financial investments at amortised cost	–770,669	–993,228
Net interest income	**220,297**	**394,434**

5) Risk provisions

Euro thousand	2012	2011
Allocation to risk provisions	–504,172	–403,910
Release of risk provisions	188,995	317,753
Allocation to provisions for risks	–4,050	–8,222
Release of provisions for risks	5,239	1,665
Direct write-offs of loans and advances	–59,874	–14,779
Income from loans and advances previously written off	6,947	3,903
Risk provisions	**–366,916**	**–103,590**

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

6) Net fee and commission income

Euro thousand	2012	2011
Fee and commission income from	86,939	143,016
lending operations	30,589	42,856
securities businesses	43,966	54,970
payment transactions	4,252	6,777
foreign exchange, foreign notes and coins transactions	0	15,982
other banking services	8,132	22,432
Fee and commission expenses from	–28,731	–48,696
lending operations	–14,487	–23,866
securities businesses	–12,995	–12,471
payment transactions	–885	–620
foreign exchange, foreign notes and coins transactions	0	–10,555
other banking services	–364	–1,184
Net fee and commission income	**58,208**	**94,320**

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

Management fees for trust agreements were recognised in fee and commission income in the amount of euro 6 thousand (2011: euro 247 thousand).

7) Net trading income

Euro thousand	2012	2011
Equity related transactions	16,884	–30,862
Exchange rate related transactions	5,736	13,471
Interest rate related transactions	9,574	20,318
Net trading income	**32,195**	**2,927**

8) General administrative expenses

Euro thousand	2012	2011
Staff expenses	–140,551	–167,141
Wages and salaries	–103,013	–119,022
Expenses for statutory social security	–24,072	–30,231
Fringe benefits	–1,856	–3,908
Expenses for retirement benefits	–4,053	–4,385
Allocation to provision for severance payments and pensions	–7,558	–9,594
Other administrative expenses	–109,745	–116,815
Depreciation of fixed tangible and intangible assets	–13,208	–15,383
Scheduled depreciation (–)	–11,663	–14,622
Impairment (–)	–1,545	–761
General administrative expenses	**–263,504**	**–299,339**

Staff expenses include payments for defined contribution plans totalling euro 2,517 thousand (2011: euro 6,840 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 4,265 thousand (2011: euro 256 thousand).

For the business year, expenses for the auditor KPMG Austria AG Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 2,021 thousand. Thereof euro 1,734 thousand fall upon the audit of the consolidated financial statements (including financial statements fo fully consolidated companies and joint enterprises), euro 170 thousand upon advisory services and euro 118 thousand upon other audit services.

Information on compensation to board members

Euro thousand	2012	2011
Total compensation		
Supervisory board	115	96
Managing board	2,132	2,266
Former board members and their surviving dependents	567	350
Expenses for severance payments and pensions		
Managing board	1,793	680

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

Total compensation paid to managing board members consists of a fixed basic salary and other compensation (e.g. in-kind benefits). Board members receive no success or performance-based compensation. A stock-option programme and share transfer scheme is not available to board members. All contracts of incumbent board members as at 31 December 2012 comply with the new severance payment system.
Pension fund contributions are also paid for board members. The collective pension fund agreement for commercial credit cooperatives has been made applicable for board members. Any VBAG board member with a valid contract or mandate is entitled to participate. There is also a D&O insurance policy (directors' and officers' insurance).

Expenses for severance payments and pensions for the parent company's senior management amounted to euro 561 thousand (2011: euro 809 thousand).

Number of staff employed, including disposal group

	Average number of staff		Number of staff at year end	
	2012	2011	31 Dec 2012	31 Dec 2011
Domestic	1,188	1,378	1,137	1,325
Abroad	1,294	5,773	775	4,871
Total number of staff	**2,482**	**7,151**	**1,912**	**6,196**

The number of staff employed in disposal group is as follows

	Average number of staff		Number of staff at year end	
	2012	2011	31 Dec 2012	31 Dec 2011
Disposal group Banks CEE				
Domestic	10	63	0	72
Abroad	512	3,968	0	4,086
Employees Banks CEE	**522**	**4,031**	**0**	**4,158**
Total Employees disposal group	**522**	**4,031**	**0**	**4,158**

The average number of staff was calculated for the entire fiscal year 2012, which means 12 month, resulting in a decrease in comparison to 2011.

9) Restructuring cost

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

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

10) Other operating result

Euro thousand	2012	2011
Other operating income	913,255	59,717
Proceeds from deconsolidation of subsidiaries	–12,431	–286,451
Other operating expenses	–58,113	–41,141
Other taxes	–70,766	–41,050
Impairment of goodwill	–330	–56,423
Other operating result	**771,615**	**–365,348**

Adaptation of book value of PS 2008 and supplementary capital bond according to IAS 39 AG 8 results into income of euro 648,126 thousand for the reporting period. Other operating income also includes the income of repurchase of hybrid tier I capital to the amount of euro 143,239 thousand and the repurchase of tier II capital to the amount of euro 39,986 thousand (see note 34).

Hire purchase transactions as well as operating expenses and insurance contributions which are passed on to customers are netted and recognised in other operating income to the amount of euro 166,761 thousand (2010: euro 177,710 thousand), as this procedure presents a fairer view of the economic nature of these transactions.

In 2012, the proceeds from deconsolidation of subsidiaries contain the result of sale of VB Real Estate Leasing neun as well as of Immoconsult Asset Leasing GmbH. The comparative period amount consists of the deconsolidation result of Bonifraterska as well as VB RO and its subsidiary and two companies of the real-estate segment. Deconsolidation result from the disposal of VBI and its affiliates, as well as Selini and Trastona Holding Ltd. (Vremena Goda project), which was measured at equity, are shown in the result of discontinued operation. (see note 2)

Other taxes comprise the banking levy amounting to euro 45,594 thousand (2011: 36,476 thousand). There was a claim against an investment income tax liability amounting to euro 18,973 thousand following an audit.

Due to an impairment test for Heilbad Sauerbrunn, goodwill was partly impaired by euro 330 thousand in 2012. Amount of comparative period includes impairment of goodwill and brand of Investkredit.

Other operating expenses include expenses for vacancy of investment property assets to an insignificant extent.

11) Income from financial investments

Euro thousand	2012	2011
Result from financial investments at fair value through profit or loss	**7,264**	**–23,428**
Result from financial investments at fair value through profit or loss	7,264	–23,428
Debt securities	12,070	–19,544
Equity and other variable-yield securities	–4,806	–3,855
Result from fair value hedges	**29,600**	**–34,874**
Result from revaluation of underlying instruments	16,702	–25,777
Loans and advances to credit institutions and customers	28,732	12,232
Debt securities	96,336	111,201
Amounts owed to credit institutions and customers	–85,502	– 25,214
Debts evidenced by certificates	–26,113	–122,928
Subordinated liabilities	3,247	–1,066
Result from revaluation of derivates	12,898	–9,097
Result from valuation of other derivates in the investment book	**22,925**	**–51,632**
Equity related transactions	1,458	–691
Exchange rate related transactions	–18,553	28,387
Interest rate related transactions	1,347	–21,057
Credit related transactions	62,641	–59,547
Other transactions	–23,968	1,275
Result from available for sale financial investments (including participations)	**11,101**	**–280,604**
Realised gains / losses	34,982	4,961
Income from revaluation	65	470
Impairments	–23,946	–286,036
Result from loans & receivables financial investements	**–24,219**	**1,697**
Realised gains / losses	–22,550	7,055
Income from revaluation	3	0
Impairments	–1,673	–5,358
Result from held to maturity financial investments	**2,697**	**–17,390**
Realised gains / losses	2,697	11,937
Impairments	0	–29,328
Result from assets for operating lease and investment property assets as well as other financial investments	**–50,841**	**–34,907**
Realised gains / losses	2,556	1,954
Change in value investment property	–53,397	–36,861
Income from financial investments	**–1,472**	**–441,138**

Amongst others the result of the disposal of VICTORIA Volksbanken insurance companies is shown in the realised gains of available for sale financial investments. The closing took place as at 16 February 2012. In 2012, increased impairments of participations and investment property assets were reported in Real Estate Business. In the comparative period last year, impairments of Greek souvereign bonds in the category available for sale and held to maturity as well as impairment of participation capital of Kommunalkredit were reported.

In 2012, an amount of euro 12,148 thousand (2011: euro –2,583 thousand) previously recognised in the avialable for sale reserve was reclassified and shown in the income statement.

Euro thousand	2012	2011
Result from financial investments, which are measured at fair value through profit and loss	**6,392**	**–146,795**
Financial instruments at fair value through profit or loss	7,264	–23,428
Fair value hedges	29,600	–34,874
Other derivatives in investment book	22,925	–51,632
Investment property assets	–53,397	–36,861
Result from financial investments, which are not measured at fair value through profit and loss	**–7,865**	**–294,343**
Realised gains/losses	17,686	25,909
Available for sale financial investments	34,982	4,961
Loans & receivables financial investments	–22,550	7,055
Held to maturity financial investments	2,697	11,937
Operating lease assets and other financial investments	2,556	1,954
Income from revaluation	68	**470**
Available for sale financial investments	65	470
Loans & receivables financial investments	3	0
Impairments	–25,619	–320,722
Available for sale financial investments	–23,946	–286,036
Loans & receivables financial investments	–1,673	–5,358
Held to maturity financial investments	0	–29,328
Income from financial investments	**–1,472**	**–441,138**

12) Income taxes

Euro thousand	2012	2011
Current income taxes	–16,453	–11,201
Deferred income taxes	–126,087	–70,812
Income taxes discounted operation	–2,051	–12,754
Income taxes for the current fiscal year	**–144,591**	**–94,766**
Income taxes from previous periods continued operation	–13,858	–2,055
Income taxes from previous periods discounted operation	0	–1,260
Income taxes from previous periods	–13,858	–3,314
Income taxes	**–158,449**	**–98,080**

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

Euro thousand	2012	2011
Annual result before taxes - continued operation	450,422	–759,183
Annual result before taxes - discontinued operation	48,646	–132,005
Annual result before taxes - total	**499,067**	**–891,188**
Imputed income tax 25 %	124,767	–222,797
Tax relief resulting from		
tax-exempt investment income	–4,763	–609
investment allowances	74	–84
other tax-exempt earnings	–170	23
reduction of deferred taxes § 9 Abs. 7 KStG	–23,827	0
non-tax deductible impairment of goodwill	83	10,614
measurement of participation including outside basis differences	–38,907	54,935
adjustment of deferred tax assets	67	77,679
non-inclusion of deferred tax assets	85,121	171,884
re-inclusion of deferred tax assets	–113	0
changes in tax rates	–1,146	–984
different foreign tax rates	–2,184	–10,692
other differences	5,589	14,795
Reported income taxes	**144,591**	**94,766**
of which discontinued operation	2,051	12,754
Effective tax rate - continued operation	**31.65 %**	**–10.81 %**
Effective tax rate - including discontinued operation	28.97 %	–10.63 %

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

Deferred taxes totalling euro 15,409 thousand (2011: euro –42,255 thousand) were taken directly to equity. In 2012, tax loss carryforwards and deferred tax assets to the amount of euro 269 thousand (2011: euro 310,715 thousand) were impaired. Furthermore, no deferred taxes were recognised for taxable loss carryforwards and for deferred tax assets to the amount of euro 340,485 thousand (2011: euro 687,538 thousand) as, in the opinion of the management, the realisation of these tax loss carryforwards and deferred tax assets does not appear to be probable over an adequate period of time (up to 5 years). Therefore no deferred taxes were recognised for tax loss carryforwards to the amount of euro 2,112,298 thousand (2011: euro 1,946,915 thousand). Of these taxable loss carryforwards euro 2,094,103 thousand (2011: euro 1,829,088 thousand) are without limitation, and are mainly attributable to VBAG itself.

Notes to the consolidated statement of financial positions

13) Liquid funds

Euro thousand	31 Dec 2012	31 Dec 2011
Cash in hand	1,307	1,166
Balances with central banks	849,955	429,777
Liquid funds	**851,262**	**430,943**

14) Loans and advances to credit institutions

Loans and advances to credit institutions amounting to euro 7,270,203 thousand (2011: euro 7,964,310 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2012	31 Dec 2011
on demand	566,647	213,021
up to 3 months	1,075,179	4,883,328
up to 1 year	1,113,584	763,412
up to 5 years	3,938,172	759,790
more than 5 years	576,621	1,344,760
Loans and advances to credit institutions	**7,270,203**	**7,964,310**

15) Loans and advances to customers

Loans and advances to customers amounting to euro 10,055,734 thousand (2011: euro 12,717,062 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2012	31 Dec 2011
on demand	357,763	1,709,307
up to 3 months	369,384	836,106
up to 1 year	1,493,209	1,958,343
up to 5 years	5,175,411	5,130,236
more than 5 years	2,659,967	3,083,070
Loans and advances to customers	**10,055,734**	**12,717,062**

Finance lease disclosures

Euro thousand	until 1 year	until 5 years	more than 5 years	Total
2012				
Total gross investment	999,426	1,614,617	552,111	3,166,154
Less paid non-interest-bearing deposits	–341	–2,633	–13,570	–16,545
Less unearned financial income	–123,111	–173,705	–76,559	–373,374
Present value of minimum lease payments	**875,974**	**1,438,279**	**461,982**	**2,776,235**
Total unguaranteed residual value				**14,473**
2011				
Total gross investment	1,065,515	1,745,237	572,078	3,382,830
Less paid non-interest-bearing deposits	–1,040	–2,085	–12,839	–15,964
Less unearned financial income	–140,762	–199,300	–99,446	–439,507
Present value of minimum lease payments	**923,713**	**1,543,852**	**459,794**	**2,927,358**
Total unguaranteed residual value				**24,612**

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

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

16) Risk provisions

Euro thousand	Individual impairment credit institutions	Individual impairment customers	Portfolio based allowance	Total	of which disposal group
As at 1 Jan 2011	**872**	**1,470,404**	**56,880**	**1,528,155**	**265,653**
Changes in the scope of consolidation	0	–300,962	–10,948	–311,910	–5,623
Currency translation	0	–23,687	–983	–24,670	–18,693
Reclassification	0	6,153	–242	5,912	0
Unwinding	0	-9,941	0	–9,941	–8,944
Utilisation	–116	–139,325	0	–139,441	–43,875
Release	–53	–353,223	–16,859	–370,135	–52,382
Addition	0	612,026	31,409	643,435	239,525
As at 31 Dec 2011	**703**	**1,261,444**	**59,258**	**1,321,405**	**375,661**
Changes in the scope of consolidation	0	–360,812	–14,440	–375,252	–366,495
Currency translation	0	15,742	489	16,231	7,429
Reclassification	0	399	459	858	0
Unwinding	0	–2,375	0	–2,375	–963
Utilisation	0	–202,720	0	–202,720	–9,352
Release	0	–202,729	–2,990	–205,720	–16,725
Addition	0	374,001	140,616	514,617	10,445
As at 31 Dec 2012	**703**	**882,950**	**183,392**	**1,067,045**	**0**

The additions include an amount of euro 11,931 thousand (2011: euro 8,229 thousand), which is caused by allocation due to interest past-due. Loans and advances to customers include non-interest-bearing receivables amounting to euro 496,742 thousand (2011: euro 358,949 thousand). The line reclassification includes beside reclassifications from provisions also a reclassification from the position loans and advances to customers. Portfolio based allowances related to loans and advances to customers. The increase in portfolio based allowance in the 2012 business year is mainly attributable to the extension of the loss identification period (see note 3)n)).

17) Trading assets

Euro thousand	31 Dec 2012	31 Dec 2011
Debt securities	302,326	268,359
Equity and other variable-yield securities	30,352	32,697
Positive fair value from derivatives	2,235,735	1,801,156
equity related transactions	100,710	0
exchange rate related transactions	22,366	45,424
interest related transactions	2,112,659	1,755,732
Trading assets	**2,568,413**	**2,102,213**

Breakdown by residual term

Euro thousand	31 Dec 2012	31 Dec 2011
up to 3 months	1,095	2,010
up to 1 year	8,689	7,156
up to 5 years	126,175	74,432
more than 5 years	166,366	184,761
Debt securities	**302,326**	**268,359**

18) Financial investments

Euro thousand	31 Dec 2012	31 Dec 2011
Financial investments at fair value through profit or loss	189,905	495,578
Debt securities	120,042	419,614
Equity and other variable-yield securities	69,863	75,964
Financial investments available for sale	3,209,084	3,467,590
Debt securities	3,106,941	3,348,293
Equity and other variable-yield securities	102,143	119,297
Financial investments loans & receivables	1,050,051	1,456,567
Financial investments held to maturity	1,112,018	1,375,899
Financial investments	**5,561,058**	**6,795,633**

Financial investments held to maturity also include deferred interest of euro 19,046 thousand (2011: euro 26,613 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2012	31 Dec 2011
up to 3 months	356,307	397,774
up to 1 year	509,993	403,213
up to 5 years	2,176,881	2,709,368
more than 5 years	2,345,871	3,090,017
Debt securities	**5,389,052**	**6,600,372**

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

Euro thousand	31 Dec 2012	31 Dec 2011
Listed securities	5,208,867	6,033,793
Debt securities	5,196,469	6,017,861
Equity and other variable-yield securities	12,398	15,932
Securities allocated to fixed assets	5,160,713	9,003,353
Securities eligible for rediscounting	3,453,937	4,594,584

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

Financial investments measured at fair value through profit or loss

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

Reclassification from available for sale to loans & receivables

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

Euro thousand	31 Dec 2012	31 Dec 2011	1 Jul 2008
Carrying amount	472,558	599,185	1,140,363
Fair value	465,136	543,225	1,140,363
Available for sale reserve with reclassification	–27,673	–40,663	–79,177
Available for sale reserve without reclassification	–38,228	–88,891	–79,177

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

Average effective interest rate - classified by currency

	EUR	USD	GBP	JPY	Total
Average effective interest rate	2.20 %	2.28 %	2.92 %	2.32 %	2.28 %

19) Assets for operating lease (including investment property)

Euro thousand	Investment properties	Other operating lease assets	Total	of which disposal group
Cost as at 1 Jan 2011	1,609,626	174,322	1,783,948	1,444,154
Changes in the scope of consolidation	–1,350,026	270	–1,349,756	–1,422,387
Currency translation	–2,434	–3,437	–5,870	–2,248
Additions, including transfers	29,062	27,648	56,711	18,254
Disposals, including transfers	–18,680	–47,268	–65,948	–17,380
Cost as at 31 Dec 2011	**267,549**	**151,536**	**419,084**	**20,394**
Changes in the scope of consolidation	95,230	73	95,303	–20,394
Currency translation	719	664	1,383	
Additions, including transfers	27,113	21,112	48,225	
Disposals, including transfers	–12,292	–53,016	–65,308	
Cost as at 31 Dec 2012	**378,318**	**120,369**	**498,688**	

Euro thousand	Investment properties	Other operating lease assets	Total	of which disposal group
2011				
Cost as at 31 Dec 2011	267,549	151,536	419,084	20,394
Cumulative write-downs and write-ups	–24,247	–66,291	–90,538	–259
Carrying amount as at 31 Dec 2011	**243,301**	**85,245**	**328,546**	20,135
Impairments in fiscal year	–38,953	–28,433	–67,387	–898
Revaluations in fiscal year	2,142	317	2,459	948
Carrying amount as at 1 Jan 2011	1,732,170	104,344	1,836,514	1,522,150
2012				
Cost as at 31 Dec 2012	378,318	120,369	498,688	
Cumulative write-downs and write-ups	–91,512	–53,037	–144,549	
Carrying amount as at 31 Dec 2012	**286,806**	**67,333**	**354,139**	
Impairments in fiscal year	–57,470	–22,408	–79,878	
Revaluations in fiscal year	4,073	1,335	5,408	

In 2012, carrying amount of investment property assets to the amount of euro 12,119 thousand (2011: euro 1,300 thousand) was disposed of.

Investment properties contain 21 completed properties (2011: 14) as well as three property under construction with a carrying amount of euro 44,090 thousand (2011: three properties under construction with a carrying amount of euro 44,938 thousand). These properties are located in Austria as well as in countries of Central and Eastern Europe. At balance sheet date, the properties under construction are measured at fair value.

In 2011 investment properties of the disposal group contain three completed properties as well as none property under construction. These properties are primarily located in the countries of Central and Eastern Europe.

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

Future minimum lease payments under non-callable leases

Euro thousand	31 Dec 2012	31 Dec 2011
up to 3 months	7,977	10,889
up to 1 year	20,246	29,858
up to 5 years	46,680	62,001
more than 5 years	44,420	40,247
Future minimum lease payments	**119,323**	**142,996**

20) Companies measured at equity

Additional information on companies measured at equity

Euro thousand	2012	2011
Cumulative total assets as at 31 Dec	3,724,780	4,341,496
Cumulative equity as at 31 Dec	271,029	467,043
Cumulative revenues	127,140	27,440
Cumulative net income	–169,246	–135,474

Companies measured at equity in the disposal group

Euro thousand	2011
Cumulative total assets as at 31 Dec	303,960
Cumulative equity as at 31 Dec	146,143
Cumulative revenues	27,314
Cumulative net income	18,016

For the calculation of revenues, the net interest income, net fee and comission income as well as net trading income was considered.

Not recognised proportional loss of companies measured at equity

Euro thousand	2012	2011
Loss of the period proportional	–84,763	–22,792
Change in other comprehensive income of the period proportional	–11,015	0
Cumulative loss	–107,555	–22,792
Cumulative other comprehensive income	–11,015	0

21) Participations

Euro thousand	31 Dec 2012	31 Dec 2011
Investments in unconsolidated affiliates	11,034	437,236
Participating interests	60,544	91,978
Investments in other companies	372,714	50,369
Participations	**444,562**	**579,583**

A list of non-consolidated affiliates can be found in note 56.

The shift from investments in unconsolidated affiliates to investments in other companies related to the initial consolidation of UBG-Bankenbeteiligungs GmbH. This is a holding company which holds participation in companies including RZB (see note 2).

Participations with a carrying amount of euro 46,544 thousand (2011: euro 28,507 thousand) were disposed of under the participations item during the business year. Profit from these sales amounted to euro 24,488 thousand (2011: euro 7,545 thousand) and is shown under income from financial investments.

Shares and participations in companies whose fair value cannot be determined without an unreasonable amount of effort are carried at cost net of any impairment. One company is listed on the stock exchange and is valued at its stock exchange price. Shares and participations with a carrying amount of euro 315,909 thousand were also measured at market value.

In December 2011, a contract was signed regarding the sale of shares held in VICTORIA-VOLKSBANKEN Versicherungsgesellschaften. The sale was closed on 16 February 2012. The carrying amount of these participations when sold amounted to euro 20,778 thousand. Both parties agreed not to disclose the purchase price.

According to the planned restructuring of the Group, business operations outside the new core area (non-core business) will be wound down or sold in accordance with their respective repayment profiles. This also includes shares and participations.

22) Intangible assets

Euro thousand	Software	Goodwill	Other	Total	of which disposal group
Cost as at 1 Jan 2011	114,664	256,360	28,992	400,016	119,920
Changes in the scope of consolidation	–6,830	–5,309	–97	–12,237	–5,694
Currency translation	–3,371	–25	–151	–3,547	–3,281
Additions, including transfers	13,685	0	163	13,848	–8,108
Disposals, including transfers	–6,033	–1,598	–514	–8,145	–3,520
Cost as at 31 Dec 2011	**112,115**	**249,428**	**28,393**	**389,936**	115,533
Changes in the scope of consolidation	–70,481	–246,169	–3,099	–319,750	
Currency translation	86	0	7	93	
Additions, including transfers	3,875	0	32	3,907	
Disposals, including transfers	–313	0	–25,066	–25,379	
Cost as at 31 Dec 2012	**45,282**	**3,258**	**266**	**48,806**	

Euro thousand	Software	Goodwill	Other	Total	of which disposal group
2011					
Cost as at 31 Dec 2011	112,115	249,428	28,393	389,936	115,533
Cumulative write-downs and reversals	–74,661	–231,708	–28,083	–334,452	–73,826
Carrying amount as at 31 Dec 2011	**37,455**	**17,720**	**310**	**55,484**	41,706
of which unlimited useful life	0	17,720	0	17,720	16,970
of which limited useful life	37,455	0	310	37,764	24,736
Amortisation in fiscal year	–10,825	0	–425	–11,250	–7,280
Impairments in fiscal year	0	–42,458	–24,860	–67,318	–10,895
Carrying amount as at 1 Jan 2011	**39,013**	**65,117**	**25,502**	**129,631**	57,877
2012					
Cost as at 31 Dec 2012	45,282	3,258	266	48,806	
Cumulative write-downs and reversals	–31,768	–2,838	–232	–34,839	
Carrying amount as at 31 Dec 2012	**13,514**	**420**	**34**	**13,967**	
of which unlimited useful life	0	420	0	420	
of which limited useful life	13,514	0	34	13,547	
Amortisation in fiscal year	–3,256	0	–62	–3,318	
Impairments in fiscal year	0	–330	0	–330	

In position software no internally developed software is included.

The brand capitalised during the acquisition of Investkredit, which was written off in the 2011 business year, was derecognised following the merger of Investkredit and VBAG.

Composition of goodwill

Euro thousand	Carrying amount 31 Dec 2012	Impairment 2012	Carrying amount 31 Dec 2011	Impairment 2011
Investment Book / Other Operation Segment	0	0	0	31,563
Real Estate segment	420	–330	750	0
VBI sub-group				
Retail segment	0	0	16,970	10,895
Total	**420**	**–330**	**17,720**	**42,458**

The disposal of the VBI sub-group in the 2012 business year resulted in the derecognition of VBI sub-group goodwill. Goodwill from the Investment Book/Other Operation segment was derecognised during the merger of Investkredit and VBAG. Remaining goodwill in the Real Estate segment in the 2012 business year relates to Heilbad Sauerbrunn and is the result of deferred tax liabilities from property valuation. The impairment test is based on the latest valuation of property. In case of a devaluation of the property goodwill is impaired in relation to the devaluation. Based on an impairment test carried out on 31 December 2012, the goodwill of Heilbad Sauerbrunn was impaired by euro 330 thousand. Since all other goodwill were derecognised, either following the sale of company participation or during merger, no further impairment tests were necessary.

23) Tangible fixed assets

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other	Total	of which disposal group
Cost as at 1 Jan 2011	275,806	55,112	102,336	32,675	465,930	233,544
Changes in the scope of consolidation	–25,238	–5,954	–12,285	–11,460	–54,937	–22,294
Currency translation	–3,260	–1,581	–1,278	–952	–7,072	-5,999
Additions, including transfers	3,639	6,108	6,021	4,692	20,461	10,124
Disposals, including transfers	–3,728	–7,235	–7,347	–4,607	–22,916	–12,159
Cost as at 31 Dec 2011	247,219	46,451	87,448	20,348	401,466	203,218
Changes in the scope of consolidation	–106,243	–39,839	–45,043	–11,972	–203,098	–203,218
Currency translation	126	82	57	146	410	
Additions, including transfers	8,978	10,058	1,739	2,578	14,796	
Disposals, including transfers	–13,991	–5,868	–14,481	–2,943	–28,726	
Cost as at 31 Dec 2012	**136,089**	**10,884**	**29,719**	**8,156**	**184,848**	

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other	Total	of which disposal group
2011						
Cost as at 31 Dec 2011	247,219	46,451	87,448	20,348	401,466	203,218
Cumulative write-downs and reversals	–68,681	–38,006	–65,028	–13,080	–184,795	–114,297
Carrying amount as at 31 Dec 2011	**178,539**	**8,445**	**22,419**	**7,268**	**216,671**	88,920
Depreciation in fiscal year	–8,338	–4,957	–6,299	–3,761	–23,354	–12,702
Impairments in fiscal year	–800	–31	–183	–76	–1,090	–329
Carrying amount as at 1 Jan 2011	**205,015**	**9,529**	**31,220**	**17,379**	**263,144**	112,229
2012						
Cost as at 31 Dec 2012	136,089	10,884	29,719	8,156	184,848	
Cumulative write-downs and reversals	–23,592	–8,558	–17,577	–4,446	–54,173	
Carrying amount as at 31 Dec 2012	**112,497**	**2,326**	**12,142**	**3,710**	**130,676**	
Depreciation in fiscal year	–3,557	–1,344	–1,994	–1,450	–8,345	
Impairments in fiscal year	–1,545	0	0	0	–1,545	

24) Tax assets

Euro thousand	31 Dec 2012	31 Dec 2011
Current tax assets	11,104	22,870
Deferred tax assets	43,896	111,116
Tax assets	**55,000**	**133,985**

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

Euro thousand	31 Dec 2012	31 Dec 2011
Loans and advances to credit institutions	8	12
Loans and advances to customers, including risk provisions	90,582	43,263
Trading assets	3,585	1,799
Financial investments	752	19,249
Assets for operating lease (including investment property)	1,508	1,312
Participations	6,514	10,384
Intangible and tangible fixed assets	145	86
Amounts owed to credit institutions	27,763	25,831
Amounts owed to customers	43,976	28,679
Debts evidenced by certificates and subordinated liabilities	101,259	115,091
Provisions for pensions, severance payments and other provisions	13,283	17,699
Other assets and liabilities	175,642	230,082
Tax loss carryforwards	39,306	79,715
Deferred taxes before netting	504,322	573,203
Offset against liabilities side deferred taxes	–460,426	–462,087
Reported deferred tax assets	**43,896**	**111,116**

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

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

25) Other assets

Euro thousand	31 Dec 2012	31 Dec 2011
Deferred items	9,557	11,138
Other receivables and assets	195,946	456,519
Positive fair value from derivatives in the investment book	1,213,368	1,551,398
Other assets	**1,418,872**	**2,019,055**

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

	31 Dec 2012		31 Dec 2011	
Euro thousand	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Exchange rate related transactions	541	0	739	0
Interest rate related transactions	786,935	1,747	730,854	2,384
Positive fair value from derivatives	787,476	1,747	731,594	2,384

26) Amounts owed to credit institutions

Euro thousand	31 Dec 2012	31 Dec 2011
Central banks	304,231	652,075
Other credit institutions	9,530,287	10,997,676
Amounts owed to credit institutions	**9,834,518**	**11,649,751**

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2012	31 Dec 2011
on demand	4,009,849	4,178,088
up to 3 months	621,030	3,232,318
up to 1 year	1,657,271	996,818
up to 5 years	1,728,217	1,931,819
more than 5 years	1,818,153	1,310,708
Amounts owed to credit institutions	**9,834,518**	**11,649,751**

27) Amounts owed to customers

Euro thousand	31 Dec 2012	31 Dec 2011
Measured at amortised cost	2,542,128	2,712,738
Saving deposits	200	198
Other deposits	2,541,928	2,712,540
Amounts owed to customers	**2,542,128**	**2,712,738**

Breakdown by residual term

Euro thousand	31 Dec 2012	31 Dec 2011
on demand	481,396	839,290
up to 3 months	101,201	212,497
up to 1 year	101,019	118,696
up to 5 years	735,969	361,545
more than 5 years	1,122,543	1,180,710
Amounts owed to customers	**2,542,128**	**2,712,738**

28) Debts evidenced by certificates

Euro thousand	31 Dec 2012	31 Dec 2011
Bonds	9,912,347	13,452,120
Debts evidenced by certificates	**9,912,347**	**13,452,120**

Debts evidenced by certificates are measured at amortised cost.

Breakdown by residual term

EUR Tsd.	31 Dec 2012	31 Dec 2011
up to 3 months	1,584,798	1,506,748
up to 1 year	941,616	2,134,860
up to 5 years	4,024,132	5,577,159
more than 5 years	3,361,800	4,233,352
Debts evidenced by certificates	**9,912,347**	**13,452,120**

29) Trading liabilities

Euro thousand	31 Dec 2012	31 Dec 2011
Negative fair value from derivatives		
Equity related transactions	104,785	0
Exchange rate related transactions	19,691	36,828
Interest rate related transactions	1,948,642	1,594,609
Trading liabilities	**2,073,118**	**1,631,437**

30) Provisions

EUR Tsd.	Provisions for risk	Other provisions	Total	of which disposal group
As at 1 Jan 2011	27,743	98,738	126,481	15,910
Changes in the scope of consolidation	–202	–14,619	14,822	–10,378
Currency translation	–14	–855	–869	–835
Reclassification	–2,306	6,564	4,258	0
Utilisation	–3,120	–24,677	–27,796	–1,675
Release	–3,633	–38,148	–41,781	–2,090
Addition	9,966	72,471	82,436	8,527
As at 31 Dec 2011	28,433	99,474	127,907	9,460
Changes in the scope of consolidation	–3,038	–6,549	–9,586	–9,586
Currency translation	–42	406	364	352
Reclassification	–1,970	–201	–2,171	0
Utilisation	–874	–17,858	–18,732	–75
Release	–5,798	–23,757	–29,555	–593
Addition	4,493	22,790	27,283	443
As at 31 Dec 2012	**21,205**	**74,305**	**95,509**	**0**

Provisions for risk include provisions for off-balance transactions particularly for commitments and guarantees. Mainly these provisions are long-term provisions.

The other provisions item provides for liabilities that are likely to lead to an outflow of funds in the future. The restructuring provision recognised in the 2011 business year totalling euro 41,450 thousand fulfils the criteria given under IAS 37.10. The restructuring provision was utilised during the 2012 business year and totalled euro 32,605 thousand as at the reporting date. This is a long-term provision since most restructuring measures are to be implemented by the end of 2016. Provisions for real estate projects and other participations primarily in the Real Estate segment amounting to euro 26,701 thousand (2011: euro 28,323 thousand) are connected with the planned winding-down and are mainly long-term provisions. Other long-term provisions were recognised for pending litigation amounting to euro 6,627 thousand (2011: euro 4,279 thousand), for probable outflows of funds due to future interest rate adjustments totalling euro 6,234 thousand and for unwinding costs relating to securities held for trading amounting to euro 7,500 thousand.

31) Long-term employee provisions

Euro thousand	Provisions for pension	Provisions for severance payments	Provisions for anniversary bonuses	Total	of which disposal group
Long-term employee provisions as at 1 Jan 2011	77,672	28,619	4,581	110,872	3,854
Changes in the scope of consolidation	0	–467	4	–463	–220
Current service costs	483	1,994	419	2,895	488
Interest costs	3,600	1,229	202	5,031	185
Payments	–3,226	–1,514	–231	–4,971	–61
Actuarial gains or losses	7,348	1,708	–319	8,737	96
Net present value as at 31 Dec 2011	85,877	31,569	4,655	122,101	4,342
Unrecognised actuarial gains or losses	–8,588	–1,708	0	–10,296	–168
Long-term employee provisions as at 31 Dec 2011	77,289	29,861	4,655	111,805	4,174
Changes in the scope of consolidation	0	–3,700	–524	–4,224	–4,174
Current service costs	304	1,607	391	2,302	
Interest costs	3,878	1,319	202	5,399	
Payments	–3,243	–3,290	–463	–6,996	
Actuarial gains or losses	10,235	3,603	222	14,059	
Net present value as at 31 Dec 2012	88,464	29,399	4,483	122,346	
Unrecognised actuarial gains or losses	–8,846	–2,940	0	–11,786	
Long-term employee provisions as at 31 Dec 2012	**79,617**	**26,459**	**4,483**	**110,560**	

Net present value of plan assets

Euro thousand	Provisions for pensions	of which disposal group
Net present value of plan assets as at 1 Jan 2011	40,611	52
Changes in the scope of consolidation	0	–52
Return on plan assets	1,692	
Contributions	581	
Payments	–2,144	
Actuarial gains or losses	–4,971	
Net present value of plan assets as at 31 Dec 2011	35,769	
Changes in the scope of consolidation	0	
Return on plan assets	1,128	
Contributions	3,798	
Payments	–2,282	
Actuarial gains or losses	0	
Net present value of plan assets as at 31 Dec 2012	**38,413**	

The pension provision is netted with the present value of plan assets.

Euro thousand	Provisions for pensions	Provisions for severanve payments	Provisions for anniversary bonuses	Total
31 Dec 2011				
Long-term employee provisions	77,289	29,861	4,655	111,805
Net present value of plan assets	–35,769	0	0	–35,769
Net liability recognised in balance sheet	**41,521**	**29,861**	**4,655**	**76,036**
of which disposal group	0	3,700	475	4,175
31 Dec 2012				
Long-term employee provisions	79,617	26,459	4,483	110,560
Net present value of plan assets	–38,413	0	0	–38,413
Net liability recognised in balance sheet	**41,205**	**26,459**	**4,483**	**72,147**

Historical information

Euro thousand	2012	2011	2010	2009	2008
Net present value of obligation	122,346	122,101	119,094	103,928	112,923
Net present value of plan assets	38,413	35,769	40,611	40,067	33,042

32) Tax liabilities

Euro thousand	31 Dec 2012	31 Dec 2011
Current tax liabilities	16,662	9,315
Deferred tax liabilities	145,563	74,378
Tax liabilities	**162,226**	**83,693**

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

Euro thousand	31 Dec 2012	31 Dec 2011
Loans and advances to credit institutions	6,363	474
Loans and advances to customers, including risk provisions	43,778	53,352
Financial investments	43,848	9,402
Assets for operating lease (including investment property)	9,607	8,177
Participations	53,444	95,099
Intangible and tangible fixed assets	5,323	5,352
Amounts owed to credit institutions	461	4,555
Amounts owed to customers	48	16
Debts evidenced by certificates and subordinated liabilities	168,473	8,082
Provisions for pensions, severance payments and other provisions	509	8,233
Other assets and liabilities	259,175	328,710
Other balance sheet items	14,962	15,013
Deferred taxes before netting	605,990	536,465
Offset against asset-side deferred taxes	–460,426	–462,087
Reported deferred tax liabilities	**145,563**	**74,378**

33) Other liabilities

Euro thousand	31 Dec 2012	31 Dec 2011
Deferred items	11,716	19,714
Other liabilities	149,046	540,009
Negative fair value from derivatives in the investment book	1,003,434	1,368,106
Other liabilities	**1,164,197**	**1,927,828**

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

	31 Dec 2012		31 Dec 2011	
Euro thousand	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Exchange rate related transactions	59,983	0	63,625	0
Interest rate related transactions	571,046	1,499	357,417	1,801
Negative fair value from derivatives	**631,029**	**1,499**	**421,042**	**1,801**

34) Subordinated liabilities

Euro thousand	31 Dec 2012	31 Dec 2011
Subordinated liabilities	362,114	844,523
Supplementary capital	258,604	884,135
Subordinated liabilities	**620,718**	**1,728,658**

Subordinated liabilities are measured at amortised cost. The carrying amount of supplementary capital was re-calculated in accordance with IAS 39 AG 8. Here, the present value was determined by discounting estimated future cash flows using the original effective interest rate. In the previous year, this valuation was based on contractual cash flows over the entire term in accordance with IAS 39.9 due to uncertainties regarding the future business model.

Subordinated liabilities comprise hybrid tier I capital in the amount of euro 57,698 thousand (2011: euro 300,000 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2012	31 Dec 2011
up to 3 months	25,069	28,533
up to 1 year	7,574	5,293
up to 5 years	235,054	720,792
more than 5 years	353,021	974,040
Subordinated liabilities	**620,718**	**1,728,658**

35) Cash flows on the liability side

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

Euro thousand	Amounts owed to credit institutions	Amounts owed to customers	Debt evidenced by certificates	Subordinated liabilities	Derivatives trading book	Derivatives investment book
31 Dec 2012						
Carrying amount	9,834,518	2,542,128	9,912,347	620,718	2,073,118	1,003,434
Undiscouned cash flows	**10,256,941**	**3,286,886**	**11,733,985**	**834,499**	**2,824,662**	**336,649**
up to 3 months	4,632,614	609,250	1,533,382	0	0	1,373
up to 1 year	1,714,726	157,341	1,194,213	17,384	80,254	49,585
up to 5 years	2,006,418	970,134	4,984,809	279,763	980,374	172,177
more than 5 years	1,903,184	1,550,161	4,021,580	537,351	1,764,033	113,514
31 Dec 2011						
Carrying amount	11,649,751	2,712,738	13,452,120	1,728,658	1,631,437	1,368,106
Undiscouned cash flows	**12,273,992**	**3,467,343**	**15,768,246**	**2,054,954**	**2,822,607**	**1,245,940**
up to 3 months	7,480,082	1,134,275	1,517,555	31,271	0	6,206
up to 1 year	1,301,967	180,344	2,483,201	18,959	99,418	200,126
up to 5 years	1,960,778	600,637	6,732,370	989,587	585,867	408,222
more than 5 years	1,531,165	1,552,086	5,035,119	1,015,137	2,137,323	631,386

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

36) Equity

As at 31 December 2012, the subscribed capital of VBAG before deduction of treasury stocks amounted to euro 577,329 thousand. It consists of registered shares as follows:

		Euro thousand
10	registered shares with restricted transferability	0
264,708,208	registered shares	577,329
		577,329

Following the decision made at the Annual General Meeting on 26 April 2012 and entry into the Commercial Register on 28 September 2012, capital was reduced by 70% and then increased again. This involved a share capital increase of euro 484 million through the issue of 221,916,552 new shares. Euro 250 million of these shares were taken up by the Republic of Austria and euro 234 million by Volksbanken Holding eGen.

On 7 April 2009, the Republic of Austria subscribed to participation capital totalling one billion euros in tranches of euro 50 million. This participation capital totalled euro 300 million following the capital reduction. Please refer to the Group issues table in note 37) Own resources in accordance to Austrian Banking Act for information on interest rates. The Republic of Austria has a conversion right for this participation capital. As of the reporting date, all of this participation capital was held by the Republic of Austria. The participation capital issued in 2008 amounting to euro 150 million (euro 500 million prior to the capital reduction) is reported under subordinated liabilities.

In addition to its equity, VBAG reported participation capital with a nominal value of euro 310 million at 31 December 2012 (2011: euro 1,034 million). The participation certificates are made out to bearers and their terms of issue and the contributions paid correspond to the provisions of section 23 (4) of the Austrian Banking Act.

Changes in subscribed capital

Number of units	31 Dec 2012 Shares	31 Dec 2012 Participations certificates	31 Dec 2011 Shares	31 Dec 2011 Participation certificates
Shares and participation certificates outstanding as at 1 Jan	42,095,239	162,940	42,096,395	167,710
Capital increase	221,916,552	0	0	0
Disposal of treasury stocks and participation certificates	–904	–787	–1,156	–4,772
Addition of treasury stocks and participation certificates	2	0	0	2
Shares and participations certificates outstanding as at 31 Dec	264,010,889	162,153	42,095,239	162,940
Treasury stocks and participation certificates	697,329	18,296	696,427	17,509
Shares and participation certificates as at 31 Dec	**264,708,218**	**180,449**	**42,791,666**	**180,449**

20,449 pieces (2011: 20,449 pieces) of circulating and of total issued participation certificates have a face value of euro 15 thousand per certificate. The remaining participation certificates have a face value of euro 21,80 per certificate.

At the extraordinary general meeting on 15 December 2008, amended by the annual general meeting on 20 March 2009, a contingent capital increase of up to euro 156 million through the issue of ordinary shares was resolved. This capital increase may only be carried out to the extent that the bearers of the participation capital issued in line with the resolution of the general meeting on 15 December 2008 make use of their conversion rights (authorised capital).

Dividend payment including participation capital

Euro thousand	2012	2011
Dividend voting capital	0	0
Dividend non-voting capital	0	0
Total	**0**	**0**

In the business year 2013 there will be no dividends on shares or participation capital paid.

37) Own resources according to Austrian Banking Act

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

Euro thousand	31 Dec 2012	31 Dec 2011
Subscribed capital (less treasury stocks)	1,035,633	1,031,217
Open reserves (including differential amounts and non-controlling interests)	1,049,266	1,833,768
Funds for general banking risks	10,376	10,667
Intangible assets	–15,957	–40,207
Net loss	–353,076	–484,287
Core capital (tier I capital) before deductions	1,726,242	2,351,158
Deductions from core capital (50% deduction pursuant to section 23 (13) Austrian Banking Act)	–17,614	–46,119
Core capital (tier I capital) after deductions	1,708,628	2,305,040
Supplementary capital	265,538	220,573
Eligible subordinated liabilities	345,090	648,281
Hidden reserves persuant to section 57 (1) Austrian Banking Act	74,144	39,064
IRB risk provision surplus	0	62,684
Supplementary capital (tier II capital) before deductions	684,772	970,602
Deductions from supplementary capital (50% deduction pursuant to section 23 (13) Austrian Banking Act)	–17,614	–46,119
Supplementary capital (tier II capital) after deductions	667,158	924,483
Deductions from own funds pursuant to section 103e no. 13 Austrian Banking Act	–3,467	–24,297
Short-term subordinated liabilities (tier III capital)	95,175	120,866
Eligible qualifying capital	**2,467,494**	**3,326,092**
Capital requirement	1,257,610	2,100,985
Surplus capital	1,209,884	1,225,107
Core capital ratio (tier I) (in relation to the assessment base pursuant to section 22 Austrian Banking Act - credit risk)	12.71 %	10.05 %
Equity ratio (solvency ratio) (in relation to credit risk after deduction of capital requirements for market and operational risk)	17.00 %	13.34 %
Core capital ratio (in relation to the risks pursuant to section 22 (1) no. 1 - 5 Austrian Banking Act)	10.87 %	8.78 %
Equity ratio (in relation to the risks pursuant to section 22 (1) no. 1 - 5 Austrian Banking Act)	15.70 %	12.66 %

Open reserves include hybrid tier I capital totalling euro 57,698 thousand (2011: euro 300,000 thousand).

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

Euro thousand	31 Dec 2012	31 Dec 2011
Risk-weighted assessment base pursuant to section 22 Austrian Banking Act - credit risk	13,443,438	22,946,850
Of which 8% minimum capital requirement for credit risk	1,075,475	1,835,748
Capital requirement for position risk in debt instruments, equities, foreign exchange and commodities - market risk	95,175	120,866
Capital requirement for operational risk	86,960	144,371
Total capital requirement	**1,257,610**	**2,100,985**

Group issues which are included in Tier I or Tier II

Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
Tier I issues				
Participation certificate 1986	equity	perpetual	Dividends	3,488
Participation certificate 2006	equity	perpetual	Average 3m Euribor + 130 bp	6,735
Participation certificate 2008	subordinated liabilities	perpetual	10.00% p.a.; from 18 Jun 2018: 6m Euribor + 100 bp + initial spread (or remarketing)	150,000
Participation certificate 2009	equity	perpetual	Dividends: 9.30% p.a., in year 6 of duration: 9.80% p.a., in year 7 of duration: 10.30% p.a., in year 8 of duration: 11.05% p.a., from year 9 of duration: respectively interest rate of previous year + 100 bp p.a., max, 12m Euribor + 1000 bp	300,000
VBAG Fixed/Floating Rate Perpetual Preferred Securities 2004	subordinated liabilities	perpetual	6.00% p.a.; from 22 Sep 2005 10Y-Mid Swap + 100 bp p.a., Cap 9.00% p.a.	32,629
Subordinated non-cumulative Limited Recourse Note	subordinated liabilities	perpetual	3m Euribor + 165 bp p.a.	25,069
Tier II issues				
Supplementary bond capital 04/14	subordinated liabilities	22.04.2014	2005: 4.00% p.a.; 2006: 4.13% p.a.; 2007: 4.25% p.a.; 2008: 4.50% p.a.; 2009: 4.75% p.a.; 2010: 5.00% p.a.; 2011: 5.25% p.a.; 2012: 5.50% p.a.; 2013: 6.00% p.a.; 2014: 7.00% p.a.	33,944
Supplementary bond capital 04/24	subordinated liabilities	16.04.2024	5.5% p.a.; from 16 April 2014: 6.375%	32,900
Supplementary bond capital 04/24	subordinated liabilities	29.04.2024	5.65% p.a.; from 29 April 2014: 6.375% p.a.	21,000
Supplementary bond capital 04/19	subordinated liabilities	02.08.2019	5.45% p.a.	4,760
Supplementary bond capital 05/15	subordinated liabilities	29.07.2015	6m Euribor + 70 bp	17,100
Supplementary bond capital 05/15	subordinated liabilities	29.07.2015	4.17% p.a.	21,000
Supplementary bond capital 05/25	subordinated liabilities	29.07.2025	4.81% p.a.	34,500
Supplementary bond capital 05/18	subordinated liabilities	29.07.2018	6m Euribor + 72 bp; from 29 July 2015: 6m Euribor + 180 bp	63,200
Supplementary bond capital 05/20	subordinated liabilities	07.09.2020	2006: 3.00% p.a.; 2007: 3.125% p.a.; 2008: 3.25% p.a.; 2009: 3.375% p.a.; 2010: 3.50% p.a.; 2011: 3.625% p.a.; 2012: 3.75% p.a.; 2013: 3.875% p.a.; 2014: 4.00% p.a.; 2015: 4.25% p.a.; 2016: 4.50% p.a.; 2017: 5.00% p.a.; 2018: 6.00% p.a.; 2019: 7.00% p.a.; 2020: 8.00% p.a.	6,520
Supplementary bond capital 05/25	subordinated liabilities	18.08.2025	4.90% p.a.	7,500
Supplementary bond capital 05/18	subordinated liabilities	16.11.2018	4.35% p.a.	10,000
Supplementary bond capital 06/19	subordinated liabilities	09.08.2019	6m Euribor + 72 bp; from 09 Aug 2016: 6m Euribor + 150 bp	12,000
Supplementary bond capital 01/21	subordinated liabilities	08.03.2021	7.00% p.a.	15,000
Supplementary bond capital 02/22	subordinated liabilities	20.06.2022	6.70% p.a.; from 20 Jun 2012: 7.00%	11,000
Supplementary bond capital 02/22	subordinated liabilities	24.07.2022	10Y CMS, at least 6.00% p.a.; from 24 July 2012: 7.00% p.a.	4,000
Supplementary bond capital 01-21	subordinated liabilities	06.03.2021	7.00% p.a.	30,000
ERP Fonds	subordinated liabilities	31.12.2018	1.00% p.a.	3,339
ERP Fonds	subordinated liabilities	31.12.2013	2.00% p.a.	685
ERP Fonds	subordinated liabilities	31.12.2014	2.00% p.a.	1,442
Subordinated zero bond liability 06/16	subordinated liabilities	03.10.2016	0% p.a.	20,000
Subordinated CMS Floater to Fix 07/17	subordinated liabilities	30.03.2017	10Y CMS; from 30 Mar 2012: 6.00% p.a.	4,000
Subordinated Merkur Best of Life II Garant 08-20	subordinated liabilities	01.12.2020	0% p.a.	3,000

Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
Subordinated bond liability 03/23	subordinated liabilities	25.09.2023	5.72% p.a.; from 25 Sep 2013: 6.00% p.a.	12,000
Subordinated bond liability 01/21	subordinated liabilities	15.03.2021	6.50% p.a.; from 15 Mar 2011: 6.75% p.a.	15,000
Subordinated Lower Tier II Notes due November 2016	subordinated liabilities	28.11.2016	3m Euribor + 35 bp; from 28 Nov 2011: 3m Euribor + 85 bp	88,400
Subordinated bond liability 02/22	subordinated liabilities	25.01.2022	6.35% p.a.; from 25 Jan 2012: 7.00% p.a.	30,000
Subordinated zero bond liability 07/17	subordinated liabilities	03.04.2017	0% p.a.	20,000
Subordinated bond liability 07/27	subordinated liabilities	08.02.2027	5.27% p.a.	14,000
Subordinated bond liability 06/26	subordinated liabilities	19.01.2026	4.05% p.a.; from 19 Jan 2016: 5.00% p.a.	25,000
Subordinated bond liability 02/22	subordinated liabilities	18.01.2022	6.35% p.a.; from 18 Jan 2012: 7.00% p.a.	3,000
Subordinated zero bond liability 06/16	subordinated liabilities	01.06.2016	0% p.a.	12,600
Subordinated bond liability 03/13	subordinated liabilities	10.09.2013	80.00% from 10Y CMS + 75 bp, at least 4.00% p.a., max. 7.25% p.a.	8,000
Promissory note bond	subordinated liabilities	18.01.2017	5.00% p.a.	3,000
Promissory note bond	subordinated liabilities	15.05.2017	4.87% p.a.	10,000
Promissory note bond	subordinated liabilities	30.05.2017	5.01% p.a.	10,000
Promissory note bond	subordinated liabilities	30.05.2017	5.01% p.a.	10,000
Subordinated Investkredit-Floater 99/14	subordinated liabilities	14.05.2014	93.00% from 10Y-Swapinterests, at least 4.00% p.a.	18,000
Subordinated Investkredit FRN 00/20	subordinated liabilities	14.03.2020	3m Euribor + 53 bp	5,000
Subordinated Investkredit bond 01/16	subordinated liabilities	12.02.2016	6.40% p.a.	20,000
Subordinated Euro CMS linked Floating Rate Notes 02/22	subordinated liabilities	12.04.2022	if 10Y CMS < or = 4.50%, then 10Y CMS + 300 bp; if 10Y CMS > 4.50%, then 10Y CMS; if 10Y CMS > 7.00%, then 7.00% p.a.	4,000

In accordance with IFRS reporting, the scope of consolidation differs from the group of consolidated companies under the Austrian Banking Act as the IFRS provides for the inclusion of other entities not belonging to the banking sector. According to the Austrian Banking Act, credit institutions, financial institutions and subsidiaries providing banking-related auxiliary services that are under the control of the parent or where the group helds a majority of shares either direct or indirect are fully consolidated. VB RO and VBI Beteiligungs GmbH are still included in the group of credit institutions and are fully consolidated for the purpose of calculation of own resources and capital requirements due to the majority of shares. 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 2012, no substantial, practical or legal obstacles existed which would have prevented the transfer of equity or the repayment of liabilities between the parent institution and institutions subordinated to the former.

38) Financial assets and liabilities

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

Euro thousand	Note	Held for trading	At fair value through profit or loss	Held to maturity	Available for sale	Amortised cost	Carrying amount-total	Fair value
31 Dec 2012								
Liquid funds	13	0	0	0	0	851,262	851,262	851,262
Loans and advances to credit institutions	14	0	0	0	0	7,270,203	7,270,203	7,269,500
Loans and advances to customers	15	0	0	0	0	10,055,734	10,055,734	9,172,784
Trading assets	17	2,568,413	0	0	0	0	2,568,413	2,568,413
Financial investments	18	0	189,905	1,112,018	3,209,084	1,050,051	5,561,058	5,505,106
Participations	21	0	0	0	444,562	0	444,562	444,562
Derivatives – investment book	25	1,213,368	0	0	0	0	1,213,368	1,213,368
Financial assets – total		**3,781,781**	**189,905**	**1,112,018**	**3,653,646**	**19,227,250**	**27,964,601**	**27,024,995**
Amounts owed to credit institutions	26	0	0	0	0	9,834,518	9,834,518	9,834,518
Amounts owed to customers	27	0	0	0	0	2,542,128	2,542,128	2,542,128
Debst evidenced by certificates	28	0	0	0	0	9,912,347	9,912,347	9,762,785
Trading liabilities	29	2,073,118	0	0	0	0	2,073,118	2,073,118
Derivatives – investment book	33	1,003,434	0	0	0	0	1,003,434	1,003,434
Subordinated liabilities	34	0	0	0	0	620,718	620,718	436,727
Financial liabilities – total		**3,076,552**	**0**	**0**	**0**	**22,909,711**	**25,986,262**	**25,652,709**

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

Financial investments contain securities classified as held to maturity and loans & receivables with a carrying amount of euro 1,126,750 thousand (2011: euro 1,745,416 thousand), a total of euro 101,945 thousand (2011: euro 270,577 thousand) above their fair value, as there is no objective evidence of impairment.

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

Carrying amounts of underlyings of fair value hedges

Euro thousand	Interest rate risk Available for sale	Interest rate risk Amortised cost	Foreign currency risk Available for sale	Foreign currency risk Amortised cost
31 Dec 2012				
Loans and advances to credit institutions	0	580,684	0	0
Loans and advances to customers	0	684,757	0	76,354
Financial investments	1,974,546	115,040	113,521	0
Financial assets	**1,974,546**	**1,380,481**	**113,521**	**76,354**
Amounts owed to credit institutions	0	893,869	0	0
Amounts owed to customers	0	999,453	0	0
Debts evidenced by certificates	0	5,701,617	0	34,512
Subordinated liabilities	0	0	0	0
Financial liabilities	**0**	**7,594,939**	**0**	**34,512**
31 Dec 2011				
Loans and advances to credit institutions	0	14,347	0	0
Loans and advances to customers	0	658,501	0	90,216
Financial investments	1,547,263	150,471	132,210	0
Financial assets	**1,547,263**	**823,319**	**132,210**	**90,216**
Financial assets of the disposal group	0	16,050	0	0
Amounts owed to credit institutions	0	1,365,663	0	0
Amounts owed to customers	0	817,132	0	0
Debts evidenced by certificates	0	9,574,901	0	90,845
Subordinated liabilities	0	95,000	0	0
Financial liabilities	**0**	**11,852,696**	**0**	**90,845**
Financial liabilities of the disposal group	0	0	0	0

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	Level 3	Total
31 Dec 2012				
Trading assets	84,490	2,483,923	0	2,568,413
Financial investments	2,761,008	552,623	66,725	3,380,356
at fair value through profit or loss	48,815	74,365	66,725	189,905
available for sale	2,712,193	478,258	0	3,190,451
Parcitipations	6,260	3,500	312,409	322,169
Derivatives – investment book	0	1,213,368	0	1,213,368
Total	**2,851,758**	**4,253,414**	**379,134**	**7,484,306**
Trading liabilities	0	2,073,118	0	2,073,118
Derivatives – investment book	0	1,003,434	0	1,003,434
Total	**0**	**3,076,552**	**0**	**3,076,552**
31 Dec 2011				
Trading assets	92,003	2,010,210	0	2,102,213
Financial investments	3,460,652	502,516	0	3,963,168
at fair value through profit or loss	301,572	194,007	0	495,578
available for sale	3,159,080	308,509	0	3,467,590
Derivatives – investment book	0	1,551,398	0	1,551,398
Total	**3,552,655**	**4,064,124**	**0**	**7,616,778**
Financial assets of the disposal group	403,231	75,891	0	479,123
Trading liabilities	0	1,631,437	0	1,631,437
Derivatives – investment book	0	1,368,106	0	1,368,106
Total	**0**	**2,999,543**	**0**	**2,999,543**
Financial liabilities of the disposal group	0	41,727	0	41,727

Available for sale financial investments totalling euro 18,632 thousand and participations totalling euro 122,393 thousand are measured at amortised cost because their fair value cannot be determined without unreasonable effort.

Financial investments carried at fair value through profit and loss include some illiquid fund holdings in private equity companies amounting to euro 66,725 thousand. External fund managers determine market prices based on industry-standard EVCA valuation criteria for these financial instruments. These are made available regularly. Asset Management performs internal price monitoring. No significant deviations in value were noted in the past which would suggest major uncertainties in determining fair values.

Please refer to note 3) t) Participations for a description of the valuation procedures used for participations.

When determining market values for level 2 financial investments, VBAG only uses prices based on observable market data. If systems deliver price information for inactive traded positions, this is checked based on secondary market data such as credit spreads and transactions in comparable products performed on active markets. The system prices are then adjusted accordingly if necessary.

The allocation of financial instruments to individual fair value categories was improved further and adjusted to current industry practice. Consequently, and because of inactivity in some market segments, certain financial instruments that were still in level 1 or 2 in the previous year (valuation methods based on market data) are now allocated to level 2 or 3 (valuation methods not based on market data).

Development of Level 3 fair values

Euro thousand	Financial investments at fair value through profit or loss	Participations	Total
As at 1 Jan 2012	0	0	0
Changes in the scope of consolidation	0	392,168	392,168
Currency translation	703	0	703
Reallocation in Level 3	66,720	124	66,844
Additions	2,403	0	2,403
Disposals	–3,197	0	–3,197
Valuation			
through profit or loss	96	0	95
through other comprehensive income	0	–79,883	–79,883
As at 31 Dec 2012	**66,725**	**312,409**	**379,134**

In terms of sensitivity analyses for level 3 market values under participations, factors that increase or decrease value are determined in alternative valuation scenarios by varying income estimates and income-based parameters within a range of 10% to 20%. In the event of a beneficial movement, market value changes by euro 31,346 thousand, while a detrimental movement leads to a change of euro –31,341 thousand.

39) Cash flow hedges

In cash flow hedge accounting, interest rate swaps and caps & floors are used with a view to hedging the interest rate risk of variable-interest financial investments and liabilities.

Periods in which cash flows can be expected to occur

	Interest rate related transactions	
Euro thousand	31 Dec 2012	31 Dec 2011
up to 3 months	128	–1,218
up to 1 year	414	407
up to 5 years	5,702	3,956
more than 5 years	552	1,401
Total	**6,796**	**4,546**

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

EUR Tsd.	Interest rate related transactions 31 Dec 2012	31 Dec 2011
up to 3 months	67	297
up to 1 year	509	–458
up to 5 years	4,390	3,875
more than 5 years	536	3
Total	**5,502**	**3,718**

Changes in value in the hedging reserve in the amount of euro –1,468 thousand (2011: euro –3,196 thousand) were recognised in income during the reporting period. No significant inefficiencies have been realised in cash flow hedge.

40) Derivatives

Derivative financial instruments

	Nominale value				Fair value	
Euro thousand	up to 1 year	1 to 5 years	more than 5 years	Total	31 Dec 2012	31 Dec 2011
Interest related transactions	11,689,850	26,255,550	19,861,714	57,807,115	455,724	495,139
Caps & Floors	2,221,250	2,391,851	1,639,056	6,252,157	21,264	21,893
Forward rate agreements	0	0	0	0	0	–1,105
Futures	136,200	0	0	136,200	0	–3,377
Interest rate swaps	9,103,972	23,251,982	18,045,659	50,401,612	440,658	511,605
Swaptions	228,428	611,718	177,000	1,017,146	–6,198	–33,877
Currency related transactions	5,951,027	2,079,079	375,476	8,405,582	–86,055	–59,591
Cross currency swaps	220,565	1,992,122	373,474	2,586,160	–117,475	–113,276
Foreign exchange options	23,698	65,020	2,002	90,720	1,592	4,629
FX Swaps	5,596,018	10,242	0	5,606,260	28,868	50,830
Forward exchange transactions	110,747	11,696	0	122,442	961	–1,774
Credit related transactions	1,446,150	1,594,218	127,158	3,167,527	5,839	–88,301
Other transactions	1,194,183	2,838,022	213,764	4,245,968	–2,959	6,764
Futures – index related	19,575	0	0	19,575	0	–1,458
Options	1,174,608	2,838,022	213,764	4,226,393	–2,959	8,222
Total	**20,281,211**	**32,766,869**	**20,578,113**	**73,626,192**	**372,549**	**354,011**

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

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

41) Hedge of a net investment in a foreign operation

In the business years 2012 and 2011 there was no hedge of a net investment in a foreign operation.

42) Assets and liabilities denominated in foreign currencies

On the balance sheet date, assets denominated in foreign currencies (non-MUM currencies) totalled euro 6,123,661 thousand (2011: euro 14,632,983 thousand), whereas liabilities denominated in foreign currencies stood at euro 1,863,765 thousand (2011: euro 9,326,195 thousand). Differences between the amounts of foreign currency assets and liabilities are covered by derivative transactions. The assets and liabilities denominated in foreign currencies are presented including disposal group.

43) Trust transactions

Euro thousand	31 Dec 2012	31 Dec 2011
Assets from trust transactions		
Loans and advances to credit institutions	4	0
Loans and advances to customers	504,494	247,801
Financial investments	1,409	727
Mutual funds	2,671,542	2,794,446
Liabilities arising from trust transactions		
Amounts owed to credit institutions	4	0
Amounts owed to customers	504,494	247,801
Debts evidenced by certificates	727	727
Other liabilities	682	0
Mutual funds	2,671,542	2,794,446

44) Subordinated assets

Euro thousand	31 Dec 2012	31 Dec 2011
Loans and advances to credit institutions	83,110	77,313
Loans and advances to customers	0	16,032
Financial investments	76,315	273,152

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

Euro thousand	31 Dec 2012	31 Dec 2011
Assets pledged as collateral		
Loans and advances to credit institutions	48	48
Loans and advances to customers	875,075	711,116
Financial investments	99,696	97,635
Liabilities for which assets have been pledged as collateral		
Amounts owed to credit institutions	974,772	808,751

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and advances to customers in the amount of euro 352 million (2011: euro 519 million) have been provided as collateral. These loans and advances are guaranteed by means of Austrian government default guarantees, private insurance policies and draft guarantees. OeKB may not repledge or sell these loans and advances to customers if the Group performs in accordance with the contract.

Furthermore, financial investments in the amount of euro 60 million (2011: euro 46 million) have been assigned as collateral for global loans from the European Investment Bank (EIB). The EIB also does not have the option to sell or repledge this collateral if the Group performs in accordance with the contract.

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

46) Contingent liabilities and credit risks

Euro thousand	31 Dec 2012	31 Dec 2011
Contingent liabilities		
Liabilities arising from guarantees	1,343,320	3,836,614
Liabilities arising from assets pledged as collateral	0	52,000
Others (amount guaranteed)	26,206	28,261
Commitments		
Liabilities arising from sales with an option to repurchase	0	1,466
Unutilised loan commitments	3,828,228	5,442,755

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

Euro thousand	Loan commitments	Guarantees as contracted	Guarantees expected
31 Dec 2012			
Carrying amount	3,828,228	1,343,320	
Undiscounted cash flows	**3,828,228**	**1,343,320**	**20,928**
up to 3 months	1,192,787	1,343,320	0
up to 1 year	2,634,428	0	0
up to 5 years	1,014	0	20,928
more than 5 years	0	0	0
31 Dec 2011			
Carrying amount	5,442,755	3,836,614	
Undiscounted cash flows	**5,442,755**	**3,836,614**	**25,216**
up to 3 months	1,278,670	3,836,614	0
up to 1 year	3,497,980	0	12,628
up to 5 years	666,106	0	12,588
more than 5 years	0	0	0

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

If the management estimates a cash out flow for financial guarantees, a provision was built for off-balance risks to the amount of the probable cash out flow under consideration of possible available collaterals. Therefore the provision amounts to euro 20,928 thousand (2011: euro 25,216 thousand).

47) Repurchase transactions and other transferred assets

As at 31 December 2012, VBAG as pledgor had buy-back commitments under genuine repurchase agreements in the amount of euro 695,607 thousand (2011: euro 1,394,364 thousand).

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

48) Related party disclosures

Euro thousand	Unconsolidated affiliates	Companies in which the Group has a participating interest	Associated companies	Companies which exercise a significant influence on the parent as shareholders	of which disposal group
31 Dec 2012					
Loans and advances to credit institutions	0	1,138,256	1,390,082	52	
Loans and advances to customers	78,967	186,923	2,799	0	
Risk provisions (–)	–13,400	–48,934	0	0	
Debt securities	0	214,217	0	959,990	
Amounts owed to credit institutions	0	1,108,374	59,687	0	
Amounts owed to customers	9,812	29,152	2,316	131	
Provisions	0	0	0	0	
Liabilities arising from guarantees	2,542	0	0	0	
31 Dec 2011					
Loans and advances to credit institutions	0	1,213,973	1,929,388	43,864	4,011
Loans and advances to customers	304,250	191,370	5,860	0	2,292
Risk provisions (–)	–11,790	–31,406	0	0	0
Debt securities	13,688	131,652	0	0	0
Amounts owed to credit institutions	0	1,187,316	98,482	1,174,058	360,749
Amounts owed to customers	46,987	79,388	14,803	152	31,990
Provisions	0	0	0	0	0
Liabilities arising from guarantees	3,675	0	0	15,224	0

Transfer prices between the VBAG Group and its associated companies are geared to usual market conditions. As in previous year, VBAG Group does not have any other liabilities for unconsolidated affiliates or associated companies on balance sheet date.

The shareholders Volksbanken Holding e. Gen. and the Republic of Austria exercise a significant influence on Österreichische Volksbanken-AG. The shares of the DZ Bank AG Deutsche Zentral Genossenschaftsbank have been diluted by the capital increase.

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

Euro thousand	31 Dec 2012	31 Dec 2011
Outstanding loans and advances	14	25
Redemptions	27	25
Interest payments	0	0

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

As at 31 December 2012, loans and advances to credit institutions contained transactions with the Volksbank-Sector amounting to euro 4,933,668 thousand (2011: euro 5,015,379 thousand) and amounts owed to credit institutions included transactions with the Volksbank-Sector amounting to euro 5,337,289 thousand (2011: euro 4,735,288 thousand).

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

Euro thousand	Covering loans	Coverage requirements debts evidenced by certificates	Surplus cover
31 Dec 2012			
Covered Bonds	840,334	744,092	96,243
Total	**840,334**	**744,092**	**96,243**
31 Dec 2011			
Mortgage Bonds	572,807	221,898	350,910
Covered Bonds	830,718	766,584	64,134
Total	**1,403,526**	**988,482**	**415,044**

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

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

50) Branches

	31 Dec 2012	31 Dec 2011
Domestic	1	1
Abroad	1	296
Total number of branches	**2**	**297**

In 2011, the disposal group Banks CEE has 295 branches.

51) Events occurring after the balance sheet date

In accordance with the agreement of 27 February 2012, the Republic of Austria provided VBAG with an asset guarantee on 15 March 2013, up to a maximum amount of euro 100 million. The asset guarantee is effective retroactive to 31 December 2012 and ends not later than 31 December 2015. Since the asset guarantee was concluded after 31 December 2012, its effects are not reflected in these consolidated financial statements, since IFRS does not permit it to be applied retroactively. Under IAS/IFRS rules, a receivable arising from the assumption of bad debts must be discounted to the reporting date. The earn-out clause included in this asset guarantee constitutes a liability that likewise must be discounted to the relevant reporting date. In the company-only financial statements, which have been prepared under the Austrian Commercial Code, the asset guarantee means that specific provisions amounting to euro 100 million were reversed, and this was recognised in the 2012 business year because the asset guarantee is deemed to be effective retroactively. Under IFRS, the net balances arising from the discounting of the receivable and the discounting of the liability under the earn-out clause will be shown under other operating result.

Christoph Raninger was appointed to the VBAG Managing Board on 15 February 2013, where he is responsible for the Markets business area.

No further events with a significant impact on the Group's financial statements as at 31 December 2012 occurred between the balance sheet date and the preparation of the Group's financial statements by the managing board. The managing board released the Group's financial statements and handed it on to the supervisory board on 21 March 2013. The supervisory board has the function of verifying and declaring if it approves the Group's financial statements.

52) Segment reporting

Segment reporting changed in the 2012 business year following restructuring. The VBAG Group now has seven business segments which correspond to strategic business fields. The Financing, Financial Markets/Investment Book and Other Operations segments constitute VBAG's core business segments. Non-core business is split into the segments of Non-core Corporates, Non-core Real Estate, Non-core Retail and Non-core Investment Book/Other Operations. The previous-year figures were adjusted accordingly. These business areas offer various products and services and are managed differently in accordance with the internal management and reporting structure. In this process, a business unit is organised as a profit centre, which means that all results are allocated to the business unit, irrespective of whether these results are generated in the business unit itself or by the parent company.

A report is submitted to the Managing Board and management for each business segment at least once a quarter. These reports are based on the subsidiaries' separate IFRS financial statements and attributable results based on the market interest method. Settlement prices for assessments, refinancing or services performed between entities within the Group are in line with standard market conditions. Group overheads are divided between business segments based on the solvency assessment calculation and cost ratios. The cost of Group projects is also allocated to business segments. Equity is essentially assigned as refinancing for 10% of allocated asset items. For the remaining 90%, loans and advances to credit institutions and debts evidenced by certificates are allocated in proportion to refinancing at VBAG.

The measurement and accounting principles used in the consolidated financial statements are also applied to segment reporting. The business segments are managed according to the income statement items given in segment reports as well as the carrying amounts recorded. Interest income and interest expenses are not stated separately because the management is carried out on the basis of factors including net interest income.

Financing
The Financing segment comprises the syndicate financing, housing construction financing and model financing profit centres as well as the VB Leasing Finanzierung Group together with moveable equipment leasing in Austria and VB Factoring Bank.

Financial Markets/Investment Book
The Group Treasury profit centre is responsible for liquidity supply on money and capital markets and for managing the VBAG trading book. It offers all standard money market products for customers as part of Treasury Sales. The Volksbank Investments profit centre is also allocated here – which is responsible for areas including managing investment funds and issuing guarantee certificates – as well as Immo KAG and the Investment Book.

Other Operations
All other activities which cannot be clearly allocated to any of the other business segments are included here. This also includes the results of VB Services für Banken GmbH and holding companies which hold shares in the core business. The decline in net fee and commission income is the result of a change in the recognition of income from costs passed on, which has been reported in other operating income since the third quarter of 2012. General administrative expenses rose following the reversal of a provision for material costs in the previous year. This includes administrative expenses passed on through other operating income. As well as income from settlements of services, other operating income also includes the banking levy and a claim against an investment income tax liability guarantee.

Non-core Corporates
The Non-core Corporates segment comprises the corporate customer, renewable energies and Investkredit Investmentbank AG profit centres.

Non-core Real Estate
This segment comprises real estate financing and real estate credits, as well as real estate leasing and international project development relating to the VB Real Estate Services Group's commercial real estate. The Europolis Group's real estate asset management is also allocated here, which is recorded as a discontinued operation.

Non-core Retail
The Non-core Retail segment comprises the business areas of CEE banks and CEE moveable goods leasing. CEE banks includes Volksbank Romania and Volksbank International AG together with its subsidiary banks in Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Ukraine. The VBI sub-group is presented as a discontinued operation on account of its sale. The CEE moveable goods leasing business area includes the VB Leasing International Group together with its activities in Central and Eastern Europe.

Non-core Investment Book/Other Operations
This segment includes the sections of the investment book which are to be wound down or sold in accordance with their repayment profile. Volksbank Malta Limited and holding companies of participations in the non-core business are also allocated here.

Consolidation
Consolidation matters are reported separately from other activities in the Consolidation column. These items contain amounts arising from consolidation processes that are not performed within a segment.

Secondary segment reporting is based on markets where the VBAG Group operates. All activities that focus on Austria and Central and Eastern Europe are presented here. Other markets that do not constitute a major component of operations are grouped within the Other segment. Geographical segment reporting is based on the head office location. Results of VBAG itself are allocated to the region where the income is generated. Any consolidation processes not performed in the regions of Central and Eastern Europe or Other markets are allocated to Austria. Adjustment to segment reporting based on business areas also resulted in changes to previous-year figures in segment reporting for regional markets.

a) Segment reporting by business segments

Euro thousand	Financing	Financial Markets/ Investment Book	Other Operations	Non-core Corporates	Non-core Real Estate	Non-core Retail	Non-core Investment Book/Other Operations	Conso-lidation	Total
Net interest income									
2012	**44,158**	**–96,355**	**13,720**	**51,165**	**72,614**	**91,229**	**51,256**	**–7,490**	**220,297**
2011	45,147	–19,788	3,589	86,982	92,267	148,864	44,673	–7,300	394,434
of which income from companies measured at equity									
2012	**0**	**0**	**–335**	**0**	**0**	**–1,517**	**0**	**0**	**–1,852**
2011	0	0	–69	0	0	–46,480	0	0	–46,548
Risk provisions									
2012	**–1,993**	**–25**	**–8,652**	**–65,777**	**–265,337**	**–15,133**	**–10,000**	**0**	**–366,916**
2011	15,904	–8,166	–1,539	23,944	–53,368	–71,779	–8,584	0	–103,590
Net fee and commission income									
2012	**7,325**	**30,952**	**2,949**	**2,955**	**607**	**5,362**	**5,808**	**2,250**	**58,208**
2011	8,156	46,763	21,783	6,192	2,656	12,439	7,378	–11,047	94,320
Net trading income									
2012	**110**	**28,065**	**2,495**	**–79**	**206**	**1,434**	–37	**0**	**32,195**
2011	103	–10,353	–2,052	1,500	529	12,895	304	0	2,927
General administrative income									
2012	**–35,129**	**–60,150**	**–31,611**	**–34,736**	**–45,537**	**–47,436**	**–18,469**	**9,564**	**–263,504**
2011	–36,767	–71,667	–17,479	–45,571	–37,476	–91,627	–21,146	22,394	–299,339
Restructuring cost									
2012	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2011	0	0	–36,820	0	–4,630	0	0	0	–41,450
Other operating result									
2012	**5,661**	**831,462**	**–47,672**	**–12,231**	**285**	**7,451**	**–6,814**	**–6,527**	**771,615**
2011	7,144	116	–16,602	28	141	–287,289	–63,232	–5,653	–365,348
of which impairment of goodwill and brand									
2012	**0**	**0**	**0**	**0**	**–330**	**0**	**0**	**0**	**–330**
2011	0	0	0	0	0	0	–56,423	0	–56,423
Income from financial investments									
2012	**–165**	**12,319**	**3,847**	**11,770**	**–69,980**	**3,048**	**37,689**	**0**	**–1,472**
2011	–325	63,973	11,064	560	–76,424	–4,736	–435,249	0	–441,138
Income from discounted operation									
2012	**0**	**0**	**0**	**0**	**12,793**	**33,650**	**0**	**2,203**	**48,646**
2011	0	0	0	0	1,127	–134,740	0	1,607	–132,005
Annual result before taxes									
2012	**19,966**	**746,268**	**–64,923**	**–46,933**	**–294,348**	**79,604**	**59,434**	**0**	**499,067**
2011	**39,362**	**878**	**–38,057**	**73,636**	**–75,178**	**–415,972**	**–475,856**	**0**	**–891,188**
Income taxes including taxes from discontinued operation									
2012	**–2,696**	**–140,755**	**–61,297**	**14,981**	**56,417**	**–11,503**	**–13,595**	**0**	**–158,449**
2011	–9,572	–2,234	–118,926	–17,204	–3,224	–21,544	74,624	0	–98,080
Annual result after taxes									
2012	**17,270**	**605,513**	**–126,221**	**–31,953**	**–237,931**	**68,101**	**45,839**	**0**	**340,618**
2011	**29,789**	**–1,356**	**–156,983**	**56,432**	**–78,403**	**–437,516**	**–401,232**	**0**	**–989,268**
Total assets									
2012	**2,703,069**	**19,164,918**	**1,123,350**	**1,803,690**	**3,140,751**	**1,811,729**	**4,011,209**	**–6,091,582**	**27,667,134**
2011	3,053,693	27,624,092	2,729,943	3,694,740	4,224,597	10,910,925	4,730,575	–15,833,983	41,134,582
Loans and advances to customers									
2012	**2,647,729**	**1,450,159**	**11**	**1,917,531**	**3,091,380**	**1,819,179**	**547,395**	**–1,417,649**	**10,055,734**
2011	2,869,333	1,904,505	0	3,336,630	3,686,183	1,908,976	627,631	–1,616,196	12,717,062
Companies measured at equity									
2012	**0**	**0**	**10,293**	**0**	**0**	**0**	**0**	**0**	**10,293**
2011	0	0	12,606	0	0	0	0	0	12,606
Amounts owed to customers									
2012	**118,556**	**2,513,331**	**20**	**58,385**	**135,968**	**8,976**	**18,602**	**–311,711**	**2,542,128**
2011	315,388	2,307,262	21	24,050	120,156	16,226	16,350	–86,716	2,712,738
Debts evidenced by certificates, including subordinated liabilities									
2012	**398,951**	**8,765,768**	**0**	**351,333**	**586,088**	**0**	**986,982**	**–556,056**	**10,533,065**
2011	422,674	14,153,148	0	1,040,547	1,030,401	0	1,453,333	–2,919,325	15,180,777

b) Segment reporting by regional markets

Euro thousand	Austria	Central and Eastern Europe	Other Markets	Total
Net interest income				
2012	**118,671**	**109,557**	**–7,931**	**220,297**
2011	169,917	158,422	66,096	394,434
of which income from companies measured at equity				
2012	**–335**	**–1,517**	**0**	**–1,852**
2011	–69	–46,480	0	–46,548
Risk provisions				
2012	**–302,731**	**–24,286**	**–39,898**	**–366,916**
2011	–41,203	–71,966	9,579	–103,590
Net fee and commission income				
2012	**16,502**	**4,242**	**37,464**	**58,208**
2011	26,286	12,485	55,549	94,320
Net trading income				
2012	**3,034**	**894**	**28,266**	**32,195**
2011	–145	13,114	–10,043	2,927
General administrative expenses				
2012	**–118,045**	**–53,360**	**–92,100**	**–263,504**
2011	–98,436	–94,842	–106,061	–299,339
Restructuring cost				
2012	**0**	**0**	**0**	**0**
2011	–41,450	0	0	–41,450
Other operating result				
2012	**771,207**	**3,777**	**–3,369**	**771,615**
2011	–78,528	–277,129	–9,690	–365,348
Income from financial investments				
2012	**64,967**	**–34,138**	**–32,302**	**–1,472**
2011	–181,382	–41,282	–218,474	–441,138
Income from discontinued operation				
2012	**0**	**48,646**	**0**	**48,646**
2011	–3,924	–128,081	0	–132,005
Annual result before taxes				
2012	**553,606**	**55,332**	**–109,870**	**499,067**
2011	–248,863	–429,281	–213,044	–891,188

All significant long-term assets are located in Austria.

53) Risk report

General

Assuming and professionally managing the risks connected with business activities is a core function of every bank. VBAG performs the key tasks of implementing and supporting processes and methods for identifying, managing, measuring and monitoring all risks related to banking operations at VBAG Group level.

To this end, the following various risks are addressed in the context of the risk strategy specified annually by the Managing Board on the basis of risk policy principles in force across the Group:

- Credit risk (counterparty risk)
- Market risk (interest rate risk, foreign exchange risk, option risk, commodity risk, risks relating to assets and credit spread risk)
- Operational risk
- Liquidity risk
- Investment risk and
- Other risks

Current developments

Risk management activities in 2012 were largely shaped by the consequences of the Republic of Austria becoming the second largest shareholder in VBAG and the bank's new role as the central organisation of the newly established association of Volksbanks.

The sale of Volksbank International (VBI) was completed in February 2012. This was one of the first key milestones in the VBAG Group's reform strategy. The sale of the VBI Group led to a considerable decline in risk-weighted assets and much lower risk for VBAG.

Another step towards reform was made when the new association structure pursuant to section 30a of the Austrian Banking Act took effect in September 2012. As the central organisation, VBAG must ensure that the banking association has administration, accounting and control procedures in place to record, assess, manage and monitor business and operational banking risks as well as compensation policies and practices (section 39 (2) of the Austrian Banking Act). The central organisation's rights to issue instructions for this purpose were established in Q4 2012 and took effect at the end of 2012. Harmonising and refocusing the risk management methods, processes and systems previously employed by VBAG and the Volksbanks represented the start of a new chapter in 2012 based on the motto of "One association – one system". This work will be continued in 2013 in a project set up specifically for this purpose.

VBAG was merged with its subsidiary Investkredit as part of restructuring at the end of September 2012, with retroactive effect from 31 December 2011.

Preparations for new supervisory requirements under Basel III represent another focal point for risk management. The associated projects, preparations and test calculations as well as system and process adaptations are already well underway, even though the specific date for the new rules taking effect has not yet been decided.

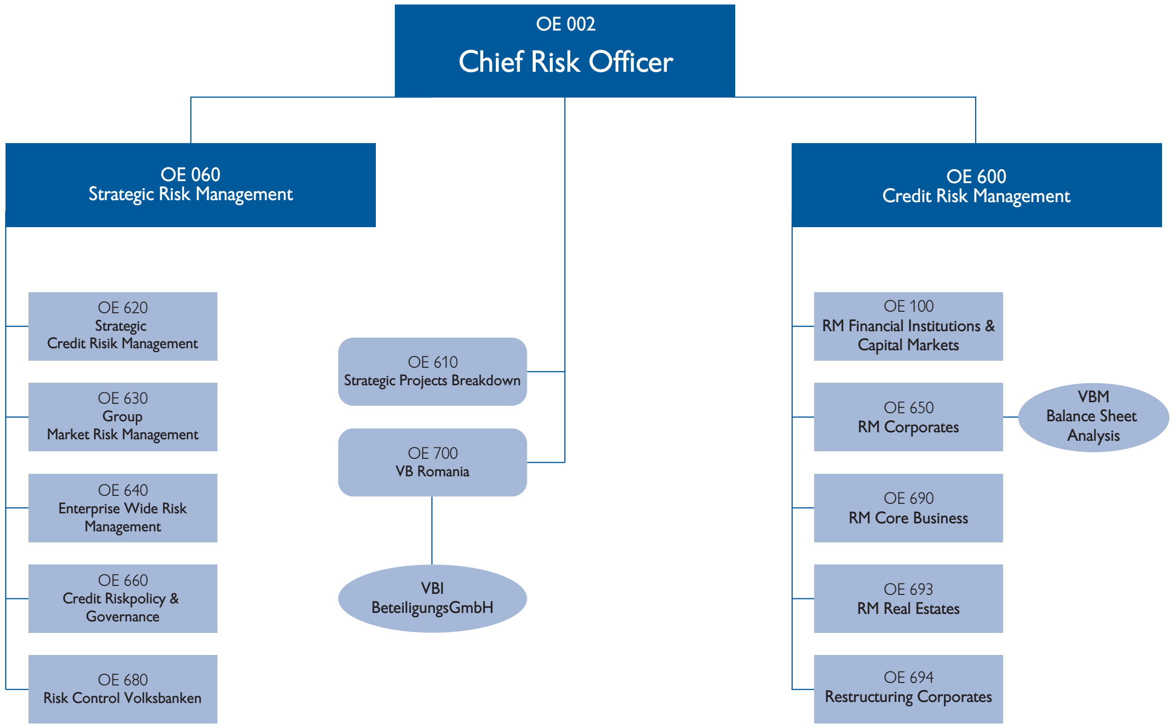
a) Risk management structure and basic principles of risk policy

Risk management structure

The VBAG Group has implemented all organisational precautions necessary to meet the requirements of a modern risk management system as formulated, for example, in the minimum standards for the lending business. There is clear separation of market and risk assessment, measurement and control. For security reasons and in order to prevent conflicts of interest, these tasks are performed by different organizational units.

The department is headed by Michael Mendel in his capacity as the Group's Chief Risk Officer. Michael Mendel is also the Deputy Chairman of VBAG's Managing Board. All centrally managed and regulated strategic and operational risk management activities in the VBAG Group are concentrated in his Managing Board function. The current structure of Mendel's division is shown in the following organisational chart. As well as Risk Management, division 2 also includes the Non-Core Business Corporate Customers, Run-Down Real Estate and Workout Real Estate business units.

The following diagram provides an overview of the department's current organisational structure.



Basic principles of risk policy

The basic principles of risk policy encompass the standards valid within the Group for dealing with risks and are determined by the Managing Board together with risk appetite. A broadly shared understanding of risk management throughout the Group is the foundation for developing risk awareness and a risk culture within the company.

Clear organisational structures: Particular attention is paid to the separation of risk-taking on the one hand and calculating risk and specifying risk standards on the other (risk controlling/risk management). Clear separation of functions within the VBAG Group ensures that conflicts of interest are avoided.

Systems and methods: Uniform risk measurement methods form the basis for comparing and aggregating risks within the VBAG Group. They are also an important element in developing effective internal limit structures for the Group and calculating utilisation of limits. Major focus is placed on standardised risk management systems, including with regard to cost-effectiveness and conserving resources. Contingency plans ensure that the necessary system availability is maintained.

Limit system: All measurable risks in the VBAG Group are subject to a limit structure that is in turn subject to ongoing operational monitoring. The "no risk without limit" principle applies. Risks for which current theory does not provide sufficiently exact measurement methods or instruments are considered either on the basis of regulatory equity requirements or conservative calculation methods, taking stress assumptions into consideration, or in the form of safety buffers. The prudence principle is applied in such cases.

Risk reporting: In the VBAG Group, prompt, regular and comprehensive risk reporting is implemented in various forms, including a Group risk report. This is an important element for identifying, measuring, managing and monitoring risks within the Group. It is produced on a quarterly basis and covers all relevant types of risk (market, interest rate, liquidity, credit spread, credit, real estate and operational risk). The Group risk report periodically informs the Managing Board of the Group of the development of risk-bearing ability and the risk situation of the Group and focuses on a quantitative presentation of management-related information on the risk categories addressed, which is supplemented by brief assessments of the situation and further qualitative information where appropriate. During preparation of the report, particular emphasis is placed on data quality in order to ensure the findings are meaningful. In addition to the quarterly report, the monthly reporting has been extended in 2012.

Processes: Functioning processes form the basis of risk management. Developing these processes and integrating them into day-to-day business procedures is thus a key risk management task in the VBAG Group.

New product launches: An efficient, system-supported approval process for products of VBAG Treasury has been in place since 2003 and is improved and developed on an ongoing basis. A focus here is on correctly mapping all risks in the risk management systems. Particular attention is paid to ensuring that it is possible to carry out an independent assessment. This also applies to closed positions. This ensures that the legal requirements for presenting counterparty default risk and collateral management requirements are met.

A standard procedure for introducing new products in the VBAG Group has been in place since 2008. In addition to the proper recording of all risks and their correct entry in controlling and accounting systems, the emphasis is on mapping them in the centralised systems of the Group, thus ensuring meaningful standardised risk reports and correct external reporting.

Backtesting: As estimations relating to the greatest probability of default (PD), loss given default (LGD), exposure at default (EAD), credit conversion factor (CCF) and value at risk (VaR) are always based on past values, their accuracy must be validated periodically by way of backtesting. In the VBAG Group, backtesting reports are prepared for credit and market risk in all cases. Although the frequency of reporting depends on the type of risk, the reports are produced at least once a year. The Managing Board is promptly informed of the findings. Any findings giving cause for concern (e.g. the number of outliers is too high from a statistical perspective) lead to an immediate analysis of the calculation methods or the models.

Stress testing: Credit and market risks in the VBAG Group undergo regular stress tests. The crisis scenarios in such tests are designed in such a way that the occurrence of very unlikely but not impossible events is simulated. Based on this approach, atypical tail losses, among other things, can be identified and analysed. This method is a useful supplement to the VaR method, particularly in relation to fat tails.

While risk type-specific stress tests and sensitivity analyses have been regularly performed for some time now, stress tests across multiple risk types have also been carried out regularly since 2009. This process initially involves defining economic crisis scenarios (mild and severe recession scenarios) and deriving the changed risk parameters for the individual risk categories and segments from this. In addition to the risk side, the effects of the crisis scenarios on the risk-covering equity are identifieded. Finally, the various effects of the crisis scenarios on the risk-bearing ability of VBAG are compiled and analysed in a stressed risk sustainability account.

b) Regulatory requirements

Regulatory requirements are split into three pillars within VBAG in accordance with Basel II. Pillar 1, minimum capital requirements, regulates the calculation of the minimum capital requirements for credit risks, market risks and operational risks. Pillar 2, supervisory review, defines minimum requirements of banks' risk management systems as part of ICAAP (internal capital adequacy assessment process – see also Point c)). Pillar 3, disclosure, regulates disclosure for market participants.

Pillar 1 minimum capital requirements in the VBAG Group

In accordance with Managing Board resolutions, the implementation of pillar 1 in the VBAG Group not only fulfils the minimum requirements but, while taking cost efficiency into account, also provides for implementation of internal models in order to improve the risk management systems for all types of risk on an ongoing basis. Thus, at present, the following methods are used to calculate the minimum capital requirements for each type of risk:

- Market risk: internal VaR model since 1 January 2005. VBAG is currently implementing Murex as a front and back-office system. This will replace the existing Kondor+/KVaR risk management systems. In order to minimise the expense for the authorisation processes for the significant model changes, it was agreed with the supervisory authorities that VBAG would set aside the existing authorised internal model in November 2011 and temporarily calculate the capital requirement for market risk in the trading book using the standard approach.
- Operational risk: standard approach
- Credit risk: Standard approach or IRB basic approach. The switch was made to the standard approach as of 30 September 2012 in connection with creating the banking association pursuant to section 30a of the Austrian Banking Act. When approving this switch, the FMA stipulated that all risk management systems had to remain "IRB compliant". A detailed description of the approaches approved by regulators and transitional arrangements is given in a separate document as part of disclosures made in accordance with section 16 (1) no. 1 of the Disclosure Regulation (see pillar 3 Disclosure in the VBAG Group).

Pillar 2 internal capital adequacy assessment process

The internal capital adequacy assessment process (ICAAP) requires banks to take all necessary measures to guarantee at all times that there are sufficient capital resources for current business activities and those planned for the future as well as the associated risks. Internal methods and procedures developed by the banks may be used for this purpose. The size and complexity of the business activities plays a key role in the design of the strategies, methods and systems required for implementing the ICAAP (proportionality principle). The implementation of the ICAAP at VBAG is explained in more detail in Point c).

Pillar 3 disclosure in the VBAG Group

The requirements of pillar 3 are met through publication of the qualitative and quantitative disclosure requirements defined under the Austrian Financial Market Supervisory Authority (FMA) regulation on implementation of the Austrian Banking Act as it relates to the disclosure obligations of banks, on the Bank's website under Group / Investor Relations / Risk Management as well as in the annual report.

c) Risk strategy and internal capital adequacy assessment process

The Group-wide risk strategy is reassessed and determined by the Managing Board on an annual basis – taking into account results from the internal capital adequacy assessment process (ICAAP) – and forms the basis for a uniform approach to dealing with risks throughout the entire Group. The risk strategy sets out and documents the general framework and principles for risk management to be applied consistently across the Group and the design of appropriate processes and organisational structures in a clear and comprehensible manner. Enhancements of the methods applied for measuring and managing risks are integrated into the risk strategy via the annual update process.

VBAG has established the ICAAP as a revolving management circuit in accordance with international best practice. This starts with defining a risk strategy, then goes through the process of identifying, quantifying and aggregating risks, and finishes by determining risk-bearing ability, allocating capital and establishing limits, leading to ongoing risk monitoring. The individual elements of the circuit are performed with varying regularity (daily for measurement of trading book market risk, monthly for creation of the risk sustainability account and annually for risk assessment and risk strategy). All the activities described in the circuit are examined at least once a year to ensure that they are up to date and adequate and are adjusted to current underlying conditions if necessary.

In line with this principle and based on risk assessments conducted across the Group as a whole, the VBAG Group regularly ascertains what risks are present in ongoing banking operations within the Group as well as their significance and the danger they potentially pose for the Group. This process involves both a quantitative assessment of individual types of risk and an assessment of the existing methods and systems for monitoring and managing risks (qualitative assessment). The risk assessment concept is based on a scoring procedure, thus providing a comprehensive overview of the risk situation in the VBAG Group. Risk assessment is carried out electronically via the OpRisk platform BART, thus increasing transparency and considerably improving workflow management.

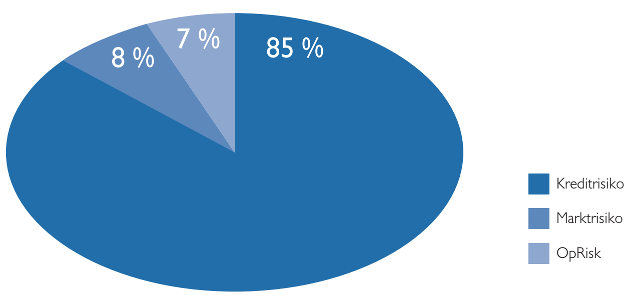
The results of the risk assessments are compiled in a risk map in which the individual types of risk are allocated to the subsidiaries according to their significance. The results of the risk assessments also flow into the risk strategy.

The risk assessment process was suspended in 2012 on account of restructuring measures and switching to the association structure. The adaptation and extension of risk assessment to the entire association is being evaluated as part of an association risk management project. The annual risk assessment process is scheduled to be resumed in the second half of 2013.

The basis for the quantitative implementation of the ICAAP in the VBAG Group is the risk sustainability account, which demonstrates that adequate risk-covering capital is in place at all times to provide sufficient cover for risks that have been entered into and which also ensures such cover is available for the future. For this purpose, firstly all relevant individual risks are aggregated into a total bank risk on both an economic and regulatory basis. The existing previously defined riskcovering capital is then compared with this total bank risk.

In the course of the risk monitoring process, the risk-bearing ability is calculated, compliance with the overall bank risk limit resolved by the Managing Board is monitored on a monthly basis and the Group risk report is produced.

As at 31 December 2012, the regulatory overall risk position is composed as follows:



The aim is to implement value at risk methods to the fullest extent possible in the economic risk measurement procedure. The term economic capital describes the minimum economic capital necessary from an economic perspective based on the result of a risk measurement. Combining risk measurement and the income statement makes risk-adjusted income management possible. Standard performance measurement methods such as return on equity (ROE) are supplemented by the meaningful return on economic capital (ROEC) measurement, which takes adequate account of risks and facilitates comparison of segment performance, thus laying the foundation for value-oriented bank management.

d) Credit risk

Definition

In the VBAG Group, general credit and default risk and counterparty default risk in derivative transactions are categorised under credit risk.

General credit risk denotes potential losses in value that may arise from the default of business partners who constitute borrowers at the VBAG Group.

The VBAG Group defines counterparty risk as the risk that a business partner in an over-the-counter (OTC) derivative transaction will not meet its contractual obligations or will not fully meet them, thus causing VBAG Group an actual loss resulting from the positive fair value of the derivative transaction (replacement risk).

Organisation and risk strategy

Strict separation of sales and risk management units is in place in all VBAG Group units that generate credit risk. All case-by-case decisions are made under strict observance of the principle of dual control, which led to stipulation of clear processes for the collaboration between the risk management units in the subsidiaries and risk management at Group level. For large-volume transactions, processes have been created to ensure the involvement of operational Group risk management and the Group Managing Board in risk analyses and credit decisions. Limit systems that combine the decision-making competences of the individual corporate units in a single framework play a key role in this process.

Measuring and controlling the credit risk also necessitates the development of sophisticated models, systems and processes tailored to the bank's own portfolio. The aim is firstly to structure and improve credit decision making and secondly to use such instruments and their findings as a basis for portfolio management. When implementing these systems, the VBAG Group paid particular attention to ensuring that all rating systems used in the Group show a comparable probability of default (PD) and are connected with the VB master scale, which comprises a total of 25 rating categories. The PD band used enables both comparison of internal ratings with the classifications of external rating agencies and, most importantly, comparison of credit ratings across countries and customer segments.

Group credit risk manual

The Group credit risk manual (GCRM) regulates credit risk management throughout the VBAG Group in a binding fashion. It encompasses the existing processes and methods for managing, measuring and monitoring credit risks within the Group.

The aim of the GCRM is to stipulate and document the general framework and principles for measuring and managing credit risks to be applied consistently across the Group and the design of appropriate processes and organisational structures in a clear and comprehensible manner. The manual lays the foundation for implementing the risk strategy in operations as regards credit risk components, setting the basic risk targets and limits that are to guide business decisions in line with the main areas of business focus.

The GCRM applies to all fully consolidated entities, unless otherwise specified as well as VB Romania. This also applies to new fully consolidated entities provided that the entity is part of the scope of full consolidation of the VBAG Group with legally binding effect.

Without exception or limitation, as part of their general duty of care in the interest of the entities, the Managing Boards and managing directors of all Group entities must ensure that the GCRM finds application in their respective entities on both a formal and a de facto basis. The GCRM finds application either through being put into force in its entirety at the entity or through the content of the GCRM being integrated into the entity's own credit risk manual. General deviations from Group standards on account of specialised business activity or specific local conditions are possible in principle but require the approval of the Group Managing Board.

The GCRM is a living document that is regularly expanded and adapted to current developments and changes within the VBAG Group. The development and presentation of rating procedures as well as the estimation and validation of risk parameters are not the purpose and object of the manual. These items and their implementation within the organisation are explained in separate documentation.

Loan portfolio and credit value at risk

The term economic capital describes the minimum economic capital necessary from an economic perspective based on the result of a risk measurement. Along with regulatory capital, it is held for the purpose of covering unexpected losses exceeding expected losses. In future, calculation of the economic capital requirements needed for the credit risk will be based on the credit value at risk (CVaR) method. For this purpose, the VBAG Group has selected an analytical calculation method based on an actuarial approach. In particular, a CreditRisk+ model adapted in line with internal requirements will be used for modelling the default risk in the loan portfolio.

Starting with the first quarter of 2010, the CVaR method is used at Group level as a basis for the following tasks:

- Breaking down the CVaR into individual segments and customers
- Identifying portfolio concentrations
- Analysing the development of the CVaR in portfolio and new business

- Analysis of individual customers' marginal contributions
- Identifying the major drivers behind CVaR changes (new business, EAD, collateral, loss and default rate, risk factor, etc.)

The CVaR for the credit risk is also used for the following purposes as part of general bank management:
- Calculating economic capital
- Ensuring comparability of the risk situation for different types of risk (e.g. credit risk and market risk)
- Calculating risk-adjusted performance ratios (e.g. ROEC)
- Allocating capital

The CVaR results also serve as a means of obtaining additional information for portfolio analysis and management. A corresponding report is compiled every month.

Most important aim of using credit risk methods and instruments is preventing loss through identifying risks at an early stage. In this process, the VBAG Group pays particular attention to ensuring that the systems primarily serve to support the persons performing the tasks. Thus, in addition to the quality of the methods, great importance is attached to the training, qualifications and experience of the employees.

Risk management and controlling

Limits
Limits exist within VBAG aimed at monitoring, controlling and restricting the risk of individual exposures and risk clusters.

- Credit limits for individual customers
- Credit limits for groups of affiliated customers
- Portfolio limits

When limits are defined, with regard to individual customers and groups of affiliated customers a distinction is made between governments, banks and others, with the latter category subsuming both corporate and retail customers. The limits are set depending on the rating category and the counterparty's own funds, the maximum remaining term of the transaction and the Group member's own funds and earnings power. In the Corporates and Retail segments, the limits generally relate to the credit scope granted after deducting collateral (unsecured risk). The setting of limits is monitored at individual transaction level on a continual basis as part of the operational risk management of the sub-institutions and is supported by centrally produced analyses.

At present, when setting limits for portfolios, the VBAG Group primarily uses country risk limits with the aim of limiting the transfer risk. The countries are divided into risk groups and markets based on external ratings and business strategy.

Concentration risks
Concentration risks are quantified and assessed on a Group-wide basis in two ways: in the CVaR report produced each month, and on a quarterly basis when preparing the Group risk report and, since 30 September 2012, the association risk report. This includes, for example, concentrations at individual customer level as regards corporates, banks and the public sector.

Rating systems
Standardised models are applied across the Group to determine credit ratings (the VB rating family) and to determine the loss amount in the event of default. The expected likelihood of each customer defaulting is estimated across the VB rating family and expressed via the VB master scale. The concept behind the VB master scale allows for the comparison of borrower credit ratings across regions and customer groups.

The rating classes in rating category 5 cover the reasons for defaulting on a loan applied across the Group and are also used for reporting nonperforming loans (NPL). Loans from parts of rating category 4 and loans past due more than 60 days are defined as problem loans. An in-depth description of rating methods can be found in the disclosure in accordance with section 16 of the FMA Disclosure Regulation on the VBAG homepage.

Counterparty risk
As an approximation function for the potential future exposure in relation to the counterparty risk, add-on factors that are dependent on the term and type of the underlying derivative transaction (interest rates, currencies, shares, and commodities) are used and expressed as a percentage of the face value. When calculating the exposure, the sum of positive fair value and the relevant add-on value is included.

Legally enforceable netting agreements are in place with key counterparties of VBAG, which have been taken into consideration since the end of 2009 for internal risk management and determining capital requirements. VBAG does not use an internal model to calculate counterparty risk.

The amount of the counterparty limits (off-balance limits) for derivative transactions with banks and financial institutions depends on the following criteria:

- Amount of the counterparty's own funds
- Amount of the VBAG Group member's own funds
- Intensity of the business relationship with the counterparty (strategically important, small number of transactions, sporadic)
- Legally enforceable netting agreements in place

The terms of the off-balance limits set are determined taking the counterparty risks into consideration.

The Group market risk management department is responsible for monitoring the counterparty limits for trading that are set in line with various maturity bands. As mentioned above, the inclusion of derivative transactions in the off-balance lines is based on the principle of positive fair value plus a term-dependent add-on for counterparties without legally enforceable netting agreements. If valid netting agreements are in place, positive and negative fair values are netted and any cash collateral is taken into account.

For institutional counterparties without netting, the amount of the add-ons is based on section 234 (2) Austrian Solvency Regulation. The add-on calculation is carried out in accordance with section 259 Austrian Solvency Regulation applying the off-balance netting. More conservative markups are used for internal risk management for non-credit institutions.

The inclusion of concluded transactions in the limits naturally takes place in real time. Utilisation reports and any overdraft reports are made available to the credit and trading departments concerned on a daily basis.

Collateral management in derivative trading
As part of internal risk management in the VBAG Group, a daily comparison of the fair value of derivative transactions is currently performed with 84 partners for transactions concluded on the basis of framework contracts (ISDA – International Swaps and Derivatives Association, Austrian or German framework contract) or credit support annex contracts. If the fair values exceed certain contractually defined thresholds, these surpluses must be covered by collateral. The repo transactions with 81 contractual partners are also examined with regard to the amount of collateral. In line with agreed margin calls, collateral is mostly transferred in the form of cash or government bonds in euro. Of the current number of 84 CSA contracts in existence, three would be affected by a rating downgrade by VBAG. In the event of the VBAG rating being downgraded by two rating categories, in the worst case an additional cash collateral requirement in the amount of euro 5 million would arise as a result of reduction of the threshold.

Credit risk reporting
VBAG performs credit risk reporting on a monthly basis and provides a detailed presentation of prevailing credit risk within the VBAG Group as at the reporting date, and since 30 September 2012 within the banking association in accordance with section 30a of the Austrian Banking Act. Corresponding reports are produced for the Group, major Group units and key business areas. This information is also included in the credit risk sections of the Group risk report and the association risk report.

The reports contain a quantitative presentation of management-related information on the credit risk, which is supplemented by a brief assessment of the situation and further qualitative information where appropriate. The following analyses form part of the report:

- Portfolio distributions – monthly
- Development of new business – monthly
- Credit rating distributions – monthly
- Non-performing loans – monthly
- Credit risk concentrations – quarterly
- Country group analyses – quarterly
- Customer segments (customer segment split) – quarterly
- Sector distributions (commerce) – quarterly
- Significant CVaR information – quarterly

These analyses are presented according to different sizes and ratios: unsecured exposure, total exposure, expected loss, existing risk provisions, standard risk costs, non-performing loans, CVaR, etc. A CVaR report is also produced every month detailing the amount of unexpected loss at Group level and why this changed between reporting dates. It also breaks this information down into business segments and individual commitments.

The key ratios used to describe credit risks for the various business segments as at the balance sheet date and in comparison to the previous year are shown in the following tables and are excerpts taken from the Group risk report.

Presentation of loans and advances to credit institutions and customers according to credit quality and allocation to the individual risk categories.

Euro thousand	Loans and receivables to credit institutions and customers 31 Dec 2012	Loans and receivables to credit institutions and customers 31 Dec 2011
Gross carrying amount	17,325,937	20,681,372
Risk provision	1,067,045	945,744
Net carrying amount	16,258,892	19,735,629
Receivables impaired		
Risk category 1 (1A - 1E)	0	10,620
Risk category 2 (2A - 2E)	3,099	126,022
Risk category 3 (3A - 3E)	58,358	1,217,802
Risk category 4 (4A - 4E)	42,395	785,395
Risk category 5 (5A - 5E)	1,354,520	1,934,033
Risk category 6 (NR)	4,656	4,219
Gross carrying amount	1,463,028	4,078,092
Risk provision	883,653	886,486
Net carrying amount	579,375	3,191,606
Receivables not impaired but past due 90 days		
Risk category 1 (1A - 1E)	0	14,401
Risk category 2 (2A - 2E)	0	2
Risk category 3 (3A - 3E)	0	22,625
Risk category 4 (4A - 4E)	0	18,007
Risk category 5 (5A - 5E)	114,394	99,068
Risk category 6 (NR)	0	100
Gross carrying amount	114,394	154,203
Receivables neither impaired nor past due		
Risk category 1 (1A - 1E)	5,578,105	6,460,738
Risk category 2 (2A - 2E)	2,869,980	3,759,982
Risk category 3 (3A - 3E)	5,639,251	2,953,878
Risk category 4 (4A - 4E)	1,350,553	2,664,153
Risk category 5 (5A - 5E)	225,732	269,049
Risk category 6 (NR)	84,894	341,278
Gross carrying amount	15,748,516	16,449,078
Portfolio based allowance	183,392	59,258
Total net carrying amount	**16,258,892**	**19,735,629**

Classification to the individual risk categories is carried out according to internal rating categories at VBAG. Receivables in risk category 1 have the highest rating (lowest expected default rate), while receivables in risk category 4 have the lowest rating and receivables in risk category 5 constitute defaulted receivables (= non-performing loans, NPLs). The distribution of risk provisions is also clarified accordingly. It must be noted that the gross carrying amount of the individual impaired loans and receivables does not correspond to the total of the NPLs. If the rating of a defaulting customer improves, the customer is assigned to a better (performing) rating category, impairment is reduced accordingly and the customer is no longer designated as an NPL.

Ageing structur of receivables not impaired but past due 90 days as per 31 December 2012

Euro thousand	90-180 days	180 days - 1 year	more than 1 year	Total
Risk category 1 (1A - 1E)	0	0	0	0
Risk category 2 (2A - 2E)	0	0	0	0
Risk category 3 (3A - 3E)	0	0	0	0
Risk category 4 (4A - 4E)	0	0	0	0
Risk category 5 (5A - 5E)	39,500	52,057	22,837	114,394
Risk category 6 (6A - 6E)	0	0	0	0

The defaulted loans or NPLs are assigned to risk category 5 at VBAG and allocated to the individual rating categories based on the reason for the default. This means, for example, that rating category 5A denotes those borrowers that are past due by more than 90 days.

The following table shows the distribution of non-performing loans across the default rating categories.

	Loans and receivables to credit institutions and customers 31 Dec 2012		Loans and receivables to credit institutions and customers 31 Dec 2011	
Euro thousand	Gross	Net	Gross	Net
Receivables impaired				
Rating 5A	12,586	10,886	141,154	107,967
Rating 5B	684,783	308,897	667,026	294,305
Rating 5C	441,478	199,013	817,469	405,561
Rating 5D	215,562	24,190	303,781	95,797
Rating 5E	111	8	4,603	204
Total	1,354,250	542,994	1,934,033	903,834
Receivables not impaired but past due 90 days				
Rating 5A	50,130	50,130	14,293	14,293
Rating 5B	7,170	7,170	13,441	13,441
Rating 5C	50,648	50,648	60,456	60,456
Rating 5D	6,445	6,445	10,796	10,796
Rating 5E	0	0	83	83
Total	114,394	114,394	99,068	99,068
Receivables neither impaired nor past due				
Rating 5A	30,064	30,064	32,843	32,843
Rating 5B	107,579	107,579	96,996	96,996
Rating 5C	76,460	76,460	125,954	125,954
Rating 5D	11,620	11,620	8,467	8,467
Rating 5E	9	9	4,788	4,788
Total	225,732	225,732	269,049	269,049
Total	**1,694,646**	**883,119**	**2,302,150**	**1,271,952**

The following table shows the gross and net carrying amounts of the receivables according to their respective risk categories.

Euro thousand	Loans and receivables to credit institutions and customers Gross	Net
31 Dec 2012		
Risk category 1 (1A - 1E)	5,578,105	5,578,105
Risk category 2 (2A - 2E)	2,873,079	2,871,993
Risk category 3 (3A - 3E)	5,697,609	5,450,743
Risk category 4 (4A - 4E)	1,392,948	1,385,847
Risk category 5 (5A - 5E)	1,694,646	883,119
Risk category 6 (NR)	89,550	89,084
Total	**17,325,937**	**16,258,892**
31 Dec 2011		
Risk category 1 (1A - 1E)	6,485,759	6,485,593
Risk category 2 (2A - 2E)	3,886,006	3,881,947
Risk category 3 (3A - 3E)	4,194,305	4,323,783
Risk category 4 (4A - 4E)	3,467,555	3,427,403
Risk category 5 (5A - 5E)	2,302,150	1,271,952
Risk category 6 (NR)	345,596	344,951
Total	**20,681,372**	**19,735,629**

Individual impairment in risk category 5 generally does not cover the entire gross value of outstanding receivables, as collateral is taken into account but other provisions (portfolio provisions) are not, and this does not always need to result in complete impairment of the defaulted receivable in cases of restructuring (going concern consideration when recognising risk provisions).

The following table shows the share represented by defaulted and non-defaulted receivables in total receivables.

	Receivables total		Receivables in loss		Receivables alive	
Euro thousand	Exposure	Unsecured	Unsecured	Risk provision	Unsecured	Expected Loss
31 Dec 2012						
Non-core Other Operations	301,763	157,615	17,941	1,924	139,674	909
Non-core Investment Book	473,058	473,058	23,389	9,076	449,669	2,001
Non-core Corporates	1,861,751	1,100,688	287,496	231,190	813,192	6,750
Non-core Real Estate	3,236,860	1,240,238	424,069	380,535	816,169	11,753
Non-core Leasing CEE	1,865,862	477,975	134,044	135,377	343,931	8,149
Financing	2,652,606	1,114,101	47,977	43,510	1,066,124	14,381
Financial Markets	4,362,900	3,973,259	0	0	3,974,426	311
Investment Book	2,571,115	2,569,660	9,468	9,915	2,560,192	3,394
Other Operations	22	22	0	0	22	0
Total	**17,325,937**	**11,106,616**	**944,385**	**811,526**	**10,163,398**	**47,648**
31 Dec 2011						
Corporates	5,815,624	3,141,685	411,437	322,677	2,730,248	36,133
Real Estate	3,803,537	1,624,180	151,524	142,053	1,472,655	22,488
Leasing	2,606,768	1,090,772	233,378	224,181	857,394	17,053
Financial Markets	5,591,507	5,033,858	0	0	5,033,858	2,121
Investment Book/Other Operations	2,863,935	2,816,643	19,927	15,110	2,796,716	12,793
Total	**20,681,372**	**13,707,137**	**816,266**	**704,021**	**12,890,872**	**90,588**

Across the Group, default follows the definition given by the Austrian Solvency Regulation for banks which employ an approach based on internal ratings when calculating own funds. Defaulted receivables are compared with the amount of individual impairments recognized and performing receivables are compared with the loss expected for the following year. The expected loss is based on internal credit ratings, the economic collateral situation and the loss amount expected in the event of default derived from this. Defaulted receivables generally result in risk provisons which are less than the unsecured exposure, as in addition to provisions based on individual impairments, there are also groupbased impairments and portfolio provisions that are not included in the above table.

The following table shows the value of collateral assigned to the individual receivables.

Euro thousand	31 Dec 2012	31 Dec 2011
Collateral for individual impairment loans and receivables	626,502	1,599,275
Liquid funds	11,900	14,939
Securities	0	16,337
Mortgages	426,200	1,373,462
Guarantees	97,328	98,234
Movable Goods	84,024	86,202
Others	7,050	10,100
Collaterals for loans and receivables not impaired but past due 90 days	53,159	89,861
Liquid funds	896	1,160
Securities	0	0
Mortgages	46,914	76,681
Guarantees	5,234	8,106
Movable Goods	86	411
Others	29	3,502
Collaterals for loans and receivables which are neither impaired nor past due	5,539,661	8,628,584
Liquid funds	143,184	184,458
Securities	0	60,259
Mortgages	2,914,172	5,516,885
Guarantees	466,269	724,012
Movable Goods	1,567,306	1,619,444
Others	448,730	523,525
Total value of collaterals	**6,219,321**	**10,317,720**

The key form of collateral in the lending business is mortgages. Movable property collateral derives from the leasing units of the Group and mainly constitutes private passenger cars.

The following table shows the regional distribution of utilisation across strategic segments.

Euro thousand	Austria	EFA incl. Switzerland	EU Central- and Eastern Europe	Non EU Europe	USA and Canada	Others	Total
31 Dec 2012							
Financing	2,329,374	247,585	65,928	9,695	0	24	2,652,606
Financial Markets	4,083,653	239,562	26,444	0	13,241	0	4,362,900
Investment Book	1,069,045	68,096	1,428,665	845	1,086	3,378	2,571,115
Other Operations	22	0	0	0	0	0	22
Non-core Corporates	797,729	499,102	382,281	66,419	29,326	86,895	1,861,751
Non-core Real Estate	790,878	273,657	2,015,969	152,654	0	3,702	3,236,860
Non-core Leasing CEE	63	27	1,605,423	256,658	0	3,690	1,865,862
Non-core Investment Book	0	185,576	1,454	257,295	20,822	7,911	473,058
Non-core Other Operations	32,078	113,346	156,222	118	0	0	301,763
Total	**9,102,841**	**1,626,951**	**5,682,386**	**743,684**	**64,475**	**105,600**	**17,325,937**
31 Dec 2011							
Corporates	3,254,838	1,500,834	780,071	148,707	39,192	91,983	5,815,624
Real Estate	756,299	456,917	2,228,320	98,027	2,602	261,372	3,803,537
Leasing	612,390	51,110	1,651,645	287,240	0	4,382	2,606,768
Financial Markets	5,239,453	344,413	550	0	7,092	0	5,591,507
Investment Book/ Other Operations	479,979	285,658	2,011,052	12,553	58,253	16,442	2,863,935
Total	**10,342,958**	**2,638,932**	**6,671,639**	**546,527**	**107,138**	**374,179**	**20,681,372**

The distribution of the receivables portfolio across the main regions that are used within the Group for controlling purposes shows a considerable shift in regional distribution. In 2012, the majority of the volume is located in Austria. The CEE countries have lost a great deal of significance with the sale of VBI. Changes occurred in the segments year-on-year due to internal management deliberations and as a result of the disposal of investments, otherwise there were barely any noteworthy shifts.

The following table shows the distribution of the portfolio by sector and customer segment.

Euro thousand	Public sector	Banks	Corporates	Retail SME	Retail Privat	Special finance	not attributable	Total
31 Dec 2012								
Financing	18,388	108,747	1,618,573	305,118	459,443	142,313	24	2,652,606
Financial Markets	0	4,330,171	32,729	0	0	0	0	4,362,900
Investment Book	1,154	2,461,708	102,951	1,128	4,174	0	0	2,571,115
Other Operations	0	22	0	0	0	0	0	22
Non-core Corporates	31,037	56,948	1,338,109	12,527	10,577	387,479	25,073	1,861,751
Non-core Real Estate	5,747	23,112	1,440,070	7,470	2,856	1,753,905	3,702	3,236,860
Non-core Leasing CEE	6,303	33,030	140,354	1,526,910	155,503	86	3,676	1,865,862
Non-core Investment Book	70,823	255,552	146,683	0	0	0	0	473,058
Non-core Other Operations	152	913	269,630	0	24,518	6,549	0	301,763
Total	**133,603**	**7,270,203**	**5,089,099**	**1,853,153**	**657,072**	**2,290,333**	**32,475**	**17,325,937**
31 Dec 2011								
Corporates	63,392	155,828	4,553,167	86,204	301,807	655,226	0	5,815,624
Real Estate	5,712	2,974	1,650,573	5,799	3,153	1,967,031	168,295	3,803,537
Leasing	23,903	14,714	277,390	1,921,176	364,476	736	4,373	2,606,769
Financial Markets	0	5,403,590	187,917	0	0	0	0	5,591,507
Investment Book/ Other Operations	77,602	2,387,204	393,055	1,267	4,808	0	0	2,863,935
Total	**170,609**	**7,964,310**	**7,062,102**	**2,014,446**	**674,244**	**2,622,993**	**172,669**	**20,681,372**

The sectors represent the way in which the receivables portfolio is broken down within the Group for controlling purposes, while the breakdown according to customer segment conforms to the customer groups as defined by the Austrian Banking Act.

Loan collateral

Use of loan collateral

The use and management of loan collateral are regarded as important components of credit risk management in the VBAG Group. Alongside borrowers' creditworthiness, they are a decisive factor in determining the credit risk of an exposure. The primary significance of loan collateral is in making provision for unforeseeable future risks from loan exposures, thus limiting the risk of loss arising from a loan exposure in the event of insolvency or restructuring.

The types of collateral used within the VBAG Group and the way in which these are handled are presented in detail in two documents: the economic collateral catalogue and the Basel II collateral handbook.

These categorise collateral according to both legal hedging transactions and by the type of goods on which they are based. In this process, information is provided for each type of collateral as to whether it is economically suitable collateral or collateral recognised by regulatory requirements and can thus be used to reduce economic risk and/or regulatory minimum equity requirements.

In the VBAG Group, a key requirement when selecting a type of collateral is its congruence with the loan to be secured. If collateral is created for a loan exposure, it must be objectively valued in accordance with binding Group-wide valuation rules. Furthermore, there are clearly defined guidelines and processes for creating, managing and realising loan collateral. The soundness of all loan collateral is examined regularly. Periodicity largely depends on the type of collateral and is regulated on a standard basis throughout the Group.

Valuation of loan collateral

In each case, the starting point for considering collateral in terms of the lending process is the current fair value, market value, nominal value or repurchase value. The corresponding deductions are subsequently applied to this value in each case for the purposes of credit risk mitigation. The different types of collateral are valued based on the following initial values:

Collateral	Initial value
Financial collateral	Fair value / nominal value
Real estate collateral	Fair value / market value
Other tangible collateral	Fair value
Amounts receivables	Nominal value
Life insurance	Surrender value
Guarantees	Nominal value
Credit derivatives	Nominal value

The initial valuation method used for loan collateral is appropriately documented together with the valuation results for ongoing examination.

The most important types of collateral

Loan collateral should correspond with the type of loan to be secured. As such, capital investment loans should be secured by the assets to be financed, provided these are sound and the guarantor disposes of them for the term of the loan. During selection of loan collateral, the cost/benefit ratio is taken into consideration so that sound loan collateral that requires low levels of processing and costs as well as loan collateral that is actually realisable can be selected first. For this reason, tangible collateral, such as real estate collateral, and financial collateral, such as cash or securities collateral, are given priority.

Distribution of economic loan collateral in the VBAG portfolio:

Collaterals	Allowable amount	
Euro thousand	31 Dec 2012	31 Dec 2011
Financial collateral	492,620	610,817
Real estate collateral	3,387,287	6,967,028
Other tangible collateral	1,651,432	1,709,155
Accounts receivables	60,931	78,713
Life insurance	58,221	121,655
Guarantees	568,830	830,352
Total	**6,219,321**	**10,317,720**

Real estate collateral is by far the most important type of collateral in the VBAG Group. Other tangible collateral constitutes moveable property in the leasing business. The values shown represent the recognised value of the collateral (after measurement and capping by the amount of the secured receivable).

Whether or not personal collateral is recognised depends largely on the quality of the guarantor and its close association with the borrower.

According to the right granted by means of personal collateral, the following liability instruments are recognised in the VBAG Group:

Personal Collateral
Abstract guarantees
Guarantees and payer liability (persuant to section 1357 Austrian Civil Code)
Deficiency guarantee (persuant to section 1356 Austrian Civil Code)
Draft guarantee
Strict letter of comfort

Distribution of personal collateral in the VBAG portfolio:

Personal guarantees	Allowable amount	
Euro thousand	31 Dec 2012	31 Dec 2011
Abstract guarantees	421,372	496,377
Guarantees	23,702	42,388
Joint security / Guarantees and payer liability (persuant to section 1357 Austrian Civil Code)	105,066	197,619
Second degree security / Deficiency guarantee (persuant to section 1356 Austrian Civil Code)*	8,572	13,931
Second degree security / Ordinary guarantee (persuant to section 1346 Austrian Civil Code)*	280	32,278
Guarantee of a bill of exchanges acc. Bill of Exchange Act (Joint security)	18,217	41,561
Strict letter of comfort	5,571	6,197
Total	**582,780**	**830,352**

* only with default guarantees of public bodies

Abstract guarantees are the most important type of personal collateral. Personal collateral in accordance with section 1356 and section 1346 of the Austrian Civil Code is only recognised if this is granted by government bodies or is provided with counter-liability on the part of government bodies. The values shown represent the recognised value of the collateral (after measurement and capping by the amount of the secured receivable).

Please refer to note 1 for an assessment of the recoverability of VB RO's refinancing.

e) Market risk

Definition

Market risk is the risk that the value of an asset item will change as a result of changes to the price of value-determinant market risk factors. VBAG draws a distinction between the following market risk sub-groups:

- Interest rate risk
- Foreign currency risk
- Commodity risk
- Risks relating to assets
- Option risks
- General credit spread risk

Organisation and risk strategy

Market risk in the trading book

Market risks in trading in the VBAG Group are managed and monitored by the independent Group market risk management department, which is based in strategic risk management. Besides producing a risk and income presentation on a daily basis and specifying the limit structure based on the economic capital made available by the Managing Board, the department's main tasks include administration of front-office systems, collateral management, enhancement of risk measurement systems and monitoring the market risk and counterparty limits.

Interest rate risks in the investment book

Entering into interest rate risks is a completely normal part of banking business and is a key source of income. However, excessive interest rate risks represent a significant threat to the earnings and capital situation. Accordingly, an effective risk management system that monitors and limits the interest rate risk in line with the scope of business is vital for maintaining the bank's ability to bear risk.

Functional separation of the units that enter into interest rate risks and those that monitor such risks is in place.

The asset liability committee (ALCO) is the coordination body for managing the ALM processes and is convened quarterly in line with the rules of procedure or at short notice if required.

Asset liability management (ALM) is responsible for ensuring the ALM organisation is adequate, chairs the meetings of the ALCO and devises the bases and analyses relevant for decision-making.

The Group Market Risk investment book is responsible for specifying risk measurement methods and enhancing them on an ongoing basis. Preparing evaluations and analyses, setting parameters and monitoring limits also fall within its remit. The reports it produces serve as a decision-making tool for the ALCO in performance of its management tasks.

The interest rate sensitivities of the VBAG Group (the impact of the shift of the yield curve by one basis point) were distributed as follows across the major currency areas:

Euro thousand

Currency	31 Dec 2012	31 Dec 2011
EUR	–254	–153
USD	–69	141
CHF	–105	–54
JPY	2	–6
GBP	–12	17
Others	–52	–160
Total	**494**	**531**

Here, netting takes place within the currencies (positive and negative) but added across the currencies (irrespective of being plus and minus).

The declared aim of interest rate risk management is to identify all material interest rate risks from assets, liabilities and off-balance positions in the investment book. This requires analysis of both the income effect and the present value effect of interest rate changes using simulation scenarios in the form of statistical and dynamic reports that also incorporate new business.

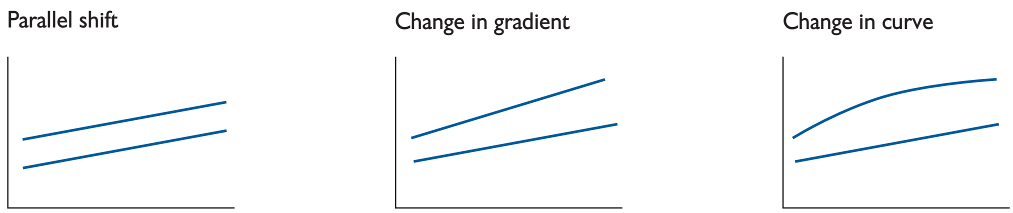
The following interest rate risks are relevant to the VBAG Group:

Repricing risk

Repricing risk arises due to time differences in the remaining maturity (fixed-interest instruments) or in the period until the interest rate is next fixed (variable-interest instruments) for receivables, liabilities and off-balance positions. It manifests itself in changes in the present value and future earnings of the banks brought about by changes in interest rates.

Yield curve risk

Yield curve risk results from disadvantageous changes in an interest rate curve, for example:



Basis risk

In this context, basis risk results from imperfect correlations between the interest rates levied and paid on various financial instruments with otherwise similar characteristics, such as the same maturities.

Explicit/implicit risk from options

An option is the right, but not the obligation, of an option holder to buy, sell or otherwise change the cash flow of a financial contract. Options may stand alone or be embedded in other financial instruments.

Here, the implicit risk of options denotes the risk from options embedded in receivables, liabilities and off-balance positions.

Examples of implicit options are
- Bonds with call options – the right to repurchase the bonds prior to maturity
- Bonds with put options – the right to return the bonds prior to maturity
- Deposits with the right to terminate – e.g. non-maturity deposit instruments

Here, the explicit risk of options denotes the risk from standalone, interest rate-related options (asymmetrical interest rate derivatives).

Examples of explicit options are
- Cap & floor
- Options on a bond
- Swaptions

Credit spread risk

Particular attention is paid to credit spread risk in the strategic banking book (strategic banking book positions - SBBP). This essentially includes all bonds, credit default swaps and securitisations. It also contains credit linked notes, syndicated loans, investment and hedge funds as well as nostro shares in the VBAG Group, but these are of secondary importance. The Managing Board is notified of these positions as part of the Group risk reporting process. The SBBP report is split into a portfolio section and a risk section.

The SBBP portfolio report describes assets with regard to their fair values and carrying amounts and presents them in structural analyses according to various characteristics, such as asset class, IFRS treatment, credit rating, sector, currency or duration. All portfolios are presented on the basis of the end of the respective quarter and their quarterly performance. Changes in portfolio quality compared to the previous quarter are outlined using migration matrices and the migration drift for asset classes of bonds, credit default swaps and securitisations.

Portfolio structure according to IAS 39 categories

Euro thousand	Bond	Securisation	Syndicated loans & SSD	Fund & Equity	CLN, LPN & CL-SSD	Total
31 Dec 2012						
At fair value through profit or loss	77,013	13,567	0	3,859	0	94,439
Available for sale	3,429,838	18,497	0	24,705	5,927	3,478,968
Held to maturity and loans & receivables	1,164,906	985,697	474,455	2,114	3,464	2,630,636
Total	**4,671,757**	**1,017,761**	**474,455**	**30,678**	**9,392**	**6,204,043**
31 Dec 2011						
At fair value through profit or loss	109,472	26,552	0	86,518	41,992	264,535
Available for sale	3,656,772	19,887	0	32,843	3,846	3,713,349
Held to maturity and loans & receivables	1,390,232	1,313,744	294,833	1,914	4,478	3,005,200
Total	**5,156,476**	**1,360,183**	**294,833**	**121,276**	**50,316**	**6,983,084**

The strategic investment book is the portion of financial investments eligible for the capital market. The exposure shown in the tables exceeds the volume of financial investments, as it also includes the portfolio of VB Romania amounting to euro 468 million as at 31 December 2012. Furthermore, only some of the figures in the SBBP report include deferred interest. Moreover, participation capital held in the investment book, bonds not eligible for the capital market and short-term government securities are not recorded as these are excluded due to technical or regulatory requirements rather than for strategic reasons.

Exposure financial investments European peripheral countries as at 31 December 2012

	Available for sale		Held to maturity		Total	
Euro thousand	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Italy	114,474	114,474	20,000	19,481	134,474	133,955
Spain	26,279	26,279	0	0	26,279	26,279
Greece	387	387	0	0	387	387
Hungary	41,055	41,055	0	0	41,055	41,055
Portugal	28,889	28,889	0	0	28,889	28,889
Total	**211,083**	**211,083**	**20,000**	**19,481**	**231,083**	**230,564**

Exposure CDS in European peripheral countries as at 31 December 2012

	Protection sell		Protection buy		Total net	
EUR Tsd.	Face value	Fair value	Face value	Fair value	Face value	Fair value
Italy	84,000	–3,459	–74,000	3,478	10,000	19
Spain	35,158	–926	–35,158	913	0	–13
Hungary	60,369	–2,332	–82,948	4,261	–22,579	1,929
Portugal	63,158	–5,618	–64,158	5,635	–1,000	17
Gesamt	**242,686**	**–12,334**	**–256,265**	**14,287**	**–13,579**	**1,952**

Exposure with regard to European peripheral countries (Portugal, Italy, Ireland, Greece and Spain) and Hungary is in a single-digit percentage of the total exposure of the strategic investment book positions. VBAG's greatest exposure here is to Italy, followed by Hungary, Portugal, Spain and Greece. The strategic banking book positions contain no exposure in Ireland.

Portfolio distribution by credit rating

Euro thousand	31 Dec 2012	31 Dec 2011
1A	1,946,121	2,173,111
1B - 1C	633,838	888,784
1D - 2 A	1,384,725	1,757,414
2B - 3A	1,205,176	889,049
3B - 4E (NIG)	1,003,746	1,136,640
5A - 5E (Default)	26,578	42,066
No rating	3,860	96,020
Total	**6,204,043**	**6,983,084**

Since no ratings are provided by the established rating agencies for fund & equity, a rating is not specified for this class in the relevant row.

Portfolio distribution by sector

Euro thousand	31 Dec 2012	31 Dec 2011
Financial sector	2,247,231	2,567,528
Public sector	2,173,109	2,030,017
Corporates	735,264	988,070
No classification	1,048,439	1,397,468
Total	**6,204,043**	**6,983,084**

Securitisations and (in part) fund & equity are not assigned to a sector since their individual components may belong to different sectors.

The SBBP risk report has been prepared for the asset classes bonds and credit default swaps since 2009. The portfolio is broken down into 26 risk clusters on the basis of the criteria of currency, credit rating and sector, additionally every risk cluster is separeted relating to the respective seniority. Republic of Austria exposure is presented separately in an additional risk cluster. The systemic credit spread is measured for each cluster on the basis of corresponding market indexes and a risk-free interest rate curve. This data is presented with daily-basis historical data going back to 2003. Quarterly changes to the credit spread are determined on the basis of this, which are in turn used to calculate the credit spread value at risk on the basis of a two-regime model. The Group risk report presents the credit spread value at risk with a 99% confidence level for each of the risk clusters described above (holding period of 1 quarter). Taking into account diversification effects between individual risk factors, the report also presents credit spread risk on a value-at-risk basis for the IFRS category "at fair value through profit or loss" and for the overall portfolio.

As at 31 December 2012, the credit spread value at risk for the bond asset class (without bonds in default) was euro 260 million (31 December 2011: euro 270 million) for the entire portfolio as well as euro 180 million for available for sale and euro 6 million for at fair value through profit or loss positions.

The credit spread value at risk is also included in the risk sustainability account as part of risk control for the entire bank. A sensitivity evaluation based on a 10 bp shift has been implemented along the same lines as a second risk concept for the risk clusters and factors described above, and is presented in the SBBP risk report.

A change in the credit spread of 10 bp would lead to a change in the net present value in the bond portfolio of euro 19 million (31 December 2011: euro 16 million), whereby euro 0.2 million (31 December 2011: euro 0.7 million) would be recognised in income and euro 16 million (31 December 2011: euro 12 million) would be recognised in equity (valuation reserve). The rest is attributed to bonds in the category held to maturity and loans & receivables.

As the entire CDS Portfolio is measured at fair value through profit or loss, the credit spread value at risk for the CDS asset class is fully reported as euro 17 million and the credit spread sensitivity as euro 0.2 million in the IFRS category at fair value through profit or loss.

A risk limit has been introduced for the asset classes bonds and credit default swaps based on the risk measurement described, which will trigger pre-defined escalation procedures in the event of a limit being exceeded.

As well as the portfolio and risk report, carrying out various stress tests is also an important aspect of risk management for SBBP. Uniform Group-wide standards based on economic Group research are vital for risk management here. The implications of the macroeconomic environment for credit spreads for bonds and credit default swaps is assessed on the basis of historical data using a multivariate factor model. Using this estimated correlation, the stressed characteristics are determined for credit spreads based on the macroeconomic specifications. In this way, stress test results can be provided on an economic basis for the bond and credit default swap portfolio, which are then included in the economic total bank risk stress test. These stress tests take place every six months.

All of the models described here are subject to regular backtesting in strategic risk management and are further developed on an ongoing basis in collaboration with other key departments.

Risk management and controlling

Market risk in the trading book

The key task in risk monitoring is estimating possible loss that could arise from unfavourable market developments on a daily basis. These value-at-risk calculations are performed using the KVaR+ and MUREX risk management systems based on the historical simulation method, and mainly comprise the following calculation steps: following identification and definition of the market risk factors to be included in the modeling process, historical changes are identified from the time series of the market risk factors. The historic simulation method is based on the assumption that future changes can be forecasted from these historically observed changes.

To identify the future (hypothetical) development of market risk factors required for the VaR calculation, in each case the historically observed changes are added as an alternative to the current development of a risk factor, thus producing a hypothetical distribution for the future development of individual market risk factors. In the next step, hypothetical portfolio values are defined for the scenarios generated in this way that are then used to calculate the profit and loss distribution by mapping the differences between the hypothetical future and currently observed portfolio value. The VaR is obtained by applying the relevant quantile to the empirically calculated profit and loss distribution. The time series length used at VBAG corresponds with the minimum legal requirement of one year.

The amount of VaR is ascertained from the 1% quantile of the hypothetical profit and loss distribution. VBAG calculates the VaR for a holding period of one day. In December 2004, the Austrian Financial Market Supervisory Authority issued approval for calculating the capital requirements for market risk in the trading book in accordance with the model selected by VBAG. The VaR calculations cover the market risk in interest rate and currencybased positions pursuant to section 22o (2) no. 2 and 12 Austrian Banking Act and the risk in commodity positions pursuant to section 226 (6) Austrian Solvency Regulation (formerly section 3 (6) Austrian Regulation on Internal Models for the Limitation of Market Risk) and the general position risk in assets pursuant to section 22o (2) no. 5-7 Austrian Banking Act. Based on the positive test results, the multiplier for calculating the equity was set at three.

VBAG is currently implementing Murex as a front and back-office system to replace the existing risk management systems Kondor+/KVaR. In order to minimise the expense for the authorisation processes for the significant model changes, it was agreed with the supervisory authorities that VBAG would set aside the existing authorised internal model in November 2011 and temporarily calculate the capital requirement for market risk in the trading book using the standard approach. However, this does not give rise to any changes in internal risk management.

The VaR in the trading book according to risk type and development during the year is as follows.

Euro	31 Dec 2012	Average	Maximum	Minimum
Interest	1,023,770	1,012,504	1,557,608	583,361
Currency	29,814	66,812	209,974	3,428
Equity	75,205	86,320	216,827	54,107
Commodity	70,425	89,790	113,987	63,555
Volatility (option risk)	289,340	385,464	651,987	161,782
Gesamt	**997,066**	**1,013,214**	**1,522,029**	**549,267**

VaR calculation based on hisorical simulation, confidence level 99%, holding period one day.

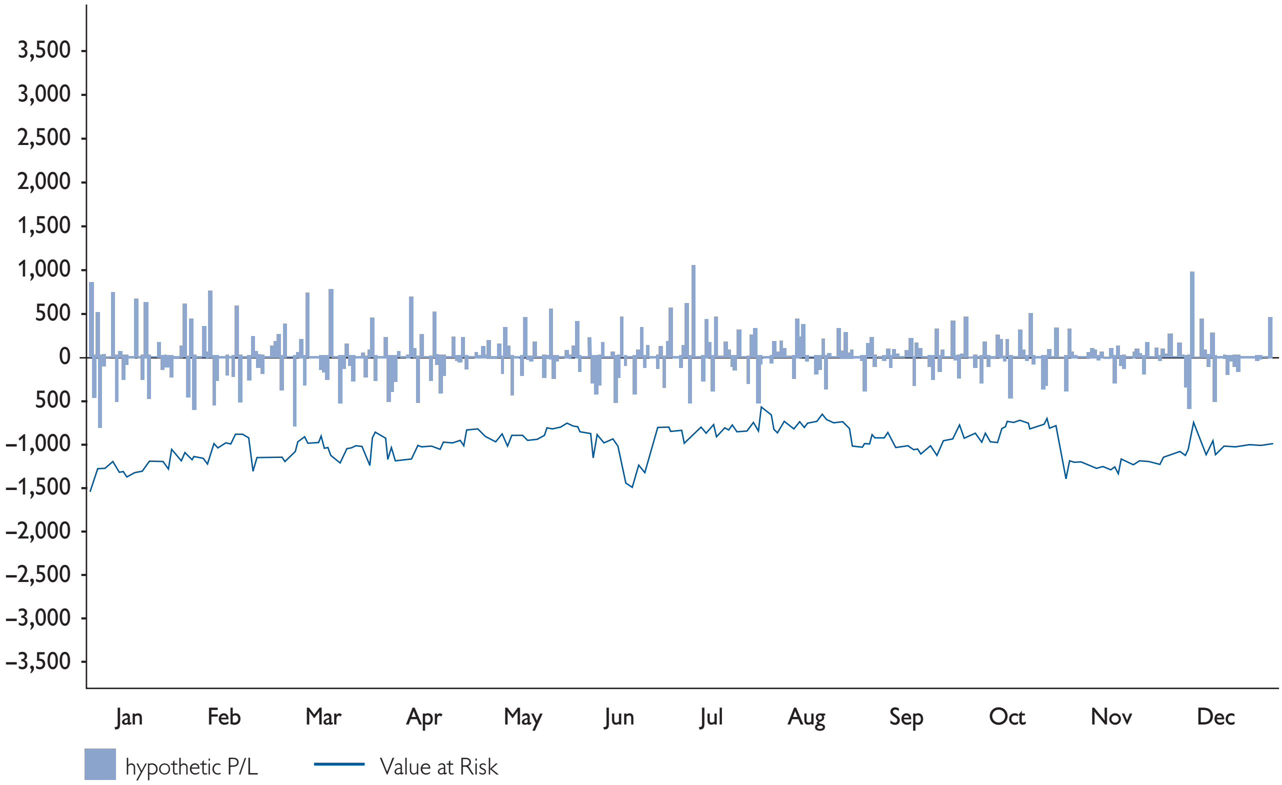
VaR total does not correspond to the addition of the seperate VaRs due to portfolio effects.

The plausibility and reliability of the risk ratios is reviewed daily by way of backtesting. In this process, the potential risk amounts calculated by the model on a daily basis are compared ex post with the trading results. An exception (outlier) is deemed to exist if a negative trading result exceeds the potential risk amount calculated by the model.

Backtesting at VBAG is based on hypothetical trading results and assumes that the portfolio is maintained at a constant level. The portfolio used as the basis for the VaR calculation is then revalued the following day with the current prices/results of the valuation models.

If the VaR calculated on an ex ante basis is exceeded during backtesting, the causes of this are analysed and documented. There were no backtesting outliers in 2012.

Backtesting results for the 2012 trading book
Euro thousand



A hierarchical limit system approved by the Managing Board is a key element of market risk management. The desired higher degree of diversification in the portfolios and the trading strategy are key factors in the development of this limit structure. In addition to VaR, a further series of risk ratios are calculated up to department level. These chiefly include interest rate sensitivities and option risk ratios (delta, gamma, vega, rho).

Volume limits for all currencies and product groups limit the liquidity risk. Management action triggers and stop loss limits are also in place. The Kondor+, KVAR+, Murex and Bloomberg Toms front office and risk management systems are available for daily risk controlling purposes. The external pricing software UnRisk is also used to support the valuation of structured products. Comprehensive position data management and daily market data checks ensure optimal data quality.

As the effects of extreme situations on earnings cannot be covered by VaR, stress tests using around 80 historical and portfolio-specific worst case scenarios are performed monthly or as required.

The crisis tests are of both a quantitative and a qualitative nature. The quantitative criteria determine plausible crisis scenarios with which the banks could be confronted. Qualitative criteria ensure that two important objectives of the crisis tests are brought to the fore: assessing whether the bank's own funds can absorb potential major losses and identifying measures with which the bank can reduce its risk and retain its equity.

The VBAG risk monitoring office performs extensive crisis tests on a monthly basis. For VBAG, extensive means that crisis tests are performed across all trading book portfolios. Once a month and at least once a quarter, an expert committee analyses the results, which are also subject to limits, and documents them in detail.

Quantitative standards, which VBAG meets by conducting crisis tests, concern the plausibility of the selected scenarios. Plausible scenarios to which the bank may be exposed in the course of critical market events are determined. For selecting scenarios, VBAG has chosen to apply four methods which are in turn divided into two categories, namely non-portfolio-specific and portfolio-specific methods:

Non-portfolio-specific methods:
- Historical crises
- Standardised scenarios
- Historical simulation

Portfolio-specific methods:
- Scenario building by expert committees

Historical crises
Here, crises that have occurred in the past, for example 11 September 2001, are implemented as scenarios and applied to the current portfolio, with the largest one-day return implemented as a crisis over the observed time interval.

Standardised scenarios
When implementing these scenarios, VBAG mostly uses the scenario suggestions of the Austrian National Bank in Volume 5 of the guide series on conducting crisis tests. The following standard scenarios are among those implemented:

- Parallel shifts in interest rate curves
- Tilts in interest rate curves
- Changes in exchange rates
- Significant changes in share indexes
- Changes in volatilities

The scope of the changes made is also based on the suggestions of the Austrian National Bank guide series.

Historical simulation
With this method, the portfolio is valued using the VaR approach of historical simulation. The simulated changes in value are sorted in ascending order and the largest loss incurred is used as the stress test result. To investigate extremely negative scenarios, the largest losses incurred are added at sub-portfolio level independently of the days on which they occurred, thus deliberately negating portfolio effects.

Scenario building by expert committees (worst case scenarios)
These scenarios stress all relevant risk types and attempt to find the most unfavourable possible impact for the VBAG treasury portfolio. At VBAG, such scenarios are sought subjectively and empirically. VBAG has established an expert committee comprising representatives from trading and market risk management that constructs and discusses various scenarios that would have a decisive influence on trading positions which, although generally unlikely, are still possible.

Extreme developments on the market are discussed and analysed in detail in the expert committee of VBAG with a view to identifying any potential need to adjust the expert scenarios. With the exception of the FSAP bottom-up scenarios in 2008, extreme scenarios have been implemented.

The quarterly expert committee discussed and implemented further portfolio-based expert scenarios.

Valuations
In accordance with section 198 Austrian Solvency Regulation, banks must value each position allocated to the trading book pursuant to section 22n Austrian Banking Act at market prices at least once a day. The positions must be valued based on close-out prices obtained from independent sources. If a direct valuation at market prices is not possible, in accordance with section 199 Austrian Solvency Regulation banks are permitted to perform a valuation using model prices.

All trading book positions are managed using the Kondor+ or MUREX front office and risk management systems. These are linked to real-time market data, which means positions are valued at market prices. Products that are not referenced to direct prices are valued using various pricing models based on current market parameters.

Structured or complex products whose model prices cannot be calculated in the standard software are valued using an external price calculator whose model results are compared with tradable prices on the market as part of a test phase during model testing.

The systems described above ensure a daily, independent valuation of trading book positions.

Well-organised, efficient processes and procedures are an important component of risk management. The process for launching new treasury products, which falls under the remit of the Group market risk management department, also plays an important role in this context.

All the rules and organisational processes connected with measuring and monitoring market risks are compiled in the VBAG market risk manual. The manual also stipulates the limit structure and escalation procedures in the event of limits being exceeded.

Interest rate risks in the investment book

The risk measurement system records all the main forms of interest rate risk, such as basis and option risks. All Group positions sensitive to interest rate movements are included. Risk reporting takes place on a monthly or an ad hoc basis whenever necessary. The objective of risk management is to keep the bank's interest rate risks within specific parameters defined by the bank itself.

Positions with no specific lock-in period, which are primarily core deposit products such as savings deposits, current account deposits and loans with no fixed maturity are incorporated in the risk measurement using fictions. The assumptions were made based on statistical analyses or experience values or using expert opinions. The assumptions made were documented, are adhered to at all times and regularly reviewed with regard to their validity. Any deviations are also documented and displayed, provided that they are justified by facts. To approximate the basis risk within the gap process report, products (interest rate swaps, bonds, loans) whose lock-in period is not equal to the interest rate adjustment and is greater than or equal to one year are placed in maturity bands by replicating fixed-interest portfolios. This relates to those positions for which interest rates are fixed in line with secondary market rates of return (SMR) or a constant maturity swap (CMS).

Risk reports

A building block of reporting is the gap report, which also forms the basis for interest rate risk statistics in line with the gap analysis method. To determine the gaps, products sensitive to interest rate movements are allocated to the appropriate maturity band according to their remaining maturity or the points at which interest rates are to be fixed. Initial risk ratios are obtained from calculating the net positions and weighting them using the associated weighting factors. A further risk ratio is obtained by then correlating the present value risk calculated in this way with the own funds.

As an additional step, a gap report is produced that approximates the basis risk, e.g. of positions that are linked to secondary market rates of return, by replicating fixed-interest portfolios.

Additional present value reports are produced to obtain further ratios. Besides parallel shifts, tilts in interest rate curves are used. These scenarios and stress tests are regularly examined as to their validity and may be added to or replaced.

Currently, the following scenarios are implemented:
- Parallel shift of +1 bp, +10 bp, +25 bp and +50 bp
- Parallel shift of –1 bp, –10 bp, –25 bp and –50 bp

Stress testing refers to the development of scenarios for extreme market conditions. Interest rate shocks that can lead to extraordinary losses for the bank are a fixed component of stress tests in risk management.

Currently, the following stress tests are performed:
- Parallel shift of +100 bp and +200 bp
- Parallel shift of –100 bp and –200 bp
- Tilt/money market +100 bp, capital market –100 bp
- Risk stress tests are conducted half-yearly as part of the ICAAP. The scenarios used are determined and examined in advance.

As well as the maximum limit defined by the Supervisory Authority of 20% of eligible qualifying capital with a standardised interest rate curve shift of 200 bp based on interest rate risk statistics, further, and in many cases considerably lower, limits are defined and monitored for the purpose of limiting internal risk across the Group.

At VBAG, limits are set using the interest rate sensitivity limit (PVBPs) and gap volume limits for the main currencies (EUR, USD, CHF, JPY).

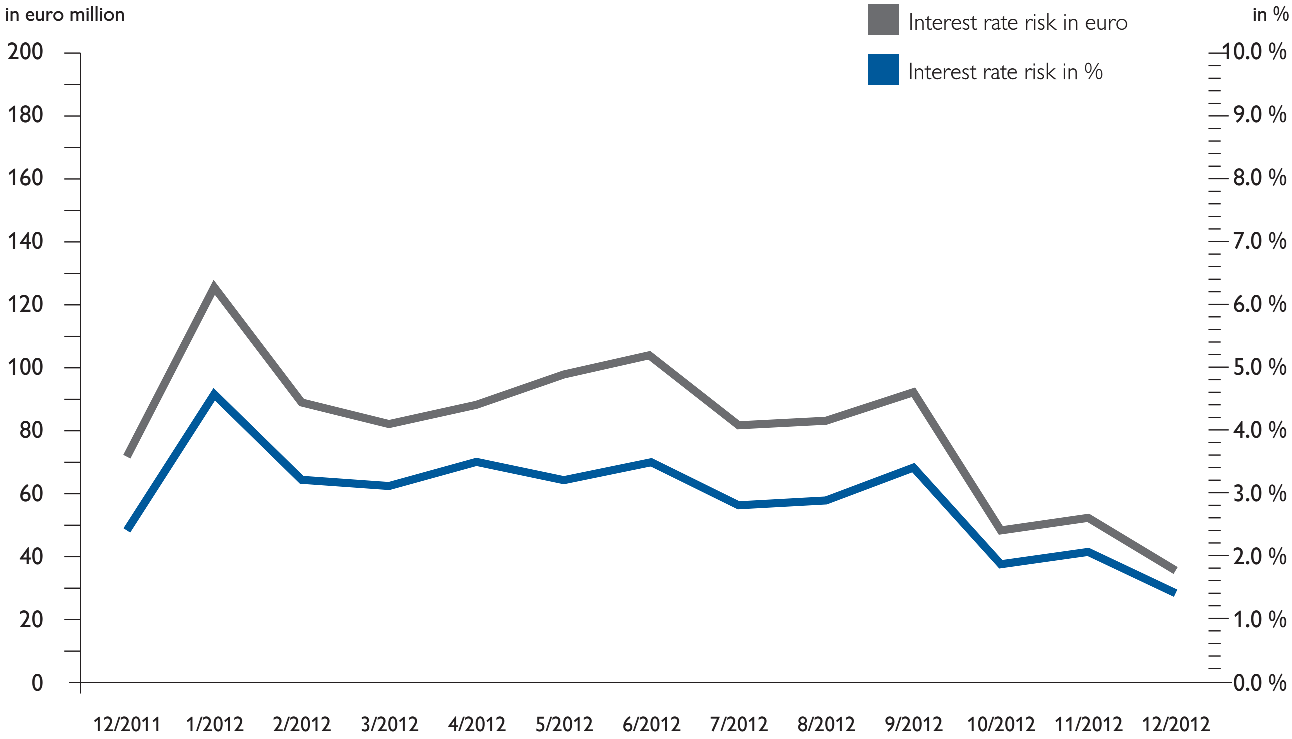
Group gap report

Absolute interest rate risk has increased year-on-year from euro 72 million (2.36% of own funds) to euro 34.1 million (1.48% of own funds).

In comparison to the comparative period, these changes totalled euro 37.9 million on an absolute basis or a decrease of 0.88 percentage points in relation to own funds. The graph shows how interest rate risk is distributed among the four main currencies with a +200-bp shift. Other is a global heading for Group positions in other currencies.

Interest rate risk development

This graph shows the net present value interest rate risk in millions of euro (left axis) and in relation to eligible qualifying capital (right axis) over time. In the 2012 business year, a stable interest rate risk was apparent which was low in relation to own funds. Maximum utilisation in the 2012 business year was 4.60% (January 2012), and the smallest utilisation was 1.48% (December 2012).



Effect of a change of interest rate on interest income

Euro thousand	Shift +100 Bp	Shift –100 Bp
31 Dec 2012		
Fiscal year 2012	–3,190	3,190
Average of the period	30,414	–30,414
Maximum of the period	43,071	3,190
Minimum of the period	–3,190	–43,071
31 Dec 2011		
Fiscal year 2011	39,413	–39,413
Average of the period	25,505	–25,505
Maximum of the period	39,413	–16,764
Minimum of the period	16,764	–39,413

f) Operational risk

Definition

The VBAG Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. Beyond the stipulations of banking law provisions, VBAG also takes legal risks and reputational risks, such as those arising from disruptions to business processes, into account in the risk assessment.

Organisation and risk strategy

Both quantitative and qualitative methods are used in the measurement of operational risks. The line management responsible for managing operational risks receives support from the OpRisk control function based in strategic risk management. Local business line operational risk managers in the business units, risk committees based in some Group member units and close collaboration with other Group functions such as audit, compliance, legal as well as security, safety and insurance management ensure optimum and comprehensive management of operational risks.

Risk management and controlling

Capital requirement is calculated using the standard approach.

The following policies and principles derived from the risk strategy apply to OpRisk management at VBAG:

- The foremost aim of the entire OpRisk management process is to optimise processes to decrease the likelihood of events occurring and/or the impact of operational losses.
- Events must be documented fully and in a sufficiently comprehensible manner to enable third-party experts to make use of the documentation. Since 2004, operational events throughout the Group have been recorded in a standardised fashion. The resulting transparency with regard to the events that have occurred makes it possible to produce a risk assessment derived from historical data.
- The methods, systems and processes in OpRisk management must be adapted to the respective institution in observance of Group requirements in line with the proportionality principle.
- The adequacy of management and monitoring measures and other measures aimed at minimising risk must be reassessed taking the risk potential into consideration on a continual basis and at least once a year. Risk maps are produced and risk and control assessments are performed during workshops and consultations with experts and the results reported to line management and risk management as well as to management/the Managing Board. Management measures relevant in this context include awareness-raising initiatives/training, ensuring confidentiality, availability and integrity of customer and company data and operational contingency planning, as well as, in particular, adequate separation of responsibilities and application of the principle of dual control. These internal control and management measures integrated in business processes provide for an appropriate and acceptable level of risk within the organisation and ensure sustainable business performance.
- (Remaining) operational risks that cannot be prevented, reduced or transferred must be formally and verifiably accepted by the risk owner.
- Implementation of additional management and monitoring measures and further measures aimed at minimising risk must be monitored and the effectiveness of the measures assessed as part of periodic audits. The effectiveness of operational risk management is also confirmed by way of periodic independent audits.

VBAG systematically evaluates general and specific (e.g. compliance with the Securities Supervision Act) operational risks on a regular basis as part of risk testing and analyses corresponding control mechanisms (ICS).

As part of quality management projects, advisory and support services were offered at some primary banks for the first time in 2012, in the form of quality management projects involving joint risk testing and business continuity planning. Risks were identified and evaluated using process maps and process profiles, and existing and, if necessary, additional control measures (ICS) were implemented. In 2013, the emphasis will continue to be placed on optimising primary banks' OpRisk concepts with a view to calculating own funds for the entire association of Volksbanks using the standard approach.

g) Liquidity risk

Definition

Liquidity risk is defined as the risk of not being able to meet payment obligations on their due date or not being able to raise the liquidity required at the conditions expected as and when necessary. Liquidity risk is controlled by means of monitoring surpluses from the allocation of cash flows of all asset and liability items to defined maturity bands.

Organisation and strategy

Liquidity management

Liquidity Management comprises the sub-areas of operational liquidity management, liquidity control, issue management and Group refinancing. It is responsible for operational liquidity management, short-term reporting and long-term, strategic liquidity management. Liquidity Management is the central department for liquidity issues in the Group and the association of Volksbanks. These include in particular liquidity pricing (transfer pricing), Group-wide, central management of collateral, establishing the funding structure, managing available liquid assets and ensuring compliance with the refinancing strategy.

In addition, liquidity management is documented via the liquidity manual and the liquidity emergency manual.

Risk management and controlling

Operational liquidity management

The operational liquidity management unit uses various instruments and tools to ensure adherence to risk management policies and legal regulations, for daily reporting, as well as for the supply of short-term liquidity in the Group and association.

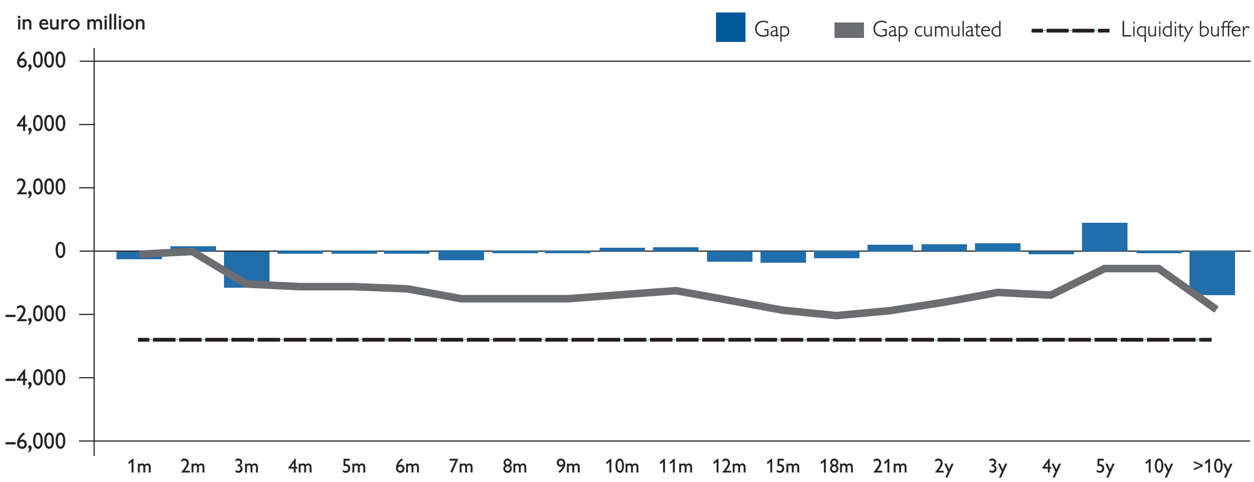
Operational liquidity management comprises five key tasks:

1. Cash management, supported by a real-time cash management system, provides for prompt management of the nostro accounts maintained by VBAG in all currencies as well as funding of CLS netting positions. An intraday comparison of data from cash management with the cash flows from day-to-day liquidity planning is performed. Further cash management tasks included monitoring the TARGET II platform and Austrian National Bank accounts and monitoring payment transaction platforms.
2. Collateral management: The management of ECB-eligible collateral (eligible bonds and credit claims) of VBAG and the association, as well as the initiation/use of ECB refinancing, facilitates optimal use of the collateral portfolio, with due consideration of planning data, cash management requirements and regulatory requirements under section 25 of the Austrian Banking Act.
3. Liquidity planning: A planning tool enables daily liquidity planning for the next 31 days, and weekly planning for the next 12 months. This tool also allows for a liquidity outlook covering the association of Volksbanks, based on net cash flow in all currencies up to product level. Cash flows are modelled at product level on a daily basis, including market, institutional and product-specific data as well as a daily valuation of all positions presented in foreign currencies, in order to model liquidity requirements arising from currency fluctuations.
4. Compliance with the legal provisions of section 25 of the Austrian Banking Act by VBAG and the association in connection with managing ECB collateral and monitoring liquid assets is another key part of operational liquidity management.
5. Monitoring the association's refinancing positions in all currencies and the "liquidity control system" for association banks implemented by VBAG in accordance with section 30a – including liquidity notifications, refinancing management, use of collateral and an early warning system – constitute a new pillar in operational liquidity management.
6. Planning and complying with the minimum reserve provisions (compliance) for VBAG and the association of Volksbanks while taking liquidity planning into account and regularly reporting to the Managing Board are also part of the task area.

Risk reports

To present the structural liquidity risk management in the bank, the Group market risk management department creates a liquidity gap report that takes into account both deterministic and stochastic capital cash flows and interest rate cash flows of on- and off-balance sheet products. The cash flows are calculated and modelled in their original currency first of all and are then aggregated and translated into euro. Surplus cover and deficits from the cumulative cash flows are identified and analysed using the GAP method. The report visualises the net cash flows for each maturity band, the cumulative cash flow and the liquidity buffer. The liquidity buffer corresponds to the lending value of the unencumbered assets/collaterals deposited and accepted at the central banks.

Liquidity gap report for VBAG Group as at 31 December 2012



The most important key rate indicator, the structural survival period, is determined from the point at which the cumulative cash flow and liquidity buffer lines intersect. The structural survival period is bigger than 10 years.

In addition to the real case scenario, stress scenarios are also calculated. As determined by CEBS, this involves a bank, market and combined stress scenario. In these cases, the liquidity buffer is stressed with regard to sufficient cover.

Limits for the structural liquidity risk are set in the real case scenario and in the stress scenarios using the structural survival period and the net concentration ratio. The structural survival period is the period up to which the institution is able to make its due payments with deposits and the liquidity buffer. Additional funding measures are not taken into account here and would extend the structural survival period. The net concentration ratio is the net of cash inflows and cash outflows for a certain maturity band in relation to the liquidity buffer.

The refinancing risk is to be hedged with the support of the owners and the Republic of Austria. These supporting measures still require external authorisations in order to be implemented.

h) Other risks

In terms of other risks, the VBAG Group is confronted with strategic risk, reputational risk, equity risk and business risk. Although other risks are not of key significance to the VBAG Group, they are intrinsic to its operations. While business risk is to be quantified using value at risk in future, this type of measurement is not possible for the other risk sub-groups of strategic risk, reputational risk and equity risk. Mainly organisational measures are implemented for the management of other risks.

A capital buffer is therefore defined in order to protect against other risks and the risk arising from market value changes of investment valuations.

54) Fully consolidated companies [1)]

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
"VBL POSREDNIK" d.o.o.; Sarajevo	SO	50.00 %	50.00 %	1
"VBV iota" - IEB Holding GmbH; Wien	SO	100.00 %	100.00 %	36
3V-Immobilien Errichtungs-GmbH; Wien	HD	100.00 %	100.00 %	35
ACP IT-Finanzierungs GmbH; Wien	FI	75.00 %	75.00 %	150
Argentinska 38, s.r.o.; Praha 8	SO	100.00 %	100.00 %	4
ARIANA TURIST VILE d.o.o.; Zagreb	SO	100.00 %	100.00 %	1,156
ATIUMCO LIMITED; Limassol	SO	100.00 %	100.00 %	1
AWP Liegenschaftsverwaltung GmbH; Wien	HD	100.00 %	100.00 %	145
Dexagon Ingatlanfejlesztö Kft.; Budapest	SO	100.00 %	100.00 %	2
Edesiana Ltd.; Limassol	SO	100.00 %	100.00 %	1
Gefinag-Holding AG; Wien	HD	100.00 %	100.00 %	436
Grieshofgasse 11 Liegenschaftsverwaltungs GmbH; Wien	FI	100.00 %	100.00 %	35
GUB-Holding GmbH; Wien	SO	100.00 %	100.00 %	18
Heilbad Sauerbrunn Betriebsgesellschaft m.b.H. & Co.KG.; Bad Sauerbrunn	SO	100.00 %	100.00 %	3,511
Hemera Development Sp. Z o.o.; Warsaw	SO	100.00 %	100.00 %	25
IC Beta d.o.o.; Krapina	FI	100.00 %	100.00 %	3
IC Investment Corporation Limited; Msida, Malta	HD	100.00 %	100.00 %	7
IKIB alpha Beteiligungsholding GmbH; Wien	SO	100.00 %	100.00 %	35
IKIB beta Beteiligungsholding GmbH; Wien	SO	100.00 %	100.00 %	35
IKIB Mittelstandsfinanzierungs GmbH; Wien	SO	100.00 %	100.00 %	35
Immo Kapitalanlage AG; Wien	KI	100.00 %	100.00 %	5,000
IMMOINVEST, s.r.o.; Bratislava	SO	100.00 %	100.00 %	33
Immokik s.r.l.; Bucharest	FI	50.92 %	50.92 %	1
Immopol Logis Sp.z.o.o.; Warszawa	FI	100.00 %	100.00 %	13
Immopol Omega Sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	24
IMMOROM BETA SRL; Bukarest, Sector 1	SO	100.00 %	100.00 %	4,651
Immorom Sigma S.R.L.; Bukarest	FI	100.00 %	100.00 %	170
Immoslov Beta s.r.o.; Bratislava	FI	100.00 %	100.00 %	7
Imobilia Kik s.r.o.; Praha 8	FI	100.00 %	100.00 %	8
Imobilia Omikron s.r.o.; Praha 8	FI	100.00 %	100.00 %	8
Imobilia Sen s.r.o.; Praha 8	FI	100.00 %	100.00 %	8
Imobilia Spa s.r.o.; Praha 8	FI	100.00 %	100.00 %	15
INPROX Karlovac d.o.o.; Krapina	FI	100.00 %	100.00 %	14
INPROX Ústí nad Labem, s.r.o.; Praha 8	FI	100.00 %	100,00 %	4
Investkredit Funding Ltd.; St. Helier - JERSEY	HD	99.18 %	99.18 %	10
Investkredit International Bank p.l.c.; Sliema	KI	99.18 %	99.18 %	65,000
Investkredit-IC Holding alpha GmbH; Wien	SO	100.00 %	100.00 %	35
Investkredit-IC Holding beta GmbH; Wien	SO	100.00 %	100.00 %	35
Kalvin-Center Kft.; Budapest	SO	100.00 %	100.00 %	11
Leasing - west Gesellschaft m.b.H. & Co. Kommanditgesellschaft; Kufstein	FI	100.00 %	100.00 %	1,124
Leasing-west Gesellschaft m.b.H.; Kufstein	FI	100.00 %	100.00 %	36
Leasing-west GmbH, BRD; Kiefersfelden	FI	100,00 %	100.00 %	51
Markovo Tepe Mall EOOD; Sofia	SO	100.00 %	100.00 %	150
Mithra Holding Gesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	18
Mithra Unternehmensverwaltung Gesellschaft m.b.H.; Wien	HD	100.00 %	100.00 %	18
Olmedo s.r.o.; Praha 8	FI	100.00 %	100.00 %	78
ÖVAG FINANCE (JERSEY) LIMITED; St. Helier - JERSEY	HD	100.00 %	100.00 %	0
Piaggio Investments Limited; Limassol	SO	100.00 %	100.00 %	7
PPI ONE Ltd.; Limassol	SO	100.00 %	100.00 %	117
Premium Office One Sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	3,219
PRI FIVE Limited; Limassol	SO	100.00 %	100.00 %	2
PRI ONE Limited; Limassol	SO	100.00 %	100.00 %	4
PRI TWO Ltd.; Limassol	SO	100.00 %	100.00 %	7
Protea Létesítményszervezö Kft.; Budapest	SO	100.00 %	100.00 %	2

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
R 6 Offices sp.z.o.o.; Warzawa	SO	100.00 %	100.00 %	25
REWO 10 Limited; Limassol	SO	100.00 %	100.00 %	3
REWO 90 Limited; Limassol	SO	100.00 %	100.00 %	3
REWO Unternehmensverwaltung GmbH; Wien	SO	100.00 %	100.00 %	18
ROGER jedna s.r.o.; Bratislava	SO	100.00 %	100.00 %	913
S.C. IMMOROM ALPHA SRL; Bukarest	SO	100.00 %	100.00 %	9
S.C. IMMOROM DELTA SRL; Bukarest, Sector 1	SO	100.00 %	100.00 %	4,251
Selene Development Sp. z o.o.; Warsaw	SO	100.00 %	100.00 %	25
Themis Development Sp. z o.o.; Warsawa	SO	100.00 %	100.00 %	25
UBG-Bankenbeteiligungs Gesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	18
Unternehmensbeteiligungs Gesellschaft mit beschränkter Haftung; Wien	SO	100.00 %	100.00 %	73
UVB-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VB Factoring Bank Aktiengesellschaft; Salzburg	KI	100.00 %	100.00 %	2,907
VB GFI AG; Wien	HD	100.00 %	100.00 %	1,000
VB Leasing CZ, spol.s.r.o.; Brno	FI	50.00 %	50.00 %	65,449
VB LEASING d.o.o.; Zagreb	FI	50.00 %	50.00 %	10,286
VB Leasing doo Beograd; Novi Beograd	FI	50.00 %	50.00 %	5,343
VB Leasing Finanzierungsgesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	18
VB LEASING POLSKA S.A.; Wroclaw	FI	50.00 %	50.00 %	2,165
VB LEASING ROMANIA IFN S.A.; Bukarest, Sector 1	FI	40.00 %	100.00 %	555
VB Leasing Services, spol. s r.o.; Brno	FI	50.00 %	50.00 %	331
VB LEASING SK, spol. s.r.o.; Bratislava 1	FI	50.00 %	50.00 %	4,149
VB LEASING Sprostredkovatelská s.r.o.; Bratislava	SO	50.00 %	50.00 %	5
VB Real Estate Development Baross Ingatlan Kft.; Budapest	SO	100.00 %	100.00 %	11
VB Real Estate Development GmbH; Wien	HD	100.00 %	100.00 %	18
VB Real Estate Hermes GmbH; Wien	SO	100.00 %	100.00 %	18
VB Real Estate Holding eins GmbH; Wien	SO	100.00 %	100.00 %	18
VB Real Estate Holding Zeta GmbH; Wien	SO	100.00 %	100.00 %	18
VB Real Estate Holding zwei GmbH; Wien	SO	100.00 %	100.00 %	18
VB Real Estate Leasing Alpha GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing Bonus GmbH; Wien	FI	100.00 %	100.00 %	35
VB Real Estate Leasing Citycenter GmbH; Wien	FI	51.00 %	51.00 %	18
VB Real Estate Leasing Delta GmbH; Wien	FI	100.00 %	100.00 %	36
VB Real Estate Leasing Dike GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing eins GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing Gamma GmbH; Wien	FI	100.00 %	100.00 %	36
VB Real Estate Leasing Herkules GmbH; Wien	FI	100.00 %	100.00 %	73
VB Real Estate Leasing Ismene GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing KP GmbH; Wien	FI	100.00 %	100.00 %	36
VB Real Estate Leasing Penta GmbH; Wien	FI	100.00 %	100.00 %	35
VB Real Estate Leasing Prater I GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing Psi GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing RAI GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing Rho GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing sechs GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing SPU GmbH; Wien	FI	100.00 %	100.00 %	35
VB Real Estate Leasing Uriah GmbH; Wien	FI	55.00 %	55.00 %	18
VB Real Estate Leasing vier GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Leasing Viribus GmbH; Wien	FI	100.00 %	100.00 %	36
VB Real Estate Leasing VOGEVA GmbH; Wien	FI	100.00 %	100.00 %	36
VB Real Estate Leasing Ziel GmbH; Wien	FI	100.00 %	100.00 %	18
VB Real Estate Services Czechia s.r.o.; Praha 8	FI	100.00 %	100.00 %	4
VB Real Estate Services GmbH; Wien	FI	100.00 %	100.00 %	3,270
VB Real Estate Services Polska Spólka z.o.o.; Warszawa	FI	100.00 %	100.00 %	94
VB Real Estate Zeta Ingatlankezelö Bt.; Budapest	FI	100.00 %	100.00 %	0
VB Services für Banken Ges.m.b.H.; Wien	HD	98.89 %	98.89 %	327
VB Technologie Finanzierungs GmbH; Wien	FI	100.00 %	100.00 %	100
VB Vermögensanlage Gesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	73

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VB-Holding Aktiengesellschaft; Wien	SO	100.00 %	100.00 %	73
VBI Holding GmbH; Wien	SO	100.00 %	100.00 %	36
VBKA-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VBL BROKER DE ASIGURARE SRL; Bukarest	SO	40.00 %	100.00 %	7
VBL SERVICES DOO BEOGRAD; Beograd	FI	50.00 %	50.00 %	81
VB-Leasing International Holding GmbH; Wien	SO	50.00 %	50.00 %	5,603
VB-NEPREMICNINE podjetje za promet z nepremicninami, d.o.o.; Ljubljana	SO	60.00 %	60.00 %	956
VBRES Real Estate Services Romania s.r.l.; Bucharest	SO	100.00 %	100.00 %	0
VBS HISA d.o.o.; Ljubljana	FI	50.00 %	50,00 %	626
VBS Leasing d.o.o.; Ljubljana	FI	50.00 %	50.00 %	28,973
VBV Anlagenvermietungs- und Beteiligungs-GmbH; Wien	FI	100.00 %	100.00 %	35
VBV Holding GmbH; Wien	FI	100.00 %	100.00 %	36
VBV zwölf Anlagen Vermietung Gesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	18
VBZ Váci u. 37 Irodaközpont Kft; Budapest	SO	100.00 %	100.00 %	11
Verwaltungsgenossenschaft der IMMO-BANK eG; Wien	SO	88.83 %	88.83 %	3,915
VIBE-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VIVH AG; Wien	SO	100.00 %	100.00 %	5,000
Volksbank Invest Kapitalanlagegesellschaft m.b.H.; Wien	KI	100.00 %	100.00 %	2,500
Volksbank Leasing BH d.o.o.; Sarajevo	FI	50.00 %	50.00 %	2,124
Volksbank Malta Limited; Sliema	KI	100.00 %	100.00 %	167,821
VOME Holding GmbH; Wien	SO	100.00 %	100.00 %	35
Wroclaw Office Park One Sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	25

1) all fully consolidated companies are under direct or indirect control of VBAG

55) Companies measured at equity

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
GEF Beteiligungs-GmbH; Wien	SO	49.94 %	49.94 %	7,300
VBI Beteiligungs GmbH; Wien	SO	51.00 %	51.00 %	35
VBV delta Anlagen Vermietung Gesellschaft m.b.H.; Wien	SO	40.00 %	40.00 %	36
Volksbank Romania S.A.; Bukarest	KI	51.00 %	51.00 %	209,812

56) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
Espalier Holdings; Nicosia	SO	100.00 %	100.00 %	2
ETECH Management; Wien	SO	100.00 %	100.00 %	36
Eurincasso; Salzburg	HD	100.00 %	100.00 %	36
Europa Consult; Wien	SO	100.00 %	100.00 %	35
Heli Dunakeszi; Budapest	SO	100.00 %	100.00 %	2
IC Gama u likvid.; Zagreb	SO	100.00 %	100.00 %	3
IC Holding Gamma; Wien	SO	100.00 %	100.00 %	36
IC Lupo Unternehmbet; Wien	SO	100.00 %	100.00 %	36
IC Malta AM; Msida, Malta	SO	100.00 %	100.00 %	7
ICL Alpha Vagyonkez.; Budapest	SO	100.00 %	100.00 %	10
ICL International; Wien	SO	100.00 %	100.00 %	35
ICL Senap; Wien	FI	100.00 %	100.00 %	36
IED Holding; Sliema	SO	100.00 %	100.00 %	150
IKIB Verwaltung; Wien	SO	100.00 %	100.00 %	35
Immoconsult alpha HR; Zagreb	SO	100.00 %	100.00 %	3
Immoconsult Ares; Wien	SO	100.00 %	100.00 %	35
Immoconsult HR; Zagreb	SO	100.00 %	100.00 %	265
Immo-Manag. Adriana; Bukarest Sector 1	SO	100.00 %	100.00 %	0
Immopol Alpha; Warszawa	FI	100.00 %	100.00 %	12
Immopol Epsylon; Warszawa	SO	100.00 %	100.00 %	1
Immopol Sigma; Warszawa	SO	100.00 %	100.00 %	67
Immorent-VBV Grund; Wien	FI	51.00 %	51.00 %	36
Immorom Epsilon; Bukarest Sector 1	FI	100.00 %	100.00 %	158
Immoslov omikron; Bratislava	SO	100.00 %	100.00 %	7
Immoslov plus; Bratislava	SO	100.00 %	100.00 %	17
Imobilia Kappa; Praha 8	FI	100.00 %	100.00 %	4
Imobilia Phi; Praha 8	SO	100.00 %	100.00 %	4
Imobilia Zeta; Praha 8	FI	100.00 %	100.00 %	4
Infrastr. HB Sauerbr; Wien	SO	100.00 %	100.00 %	35
Inprox Martin; Bratislava	FI	100.00 %	100.00 %	7
Inprox Zilina; Bratislava	FI	100.00 %	100.00 %	7
Invest Mezzanine Cap; Wien	SO	100.00 %	100.00 %	35
Kastanjer; Zagreb	SO	100.00 %	100.00 %	3
Land Bucuresti One; Bukarest	SO	100.00 %	100.00 %	7,725
Land Oradea Two; Bukarest	SO	100.00 %	100.00 %	0
Land Satu Mare One; Bukarest	SO	100.00 %	100.00 %	489
Land Satu Mare Two; Bukarest	SO	100.00 %	100.00 %	0
Land Sibiu One; Bukarest	SO	100.00 %	100.00 %	3,838
Land Sibiu Two; Bukarest Sector 1	SO	100.00 %	100.00 %	2
Land Suceava One; Bukarest	SO	100.00 %	100.00 %	6,308
Land Targu Mures One; Bukarest	SO	100.00 %	100.00 %	9,492
Land Targu Mures Two; Bukarest	SO	100.00 %	100.00 %	10
Levade S.A.; Luxemburg	HD	100.00 %	100.00 %	70
Nakupni centrum Brec; Praha 8	FI	100.00 %	100.00 %	8
NewCo MTM; Sofia	SO	100.00 %	100.00 %	0
Obi Eger; Budapest	FI	80.00 %	80.00 %	10
Obi Miskolc; Budapest	FI	80.00 %	80.00 %	10
Obi Veszprem; Budapest	FI	80.00 %	80.00 %	10
Pluyette Investments; Nicosia	SO	100.00 %	100.00 %	2
PR Real Est. Manag.; Limassol	SO	100.00 %	100.00 %	1
Premium Office 2; Warszawa	SO	100.00 %	100.00 %	54
PSX AG; Wien	SO	100.00 %	100.00 %	70
Public Private FinCo; Wien	SO	100.00 %	100.00 %	36
Pui One; Limassol	SO	100.00 %	100.00 %	20
RO REWO 90; Limassol	HO	100.00 %	100.00 %	1
Roggia Ltd.; Limassol	SO	100.00 %	100.00 %	10
Shelf Ingatlan; Budapest	FI	100.00 %	100.00 %	10

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
Silverock Ltd.; Limassol	HO	100.00 %	100.00 %	55
Skalea Investments; Limassol	HO	100.00 %	100.00 %	2
Skipvine Holdings; Limassol	HO	100.00 %	100.00 %	1
VB Invest d.o.o.; Zagreb	SO	75.00 %	75.00 %	1,032
VB IT-Services; Wien	HD	100.00 %	100.00 %	36
VB Management; Wien	SO	100.00 %	100.00 %	36
VB RE Leasing FMZ 1; Wien	FI	100.00 %	100.00 %	35
VB RE Leasing 3; Wien	FI	100.00 %	100.00 %	36
VB RE Leasing Beta; Wien	FI	100.00 %	100.00 %	36
VB RE Leasing BWG; Wien	SO	100.00 %	100.00 %	36
VB RE Leasing Diana; Wien	SO	100.00 %	100.00 %	35
VB RE Leasing Indigo; Wien	FI	100.00 %	100.00 %	36
VB RE Leasing Zeta; Wien	SO	100.00 %	100.00 %	36
VB RE Smilax; Wien	SO	100.00 %	100.00 %	35
VB REL Hungaria Ing.; Budapest	SO	100.00 %	100.00 %	10
VB REL Kommunal; Wien	FI	100.00 %	100.00 %	35
VB RES Slovakia; Bratislava	FI	100.00 %	100.00 %	266
VBCS Beteiligung; Wien	HO	100.00 %	100.00 %	35
VBV Eins Anlagen; Wien	FI	100.00 %	100.00 %	35
VBV gamma Anlagen; Wien	FI	100.00 %	100.00 %	36
VBV zeta; Wien	SO	100.00 %	100.00 %	35

* Abbreviations Type

KI credit institution
FI financial institution
HD ancillary banking service
SO other enterprises

STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial positions and profit or loss of the group as required by the applicabel accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.

Vienna, 21 March 2013

Stephan Koren
Chairman of the Managing Board
Corporate planning & Finance, Human Resources, Legal affairs, Marketing & Communication

Michael Mendel
Deputy Chairman of the Managing Board
Risk management

Rainer Borns
Member of the Managing Board
Association of Volksbanks, Organisation/IT

Christoph Raninger
Member of the Managing Board
Market

AUDITOR'S REPORT

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of

Österreichische Volksbanken-Aktiengesellschaft,
Vienna, Austria,

for the year from 1 January 2012 to 31 December 2012. These consolidated financial statements comprise the consolidated statement of financial position as of 31 December 2012, the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year 2012 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2012 and of its financial performance and its cash flows for the year from 1 January to 31 December 2012 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Without qualifying our opinion, we refer to the disclosures made by the Management in the notes relating to the Company's ability to continue as a going concern and to the assessment of the existing refinancing facilities for Volksbank Romania S.A. amounting to EUR 1.4 billion (Notes/1).

Report on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements.

In our opinion, the management report for the Group is consistent with the consolidated financial statements.

Vienna, 21 March 2013

KPMG Austria AG
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Bernhard Mechtler
Certified Public Accountant

Walter Reiffenstuhl
Certified Public Accountant

(Austrian Chartered Accountants)

This report is a translation of the original report in German, which is solely valid.

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TERMINOLOGY

Österreichische Volksbanken-AG
(in german language for short: ÖVAG)
Central Organisation of the Association of Volksbanks § 30a BWG
Brand and international name: Volksbank AG (for short: VBAG)

Association of Volksbanks/Volksbank Group § 30a BWG
Volksbank primary banks, VBAG Group, Schulze-Delitzsch-Haftungsgenossenschaft reg.Gen.mbH. „Association“ describes the entity of members of the a banking association under section 30a of the Austrian Banking Act (Bankwesengesetz)

VBAG Group
Österreichische Volksbanken-AG with its subsidiaries in Austria and abroad: VB-Factoring Bank AG, Volksbank Malta Ltd., VB Real Estate Services GmbH, VB-Leasing International Holding GmbH, VB Leasing Finanzierungsgesellschaft m.b.H.

Volksbank primary banks
51 Local Volksbanks including 6 banks with specialised professional expertise (Österreichische Apothekerbank eG, Gärtnerbank, registrierte Genossenschaft mit beschränkter Haftung, IMMO-BANK Aktiengesellschaft, SPARDA-BANK LINZ, registrierte Genossenschaft mit beschränkter Haftung, SPARDA-BANK VILLACH/INNSBRUCK registrierte Genossenschaft mit beschränkter Haftung, Bank für Ärzte und Freie Berufe Aktiengesellschaft), 4 credit co-operative banks and the Bausparkasse ABV

Volksbank-Sector
Volksbank primary banks, VBAG in Individual Financial Statements, VB Factoring AG, Volksbank Quadratbank AG

Austrian Cooperative Association
Revision and early detection within the banking association under section 30a of the Austrian Banking Act is carried out by the Österreichischen Genossenschaftsverband (Schulze-Delitzsch) – for short: ÖGV. The primary banks and the Schulze-Delitzsch-Haftungsgenossenschaft reg.Gen.mbH are ordinary members of the ÖGV.

IMPRINT

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