VOLKSBANK AG

# INTERIM REPORT

## AS AT 30 SEPTEMBER 2012

# KEY FIGURES OF VOLKSBANK AG

| Euro million | 30 Sep 2012 | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|---|
| **Statement of financial position** [1] | | | |
| **Total assets** | **28,469** | **41,135** | **46,550** |
| Loans and advances to customers | 11,107 | 12,717 | 23,615 |
| Amounts owed to customers | 2,772 | 2,713 | 7,312 |
| Debts evidenced by certificates | 10,339 | 13,452 | 16,122 |
| Subordinated liabilities | 840 | 1,729 | 1,864 |
| **Own funds** | | | |
| Core capital (tier I) after deductions | 1,688 | 2,305 | 2,613 |
| Supplementary capital (tier II, tier III) after deductions | 859 | 1,021 | 950 |
| Eligible qualifiying capital | 2,546 | 3,326 | 3,563 |
| Assessment base credit risk | 14,925 | 22,947 | 25,454 |
| Capital requirement market risk | 105 | 121 | 54 |
| Capital requirement operational risk | 93 | 144 | 141 |
| Surplus capital | 1,154 | 1,225 | 1,333 |
| **Core capital ratio** [2] | **9.7 %** | **8.8 %** | **9.4 %** |
| **Equity ratio** [2] | **14.6 %** | **12.7 %** | **12.8 %** |
| | | | |
| **Income statement** [3] | **1-9/2012** | **1-9/2011** | **1-9/2010** |
| Net interest income | 159.9 | 344.0 | 382.1 |
| Risk provisions | –200.7 | –90.2 | –221.7 |
| Net fee and commission income | 45.5 | 74.9 | 80.1 |
| Net trading income | 31.4 | 11.9 | 31.2 |
| General administrative expenses | –194.7 | –269.9 | –266.5 |
| Other operating result | 703.4 | –357.0 | 17.8 |
| Income from financial investments | 48.2 | –346.0 | –29.2 |
| Income from discontinued operation | 48.6 | –64.0 | 48.0 |
| **Result before taxes** | **641.6** | **–696.3** | **41.9** |
| Income taxes | –20.2 | 0.0 | –14.2 |
| **Result after taxes** | **621.4** | **–696.2** | **27.7** |
| Non-controlling interest | –22.7 | 7.1 | –27.4 |
| **Consolidated net income** | **598.7** | **–689.1** | **0.3** |
| **Key ratios** [4] | | | |
| Operative cost-income-ratio | 82.2 % | 62.6 % | 54.0 % |
| ROE before taxes | 77.7 % | –67.6 % | –0.5 % |
| ROE after taxes | 75.3 % | –66.7 % | –0.8 % |
| ROE consolidated net income | 96.9 % | –97.7 % | –1.7 % |
| ROE before taxes (regulatory) | 62.5 % | –58.4 % | –0.5 % |
| **Resources** [3] | | | |
| Staff average | 1,975 | 3,476 | 3,622 |
| of which domestic | 1,190 | 1,331 | 1,366 |
| of which foreign | 785 | 2,145 | 2,256 |
| | | | |
| | **30 Sep 2012** | **31 Dec 2011** | **31 Dec 2010** |
| Staff at end of period | 1,908 | 2,038 | 3,540 |
| of which domestic | 1,125 | 1,253 | 1,353 |
| of which foreign | 783 | 785 | 2,187 |
| Number of sales outlets | 2 | 2 | 238 |
| of which domestic | 1 | 1 | 1 |
| of which foreign | 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 and 2011 were restated for discontinued operation in line with IFRS 5.
4) The operating cost-income-ratio is the ratio between net interest income, net fee and commission income and general administrative expenses. All ratios were displayed without including discontinued operation or disposal group.

# CONTENT

## Interim Report



Any role descriptions in this interim report that are used only in the masculine form apply analogously to the feminine form.
English translation by BBi (Scotland) Ltd.

# MANAGEMENT REPORT

## Report on business development and the economic situation

### Economic environment

The development of the economy in the eurozone was already very weak in the second quarter, with the gross domestic product contracting on both an annual and a quarterly basis. The data available so far shows that this trend continued in the third quarter of 2012.

Industrial production was fairly robust in the first two months of the third quarter, at least on a monthly basis; growth rates in July as well as in August were 0.6% month on month. However, on an annual basis, industrial production remained consistently below its previous year levels (–2.8% and –2.9% respectively). Retail sales painted a similar picture: growth on a monthly basis was just in the black (0.1% for both months), and in fact exceeded expectations, but the corresponding annual figures revealed considerable downturns (–1.3% and –1.4% respectively). Industrial production fared much better in Austria in July and August than in the eurozone. Monthly and annual growth rates for both months were clearly positive.

Unemployment in the eurozone is still at a record level. Seasonally adjusted, the jobless rate totalled 11.3% in August, as in the previous month. Spain continues to post the highest rate of 25.1%, along with Greece – where only the July figures are available – and Portugal (15.9%). The unemployment rate in Austria remains the lowest in the eurozone, and even fell somewhat in August compared to the previous month, coming in at 4.5%.

Inflation in both the eurozone and Austria was above the European Central Bank's inflation target of just under 2% throughout the first two months of the third quarter of 2012. Inflation in the eurozone was 2.6% in August and 2.7% in September. In Austria the inflation rate in August came in slightly lower (2.3%) and in September somewhat higher (2.8%) than in the eurozone.

The European Central Bank (ECB) lowered its base rate by 25 basis points in the third quarter to 0.75%. At the beginning of September it decided to launch a bond purchase programme which had already been announced some time ago. These purchases will be subject to an agreement being reached between the issuing country and the EFSF and/or the permanent European Stabilisation Mechanism (ESM, confirmed in September by the German Federal Constitutional Court). The ECB intends to buy the sovereign bonds of these countries with a maturity of up to three years; no limitations apply. Like under the previous "Securities Markets Programme", the impacts of this new "Outright Monetary Transactions" programme on money supply will be sterilised. The decision makes it clear that the ECB accepts that it will be ranked pari passu with other holders of the same bonds. An exception was made to this rule for Greece's debt haircut. At the same time, the requirements regarding securities eligible as collateral for bank refinancing have been relaxed. The credit rating limitations have been suspended for bonds issued by countries with EFSF or ESM backing that may also be eligible for the bond purchase programme, and for countries involved in the EU/IMF programme. Additionally, more foreign currency bonds are now accepted. Later, the liquidity swap arrangement with the Bank of England that was due to expire at the end of September 2012 was extended for another year. In this way the ECB aims to support the credit markets in functioning properly, and thus ensure that its expansionary monetary policy actually has an impact through credit channels. Contrary to general expectations however, Spain has yet to apply for help.

Starting from a very low level, the three-month Euribor fell again in the third quarter. At the beginning of the quarter the interest rate stood at 0.65%, falling to 0.22% by the end of the quarter, since when it has once again stabilised. The situation on the bond markets of crisis-struck countries has visibly eased, resulting in a sharp decline in yields. For example, the yield on ten-year Italian government bonds is now back below 5%, while its Spanish counterpart is well below 6%. There was no real change in German yields, meaning that yield spreads have shrunk noticeably.

Developments throughout the countries of Central and Eastern Europe varied in the third quarter, as in the first six months of the year. Hungary (high current account surpluses, a falling sovereign debt ratio and stable industrial output) and Slovakia produced the best figures, though inflation rates in both countries were high. Also in Slovenia, where the government has introduced extensive measures to consolidate the banking sector, available data suggests that the economy is stabilising. The figures were somewhat weaker in the Czech Republic, and this was coupled with the growing instability of the coalition government. Currencies in Central and Eastern European countries were stable and the bond markets proved to be robust. Long-term sovereign bond yields in the Czech Republic were barely above those recorded in Austria.

In Romania, the data published from month to month shows a mixed picture. Retail sales rose strongly in July and in August, both on a monthly and annual basis, while industrial production has recently been weakening. The inflation rate picked up slightly and totalled 5.3% in September, stepping out of the central bank's target range for the first time in quite a while. In the third quarter the central bank left its base rate unchanged at 5.25%, while the leu ended the quarter in roughly the same place after a period of relatively strong volatility.

## Business development

On 9 November 2012 VBAG's management board announced that the after-tax, single entity result (based on local GAAP) will be negative within a clearly double-digit million euro bandwidth. Due to discrepancies between accounting and reporting rules relevant for the single entity statement (based on local GAAP) and for the consolidated Group results (based on IFRS), the consolidated IFRS Group result for the 2012 business year will be positive in a high three-digit million euro range. The main reason for these differences between the single entity and the consolidated Group results is the different treatment of the capital reduction of the participation capital 2008.

VBAG Group is currently undergoing a profound restructuring process. Pursuant to official requirements of the European Commission, business fields and participations which do not represent core business have to be wound down according to their maturity profiles or sold in the medium term. Due the difficult economic environment and the resulting haircuts on the run-down portfolio this will affect results.

As a consequence of the non-recurring extraordinary effects described above, the following report (IFRS) on the business development of VBAG Group in the first three quarters of 2012 insufficiently reflects the challenges VBAG Group faces. Operative results of VBAG Group based on IFRS will be clearly negative in 2012 and most likely in 2013 as well.

This discrepancy is to a large extent due to different accounting and reporting rules relevant for the consolidated Group results (based on IFRS) and single entity results (based on local GAAP). While the 2008 participation capital (PS 2008) is reported as equity under local GAAP rules, it is allocated to liabilities under IFRS. According to IFRS, future profits resulting from redemptions below par are to be reported as soon as the bank's expectations regarding future cash flows change. This is the case for PS 2008 as well as for upper tier II bonds which are loss-participating. In the local GAAP statements, the capital reduction of the PS 2008 has no impact on profit or loss. Furthermore, according to local GAAP rules, profits resulting from the redemption below par of upper tier II bonds will have a P&L effect only when the profits actually materialize, i.e. at the maturity dates of the upper tier II bonds.

### Result for the first three quarters 2012

The result before taxes for the first three quarters 2012 was euro 642 million and the consolidated result after taxes and non-controlling interest amounted to euro 599 million.

The stabilisation measures agreed between the owners of VBAG and the Republic of Austria on 27 February 2012 were ratified at the Annual General Meeting of 26 April 2012, approved by the European Commission and FMA (Austrian Financial Market Authority) in September 2012 and entered in the Commercial Register on 28 September 2012. As a result of the capital reduction and subsequent capital increase, equity in the single entity and own funds in accordance with the Austrian Banking Act increase with retroactive effect from 31 December 2011. The measures are reported in these consolidated financial statements prepared according to IFRS with full legal effect as of 28 September 2012.

The sale of Volksbank International (VBI) was finalised on 15 February, at which time the VBI sub-group was deconsolidated. The sale of all VBAG participations in the VICTORIA Volksbanken insurance companies in Austria and CEE was also completed in February.

The closing of the sale of Selini Holding GmbH, which originally formed part of the Europolis Group, took place on 12 April 2012, so that all assets from Europolis Group business area have now been sold. The result up to 12 April 2012 and the deconsolidation proceeds were recognised as income from discontinued operation.

Sales were also finalised within VB Real Estate Services Group. A contract of sale for Immoconsult Asset Leasing GmbH (Asset Leasing) was signed on 17 July 2012; closing took place on 5 September 2012. A further seven companies were sold in the period under review.

The sale of part of the Frankfurt branch's portfolio to Deutsche Zentral-Genossenschaftsbank, as agreed in the Term Sheet dated 27 February 2012, was executed in the first six months of 2012, decreasing risk-weighted assets in the amount of approximately euro 400 million.

The repurchase of hybrid tier I capital with a nominal value of euro 242 million was completed in July 2012. The proceeds of this repurchase are shown in other operating result. Proceeds from the adjustment of the carrying amounts of participation capital and supplementary capital according to IAS 39 AG 8 (see also Note 1) are likewise reported in other operating result.

All of these measures contributed to a strengthening of VBAG's capital. In particular, an improvement in capital ratios was achieved with the sale of the VBI sub-group. As of 30 September 2012, the tier I ratio (in relation to total risk) was 9.7% (31 December 2011: 8.8%), and the equity ratio (in relation to total risk) stood at 14.6% (31 December 2011: 12.7%).

## Results in detail

At the beginning of 2012, segment reporting was adjusted due to VBAG's restructuring process. The Financing, Financial Markets/Investment Book and Other Operations segments constitute VBAG's core business. The segments Non-core Corporates, Non-core Retail, Non-core Real Estate and Non-core Investment Book/Other Operations are the areas that are to be wound down in accordance with their repayment profile or sold.

The 1-9/2011 result for VB Romania (VB RO), which has been carried at equity since October 2011, is included in the result for the comparative period.

Net interest income amounted to euro 160 million in the first three quarters of 2012, down euro 184 million year-on-year. Euro 91 million of the decline is attributable to VB RO and euro 24 million to the Non-core Corporates segment. The decline in the Financial Markets/Investment Book segment is due firstly to interest rate elasticity – adjustment to the lower level of interest took place faster on the assets side than on the liabilities side – and secondly to the deliberately higher liquidity buffer.

Net fee and commission income in the period under review was euro 46 million, down euro 29 million year-on- year, with euro 7 million resulting from the deconsolidation of VB RO in the Non-core Retail segment. In the Financial Markets/Investment Book segment, a fall in sales of structured investment products led to a reduction in net fee and commission income. The decline in the Other Operations segment results from a change in the reporting of income from cost allocations, which from the third quarter of 2012 is reported in other operating result. Net trading income improved by euro 19 million to euro 31 million.

General administrative expenses were reduced by euro 75 million to euro 195 million. In addition to VB RO, which accounted for euro 43 million in the comparative period, cost savings were achieved particularly in the Other Operations segment. Adjusted for the disposal group, the number of employees fell by 130 since the end of 2011 to 1,908. Of these, 783 work outside Austria.

Other operating income for the review period of 2012 is euro 703 million. According to IAS 39 AG 8, the carrying amount of financial liabilities must be adjusted if the estimates of future cash flows change. Participation capital, which according to IFRS is recognised as a financial liability, is affected by the capital reduction. Moreover, in view of their loss participation, some supplementary capital bonds will, with a high likelihood, not be redeemed at the amortisation rate originally agreed. For these financial liabilities, the new carrying amount has been determined by discounting future cash flows at the original effective interest rate. The difference between the original liability and the new carrying amount is euro 595 million and is recognised in this position. Income from the repurchase of hybrid tier I capital which took place in July 2012 was euro 143 million. An expense of euro 12 million was recognised resulting from the deconsolidation of Asset Leasing. In addition, it was necessary to allocate a provision regarding an impending liability for investment income taxes in the amount of euro 19 million. The deconsolidation proceeds from the disposal of VB RO in the amount of euro –294 million and from the sale of the "North Gate" real estate project in the amount of euro 9 million were recognised in the comparative period. The impairment of goodwill and of the brand of Investkredit carried out in the third quarter of 2011 came to euro –56 million.

Risk provisions for the first three quarters of 2012 amounted to euro 201 million, up by euro 111 million on the figure for the previous year (euro 90 million). In the Non-core Real Estate segment, impairments rose by euro 180 million year-on-year. In the Other Operations segment, the rise of euro 26 million was due to a modified allocation of risk provisions to the profit centres. In the comparative period, the standard risk costs were allocated to the profit centre and the difference compared with the actual risk costs was reported in the Other Operations segment. In the period under review, the actual risk costs are now allocated to the profit centres. Due to the deconsolidation of VB RO, risk provisions were reduced by euro 40 million. Risk provisions fell in the Non-core Corporates (euro 26 million), Financing (euro 12 million) and Non-core Investment Book/Other Operations (euro 9 million) segments and in the Leasing CEE business area (euro 7 million).

Income from financial investments for the period under review amounted to euro 48 million, an increase of euro 394 million over the comparative period. In the period under review, income of euro 21 million from the sale of the VICTORIA Volksbanken insurance companies and additional proceeds of euro 20 million from the sale of participations and securities were recognised. A valuation income of euro 58 million from the surplus of effective fair value hedges was recorded. Open derivatives positions in the investment book generated a positive valuation result of euro 14 million (in the comparative period an expense of euro 102 million was recognised.) This income was offset by impairments of investment property assets in the Non-core Real Estate segment totalling euro 51 million and impairments of participations in real estate companies in the amount of euro 17 million. In the comparative period last year, income from financial investments included impairments of Greek sovereign bonds and of securities whose market values are linked to baskets of various country risks (including Greece) in the amount of euro 144 million as well as impairment on participation capital in Kommunalkredit totalling euro 108 million.

Under income taxes, a provision for expected additional payments due to a tax audit was recognised in the amount of euro 18 million.

The sale of VBI AG and its subsidiaries closed on 15 February 2012. The deconsolidation result of euro 15 million and income for the period from 1 January to 15 February 2012 of euro 21 million (including consolidation) were recognised as income from discontinued operation.

In addition, Selini GmbH and the Vremena Goda project, which has been carried at equity, contribute to the income from discontinued operation. Closing of the sale took place on 12 April 2012. Deconsolidation proceeds amounted to euro 13 million. Income of euro 0.1 million was recorded for the period from 1 January to 12 April.

### Statement of financial position and own funds

As at 30 September 2012, total assets amounted to euro 28.5 billion, a decrease of 12.7 billion compared with 31 December 2011. Of this decrease, euro 8.8 billion is attributable to the deconsolidation of the VBI sub-group.

Loans and advances to customers continued to fall, amounting to euro 11.1 billion as at 30 September 2012. Declines were registered primarily in the Non-core Corporates and Non-core Real Estate segments.

Amounts owed to customers, at euro 2.8 billion, remained stable compared with 31 December 2011. Debts evidenced by certificates amounted to euro 10.4 billion as at 30 September 2012; the decline of euro 3.1 billion since 31 December 2011 is essentially due to redemptions.

VBAG Group's own funds stood at euro 2.5 billion as at 30 September 2012. The tier I ratio in relation to total risk was 9.7% (31 December 2011: 8.8%). The equity ratio in relation to total risk stood at 14.6% (31 December 2011: 12.7%). Eligible own funds exceeded the regulatory requirements by approximately euro 1.2 billion. On 1 October 2012, effective as of 30 September 2012, the FMA approved the return from the IRB approach to the standard approach. The switch led to no significant changes.

# Outlook

### Economic environment

It is to be expected that the wider range of crisis-management tools described above will contribute to a stabilization of the financial markets the coming year. However, due to necessary budget consolidation, the eurozone will remain well below achieving its potential growth rate in 2013. Once again, most of the early indicators point towards feeble growth in the next few months. Against this background we assume that any return to normality in terms of European interest rates will be a long drawn-out process. That said, economic developments in Austria are still expected to be better than in the eurozone as a whole. This is also confirmed by the latest forecasts from the IMF.

### Business performance

Scheduled capital and restructuring measures were approved at the Annual General Meeting of 26 April 2012 and entered in the Commercial Register on 28 September 2012 after approval by the European Commission and FMA. This laid the foundation for the stabilisation and continuity of the institution. Investkredit was merged with VBAG with retroactive effect from 31 December 2011. The capital reduction and subsequent capital increase likewise took effect under company law retroactively as of 31 December 2011.

The association of credit institutions that has been set up pursuant to section 30a of the Austrian Banking Act based on a joint liability scheme and joint funding scheme specifies the new orientation of the business and was approved by the FMA in September. The new institution will focus on its role as central institution of the Austrian Volksbanks. Business areas outside this sphere (Non-core Business) are to be wound down in accordance with their underlying repayment profile, or sold, which may lead to deductions that impact the result.

It has already been announced that single entity results will be negative in 2012 and 2013. Consequently, interest payments on upper tier II bonds are not to be expected in 2013 and 2014. Due to the difficult economic environment capital ratios of VBAG Group will be lower by the end of the year.

# FINANCING SEGMENT

The Financing segment consists of the Commercial Business - Syndicate Financing and Subsidies and Export Financing business areas, VB Leasing Finanzierungsgesellschaft m.b.H. and VB Factoring Bank AG.

The Financing segment is responsible for supporting the regional Volksbanks through the joint provision of services to existing customers as well as advising the Volksbanks regarding new business opportunities.

**Segment result**

Result before taxes for the Financing segment was euro 16 million in the first three quarters of 2012. The improvement in comparison to the last years period is due to the decrease in risk provisions.

### Commercial Business – Syndicate Financing

The Commercial Business – Syndicate Financing division has been expanded through inclusion of the "Special Financing" department. This means the regional Volksbanks can also be supported with product know-how for financing that falls outside the realms of traditional corporate financing. Special financing includes project financing that is used particularly for local infrastructure and energy projects, as well as the financing of operating and construction companies – in the field of tourism for example. Special financing is also the area that will form the interface of VBAG for the tried-and-tested area of model financing and for Immobank. Throughout the third quarter the division continued to cultivate the market in the field of syndicate business together with the Volksbanks, especially as regards existing business. The development of new business was stable in the course of the third quarter.

### Subsidies and Export Financing

The Subsidies department supports the Volksbank sector with advisory services and product know-how and is also responsible for ongoing subsidies in the Non-core Corporates segment.

Total ERP loan volume sank from approximately euro 207 million in the first six months of 2012 to roughly euro 196 million by the end of the third quarter. This is down on the figure for the same period of the previous year (euro 200 million), mainly due to the fact that under the Group's new strategy Volksbanks' small and medium-sized clients are classified as core customers and, as a rule, these customers opt for small loans. However, despite significant scheduled and unscheduled repayments in the Non-core Corporates segment the number of individual loans again increased markedly from 400 in the first six months of 2012 and 339 at the end of the third quarter in 2011 to 412 ERP loans (of which 274 are ERP small loans). In the first three quarters of this year, 94 ERP loans (including 55 ERP small loans) with a volume of more than euro 53 million were added or partially added, including 33 ERP loans with a volume of roughly euro 15 million in the third quarter alone. The majority of VBAG's new subsidised loans are generated by the local Volksbanks, which thereby support the growth of Austrian SMEs.

Exposure fell as planned in OeKB short-term business (Kontrollbank refinancing facility and revolving loan facility) to around euro 23 million across a total of 13 loans (compared to 15 loans with a volume of around euro 40 million in the first six months of 2012). This can be attributed to the new strategic focus on SMEs, where these loans are now only handled through the Export Fund.

The volume of financing for SME customers of the Volksbank sector banks under the Austrian Export Fund is around euro 37 million across 140 loans, lower than the long-term average of around euro 50 million. This is mainly due to two loan repayments in the first quarter which have not yet been compensated for by new loans.

By the end of the third quarter of 2012 the volume of OeKB equity finance had fallen as planned from approximately euro 387 million across 49 loans in the first six months to euro 318 million across 44 loans (at the end of the third quarter in 2011 there were still 52 loans with a volume of euro 428 million). Most of this finance is assigned to the Bank's Non-core Corporates segment, meaning that further declines are to be expected. However, in the core business area two new contracts in a total amount of euro 11.4 million were signed in the third quarter.

Soft loan exposure volumes remained unchanged compared to the first six months at euro 55 million.

In trade finance, the Bank primarily concentrates on documentary business involving letters of credit and guarantees for customers of the Volksbank sector.

In Subsidies and Export Financing, demand for ERP loans arising from the Volksbanks' SME business client segment is highly satisfactory due to the substantial number of applications received for small ERP loans. Taken together with large ERP loans, a new volume of up to euro 15 million is expected by the end of the year. This expectation is based on specific ERP loan applications from the Volksbank sector for roughly euro 37 million, which also point towards a potentially high level of new ERP loans in the coming 12 months.

**VB Leasing Finanzierungsgesellschaft m.b.H. (VBLF)**
Although the Austrian leasing market is currently contracting slightly, VB Leasing Finanzierungsgesellschaft generated roughly euro 248 million in new business in the third quarter of 2012, which corresponds to around 13,250 contracts. In comparison to the third quarter of 2011 this means an increase in volume of approximately 10%, a result attributable primarily to sustained cultivation of the market, continuity in sales activities, and to the wide range of services offered by VB Leasing Finanzierung.

VB Leasing is currently ranked fifth among moveable goods leasing providers in Austria.

**VB Factoring Bank AG**
The business of VB Factoring Bank remains stable and is 10% above target. The factoring volume increased by 8% compared to the same period in 2011 and reached euro 1.162 billion at the end of the third quarter.

## Outlook for the Financing segment

The establishment of the Association of Volksbanks pursuant to section 30a of the Austrian Banking Act (BWG) and VBAG's role as central institution accord a focal role to the syndicate business department. Together with the Volksbanks, the syndicate department will be focusing in the fourth quarter on extending business relations with existing customers, with due consideration paid to ensuring a balanced risk/reward situation and added value for all those involved. Additionally, the department is also working with the Volksbanks to optimise cooperation by streamlining procedures.

A reduction in volume is expected for long-term OeKB equity finance due to the new strategic focus on SMEs, whose investment projects tend to be considerably smaller.

Since many companies expect the Basel III discussions to result in tighter credit supply, there has been a noticeable increase in interest in subsidised loans.

VB Leasing Finanzierungsgesellschaft m.b.H. will continue to pursue its systematic risk policy in terms of creditworthiness, asset security and risk diversification, again with a particular focus on ensuring a risk-adequate pricing policy.

Although the Basel III discussions are driving demand for alternative forms of financing such as factoring, VB Factoring Bank anticipates only modest growth in the last three months of the year. This is attributable to the likely decline in larger commitments arising from the new focus adopted by VBAG and to a selective approach to new business.

# FINANCIAL MARKETS/INVESTMENT BOOK SEGMENT

The Financial Markets/Investment Book segment encompasses the customer-oriented organisational units of Treasury and Volksbank Investments, as well as strategically important executive departments. The segment also includes Immo Kapitalanlage AG and the online bank LiveBANK. Furthermore, the business areas responsible for the management of VBAG Group's investment book - the division Capital Markets including Asset Liability Management and the Liquidity Management division - have been allocated to this segment.

The Financial Markets/Investment Book segment is responsible for providing services, advice and support to the banks of the Association of Volksbanks. Treasury is the central unit for monetary and capital market transactions, and offers the Volksbanks the full range of treasury products for proprietary business and customer hedging transactions, such as securities and foreign exchange trading and the management of interest rate and currency risks. Volksbank Investments provides a wide range of innovative financial products, from traditional funds, certificates and alpha investments to asset management. The portfolio of fund products is supplemented by an open-ended real estate fund operated by Immo Kapitalanlage AG.

## Segment result

The result before taxes was euro 697 million for the first three quarters of 2012. The decline in interest income is due firstly to interest rate elasticity – adjustment to the lower level of interest took place faster on the asset side than on the liabilities side – and secondly to the deliberately higher liquidity buffer. The fall in sales of structured investment products led to a reduction in net fee and commission income. In other operating result the income from adjustment of the carrying value of financial liabilities according to IAS 39 AG 8 in the amount of euro 595 million and the income from repurchase of hybrid tier I capital which took place in July 2012 in the amount of euro 143 million is included. Income from financial investments shows the result from the sale of the VICTORIA Volksbanken insurance companies and additional proceeds from the sale of participations and securities.

## Treasury

The third quarter of 2012 was again marked by low interest rates as the trend of recent quarters continued. The financial markets were affected especially by uncertainty regarding countries on the periphery, in particular by the deepening debt crisis in Spain. The ongoing difficulties in implementing the required austerity measures, the weak economic figures (high unemployment, GDP decline etc.) and sluggish progress in resolving the debt crisis at the European level mean that this uncertainty is likely to persist on the markets.

### Trading

As a result of the low-interest policy of the ECB and the associated reduction in the interest rate for overnight deposits at the Central Bank to 0%, it was very important to have good Group liquidity management at the short end, which could be achieved by using all money market instruments available.

The interest rate cut by the ECB led to rather unusual developments on the liquidity markets; for example, the deposit facility volume of the ECB sank to an average of euro 300 billion, and the trend is heading downwards. The EONIA is steady and fixed at 0.09%, and has acquired new significance in pricing due to the compression of money market rates around the 0% mark.

The primary market stood out with a range of new issues in the Financials and Corporates segments, and activities were expanded further here based on customer orders.

Implementation of the Murex front to back system and the technical merger of VBAG and Investkredit put a heavy strain on resources at the trading units. In spite of the extensive project work, day-to-day business could be continued unaffected, and earnings were satisfactory in the period under review.

### Consulting

In terms of providing services to the regional Volksbanks, the focus in the third quarter was on two areas. On the one hand, the Volksbanks were supported with respect to their refinancing in accordance with the Fund Transfer Pricing (FTP) agreement. On the other hand, due to the historically low interest rates attractive interest rate hedging products were offered to customers of the Volksbanks. The "fixed-interest rate plus" campaign, which will enable the Volksbanks to make use of fixed-rate refinancing under subsidised terms and subject to certain requirements was prepared.

The issuance activity of Austrian corporates picked up after the summer months and the bonds were very popular with customers. Sales in this area led to a stabilisation of commission income in commission trading. Foreign currency bonds (e.g. in NOK) were also in demand due to ongoing discussions on sovereign debt in the eurozone. Furthermore, high dividend-yielding equities and real estate continued to dominate, even though sales were down slightly on the second quarter. The summer months were used to develop a new, follow-up service in the field of equities research that will be available from the fourth quarter.

### Sales

#### Banks & Institutionals

The high level of issuance activity of both European and Austrian companies on the bond market – only in 2009 were more corporate bonds issued and placed in the European investment grade segment – was a significant factor in the successful development of Banks & Institutionals. Many Austrian companies took advantage of the low interest rate and the credit spreads, which were attractive for businesses, to obtain refinancing on the capital market. In the coming months the Treasury Sales team will continue to focus on supporting Austrian corporates in issuing securities.

#### Corporates

Persistently low interest rates meant that corporate clients continued to focus on interest hedging strategies. Demand is particularly strong for traditional and simple products such as plain vanilla caps and interest rate swaps. Hedging of foreign currency risks was restricted to the use of currency forwards or purchased FX options, there was no interest in risky, exotic variants.

### Volksbank Investments

Assets under management at Volksbank Investments totalled euro 7.1 billion as of 30 September 2012, roughly the same as at mid-year (euro 7.2 billion) which reflects the stable development VBAG Group's asset management unit achieved in the third quarter of 2012 in spite of the difficult general conditions.

Markets that remained extremely volatile, debt problems in numerous countries and the associated negative reporting resulted in a continuation of the trend towards the highest possible levels of security. Recent surveys display a strong preference for capital protection and guarantee concepts. This corresponds with the long-term strategic aim of Volksbank Investments to position itself as the leading provider in this area. The in-house team of experts can build on its know-how and many years of experience in the certificate market, and further develop this in all the product categories offered (certificates, funds, insurance). In the third quarter, the focus in the area of bond funds, for example, was on issuing products which employ a systematic, rules-based investment process to actively manage interest-rate risk. These products have been very well received by the market.

In recent months, Volksbank Investments has developed the equities investment process further and it is now based on a systematic approach excluding forecasts, differing strongly from the approach deployed by competitors. In the first stage, the model decision is made in the form of a monthly, quantitative screening. This is then used as the basis for the regional, sectoral and country recommendation for fund and risk management that is implemented by the fund management. The last stage involves the fund management determining individual equities in accordance with the model recommendations. Investment decisions are thus based on transparent and proven investment processes that promise sustained success. However, precisely defined qualitative factors are also taken into consideration allowing for flexible responses to changes in the market.

In order to raise awareness amongst investment advisors that difficult times can provide big market opportunities, the central theme "crisis investment" was launched in the first six months of the year. This is centred around the notion of increasing equity allocations in portfolios in phases of low share prices. Hence alternatives that are sensible in the long-term are offered at times when there is the threat of capital losses due to historically low interest rates coupled with continuing inflation. Taking stock at the end of the third quarter shows that the product solutions offered under this focal topic performed well and therefore helped to increase the competitiveness of the Volksbanks.

#### Funds

In the first nine months of 2012 there was a slight upwards trend in the volume of Austrian investment funds as a result of positive share price development, but net growth was negative again at the end of the third quarter. Significant outflows have been recorded in the year to date in the bond fund category in particular.

The funds of Volksbank Investments varied in performance during the third quarter. A somewhat stronger decline in the volume of special funds contrasted with growth in equity, bond and mixed funds as well as alpha funds. At euro 2.6 billion, total volume was almost unchanged on the previous quarter (euro 2.7 billion). For retail funds, Volksbank Investments currently commands a market share of 3.1%.

#### Certificates

The Austrian certificates market, which in previous years had been characterised by very high rates of growth, stagnated in the first three quarters of 2012 at the same level recorded at the end of 2011. The total market volume of structured products in Austria (open interest excluding interest products) totalled roughly euro 5.6 billion as of 30 September 2012.

In the first half-year, Volksbank Investments registered a decline in the certificates volume, most of which was attributable to maturing products that could not be fully replaced under the current difficult market conditions. Performance in the third quarter was much improved however; the total certificate volume amounted to euro 1.9 billion as of 30 September 2012 and remained unchanged on the mid-year figure.

With the markets remaining highly volatile, Volksbank Investments continued to focus in the first three quarters of 2012 on issuing certificates offering partial protection under very attractive conditions. Investors can thereby benefit from rising, stagnating or even falling prices. An issuer platform was also formed for customers who wish to spread their issuer risk, which provides the option of drawing on a pool of third-party issuers.

Volksbank Investments has maintained its leading position in the certificates segment with a market share of more than 34%, while in the field of guarantee certificates the market share of Volksbank Investments has reached more than 37%.

#### Sustainable products

The gradual expansion of sustainable financial products is a crucial strategic factor; performance for both retail funds and certificates has been positive since the start of the year: as of 30 September 2012 the share of sustainable products amounted to roughly 18% of total volume (2011: 16.6%). Including sustainable asset management mandates, Volksbank Investments manages a sustainable investment volume of euro 869 million, and is one of the top three providers in this product category with a market share of approximately 10%.

#### Asset management

The volume of asset management mandates rose to euro 2.4 billion by the end of the third quarter. The steady growth seen in previous quarters has been continued, a fact which also endorses the strategic focus of Volksbank Investments.

Volksbank Investments has comprehensive expertise in the area of institutional asset management which is underpinned, for example, by many years of managing the in-house pension fund, whose performance over the last five years has been considerably stronger than the market average.

### Immo Kapitalanlage AG

Immo Kapitalanlage AG manages an open-ended real estate fund, <immofonds1>. Private investors in particular invest in this fund, which has a broadly diversified real estate portfolio focusing mainly on commercial properties in Austria and Germany. Even in the crisis years, investing in these countries has proved highly successful, with economically sustainable rental income. The fund volume is around euro 234 million.

## Investment Book

### Capital Markets

Within VBAG Group, Capital Markets is responsible for managing the strategic investment book. The portfolio comprises the entire securities portfolio required for regulatory and banking operations purposes amounting to roughly euro 4.5 billion as well as other capital market investments totalling approximately euro 1.2 billion.

The third quarter was marked by a sharp decline in credit risk premiums on the capital markets. After the restructuring of Greek sovereign debt in spring 2012 and the political agreement regarding expansion of the European safety net (ESM), the situation improved significantly. The announcement from the European Central Bank that it would buy government bonds without limitation if required came as a further boost.

The favourable market situation in the third quarter was utilised to reduce credit risk on a proactive basis. The portfolio was reduced by approximately euro 0.4 billion in the third quarter through sales and redemptions.

**Asset Liability Management (ALM)**

Interest rate risk

Asset Liability Management is responsible formanaging VBAG Group's long-term interest rate risk. Transfer prices are used when assuming market risks from front office areas.

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

The market risk controlling department measures and monitors interest rate risk using different limits. The overall limit is determined by the Board of Management, taking into account regulatory limits and the Bank's risk-bearing capacity. Risk measurement covers all significant forms of interest rate risk. All of VBAG's interest-sensitive items are presented in a monthly report.

ALM is responsible for heading the Asset Liability Committee (ALCO), the coordinating body for managing ALM processes. ALM prepares all necessary data and analyses for decisions to be taken at ALCO meetings which are held on a quarterly basis.

Foreign currency risk

Foreign currency risk is defined as the risk of losses resulting from open foreign currency positions. This risk position has been substantially reduced following the sale of Volksbank International AG in February 2012. The Asset Liability Committee is also responsible for managing currency risk.

**Liquidity management**

The successful implementation of the joint liquidity and funding scheme represents a key component of the Association of Volksbanks in accordance with section 30a of the Austrian Banking Act (BWG), to which the Austrian Volksbanks and the VBAG Group belong.

In its capacity as the central organisation, VBAG Group holds a liquidity buffer for all banks in the Association. After repayment of the second tranche of state-guaranteed bonds totalling euro 1 billion, this liquidity buffer amounted to roughly euro 2.9 billion as of 30 September 2012, in line with forecasts. The regulatory liquidity requirements in accordance with section 25 BWG – on an associationed basis for the first time as of 30 September 2012 – were fulfilled with a significant surplus.

The assumption of central controlling functions in liquidity management for the Association of Volksbanks, supplemented by the requirements set out in section 30a BWG, was implemented as planned in the third quarter in cooperation with the regional Volksbanks.

A newly developed funds transfer pricing system, a clearly defined set of regulations for cooperation with the regional Volksbanks and liquidity reporting constitute the key components of the joint liquidity and funding scheme. Although launched only recently, the scheme already shows the planned results.

Issue management

The ongoing cover pool optimisation as part of the covered bond programme has already resulted in loans and advances from the sector totalling more than euro 500 million being absorbed into VBAG's cover pool. This means that by working together with the Volksbanks the liquidity situation in the Association can be optimised.

## Outlook for the Financial Markets/Investment Book segment

Treasury expects the market environment to remain difficult in the coming months. A sustained recovery in the fourth quarter is still not anticipated, and the focus once again will be on the periphery, where sustained and far-reaching reforms are vital if any relief is to be achieved – according to the latest market assessments this is particularly the case for Spain.

Volksbank Investments expects that the current economic imbalances and unresolved sovereign debt problems will continue to trigger temporary collapses in share prices. Based on current market conditions with attractive prices for initial investments, the focal topic of "crisis investment" will remain in the fourth quarter providing opportunities to profit from counter-cyclical investments. The issue of new partial protection certificates allowing investors to profit from all phases of the market will continue in the fourth quarter.

Investors are more confident following the ECB measures, and if this persists on the bond side, the yield spreads between periphery and core countries could narrow on a sustained basis. However, if concerns grow that the ECB or ESM measures will not be enough to stabilise the eurozone in the long term, the implications will be increasing spreads for peripheral countries, a weaker euro, extremely low yields for core euro countries and strong short-term market fluctuations. Under these conditions, Volksbank Investments offers outstanding investment opportunities with the launch of the Volksbank Mündel Flex or the VB Covered Bond Flex. The interest rate risk here is actively managed by employing a systematic, rules-based investment approach ("flex system").

Capital Markets expects that volatility on the markets will increase again as macroeconomic indicators still do not point towards any benign development within the European economy.

The assumption of central controlling functions in the Association of Volksbanks by VBAG's liquidity management team makes a consolidated liquidity planning and budgeting possible and will further strengthen the new Association. Allowing the primary banks to focus on their strength in customer business (gaining primary deposits) while the central institution concentrates on providing long-term liquidity, maintaining an adequate liquidity buffer for short-term requirements and on adhering to regulatrory ratios are key elements of the new funding and liability scheme. A further aim is to reduce liquidity costs of the entire Association of Volksbanks by optimising maturities and diversifying refinancing sources.

The main task of the whole Financial Markets/Investment Book segment is to provide the best possible service and support for the regional Volksbanks. Financial Markets is confident that it can continue to generate solid results on this basis in the fourth quarter, in spite of the difficult market conditions.

# NON-CORE BUSINESS

The Non-core Business is divided into four segments:
- Non-core Corporates segment
- Non-core Real Estate segment
- Non-core Retail segment
- Non-core Investment Book/Other Operations segment

## Non-core Corporates segment

The segment comprises the business fields Leveraged Finance Austria/CEE/Germany, International Project Finance as well as Investkredit Investmentbank (IKIB) and Investkredit International Bank plc.

The primary objective of the segment is a focused, proactive reduction in the lending portfolio of the former Corporate Finance and Corporate Banking business fields with the aim of improving the Bank's RWA and liquidity situation. The reduction of assets is taking place in accordance with a plan approved by national and international supervisory authorities, which is adapted to customers' needs under certain circumstances.

### Segment result

Result before taxes amounts to euro 31 million for the first three quarters of 2012. Decrease in net interest income could be compensated by decrease in risk provisions and general administrative expenses.

### Leveraged Finance Austria/CEE/Germany

The winding down of Austrian/European corporate finance assets continues to progress on a satisfactory basis. This is attributable to the companies' good liquidity situation and also to the ongoing high level of interest shown by banking partners in taking over the refinancing.

The structured corporates and leveraged finance business is being discontinued in Frankfurt, and branch operations are scheduled to end there on 31 December 2012.

In accordance with the restructuring agreement with the Republic of Austria, a purchase agreement was signed with DZ Bank AG on 29 June 2012 for a sub-portfolio of the Frankfurt branch. This made it possible to achieve the decrease in risk-weighted assets of roughly euro 400 million in the first six months of 2012 as stipulted in the agreement. The remainder of the Frankfurt branch portfolio totalling approximately euro 350 million will either be sold to a third party or transferred to Vienna in the fourth quarter of 2012.

### International Project Finance

In addition to the active winding down of the existing portfolio, efforts are being made to sell individual transactions on the secondary market. The sub-segment of international school financing is also no longer being pursued, and the corresponding refinancing agreements have largely been terminated.

### Investkredit Investmentbank AG (IKIB)

Measures are being implemented to release capital from subsidiary companies that is no longer needed. Investkredit Investmentbank has relinquished its banking licence. Furthermore, structures have been simplified; a subsidiary company was liquidated and AGs (joint-stock companies) have been transformed into GmbHs (limited liability companies).

## Non-core Real Estate segment

The Non-core Real Estate segment encompasses the commercial real estate loan financing operations of VBAG, real estate lease financing, the corresponding workout activities from loan and leasing finance of REWO Holding GmbH and the asset management operations of VB Real Estate Services GmbH. In addition to customers and projects in Austria, the business area provides services to real estate partners in CEE and SEE in particular. The strategy of the Non-core Real Estate segment is the structured winding down of the portfolio in the medium term ensuring value is maintained.

### Segment result

Result before taxes was euro –215 million in the Non-core Real Estate segment. Due to the persisting difficult economic environment in particular in Central and Eastern Europe risk provisions had to be increased severely. Furthermore impairments of investment property assets in the amount of euro 51 million and of participations in real estate companies in the amount of euro 17 million had to be recognised in the reporting period. Income from discontinued operation recorded the deconsolidation result of Selini GmbH (Vremena Goda project) in the amount of euro 13 million.

#### Real estate loan financing

In the real estate loan financing segment, VBAG has been engaged in long-term financing of commercial real estate projects for many years, whereby the acceptance of new business was suspended a year ago. The geographical focus of real estate financing lies in the Czech Republic, Romania, Poland, Austria, Hungary and Germany. In the first three quarters of 2012, active measures to scale back the portfolio meant that loans amounting to approximately euro 200 million were repaid ahead of schedule.

#### Leasing and asset management

As part of the winding down process, the sale of Immoconsult Asset Leasing GmbH – the container leasing business – was completed on 5 September 2012. The container financing business, which had been a niche product in real estate since 2003, was fully divested with this transaction and transferred to the buyer. This resulted in a direct reduction of RWA amounting to approximately euro 180 million.

Since the start of the year, in line with the strategy of asset reduction, the leasing business field has been able to sell projects prior to maturity with a present value of around euro 46 million; this is in addition to the natural maturities in the portfolio. Sales are currently under way for projects in Austria and abroad totalling more than euro 120 million.

The restructuring of foreign branches in Poland and Slovakia was completed.

## Non-core Retail segment

The Non-core Retail segment comprises the movables leasing business in CEE of VB-Leasing International Group, Volksbank Romania S.A. and Volksbank International AG.

### Segment result

Result before taxes in the Non-core Retail segment amounted to euro 69 million. In the comparative figures from 2011, VB RO is included with its whole result whereas in the reporting period its result from the measurement at equity is euro –1.5 million. Furthermore the comparative figures recorded the deconsolidation result from VB RO in the amount of euro –294 million in other operating result. The result of VBI sub-group before deconsolidation (as at 15 February 2012) in the amount of euro 18 million (without consolidation) as well as the deconsolidation result of euro 15 million is included in income from discontinued operation.

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

In line with the stable performance of most leasing markets in Central and Eastern Europe, VB-Leasing International managed to maintain its previous year's figures in the third quarter of 2012; new business volumes exceeded euro 700 million, which corresponds to roughly 27,000 contracts.

VB-Leasing International is continuing to work intensively on existing and potential partnerships with manufacturers and dealers, thereby further expanding its group-wide network of sales partners. For example, exclusive cooperation frameworks were agreed in the third quarter with BMW Financial Services in Serbia and with the Japanese car manufacturer ISUZU for the Czech Republic and Slovakia.

VB-Leasing International offers its partners the added value they seek, primarily through its strong focus on services, sector know-how and its network throughout the countries of Central and Eastern Europe. The new cooperation agreements emphasise VB-Leasing International's aim of taking on a pioneering role in the field of rapid, efficient and service-oriented customer communications and customer care in CEE in the long term.

**Volksbank Romania S.A.**
The Romanian market posed a challenging environment also in the third quarter of 2012. Nevertheless VB Romania succeeded in stabilizing its Non Performing Loan Portfolio at the level of end-2011. Consequently its solvability position is at an comfortable level and significantly above plan. However the continued downward pressure on real estate prices will make it necessary to reassess the value of its real estate collateral.

Efforts to turn around the business model showed first results through a sizeable increase in the number of new clients and a significant drop in the loan to deposit ratio. However, the results for the 3rd quarter and the year so far are – as budgeted - still negative.

### Non-core Investment Book/Other Operations segment

Those parts of the investment book that are to be wound down according to their maturity profile or are to be sold as well as VB Malta Ltd. have been allocated to this segment.

**Segment result**
Result before taxes for the Non-core Investment Book/Other Operations segment was euro 82 million. In other operating result the figures in the comparative period recorded the impairment of goodwill and brand of Investkredit in the amount of euro –56 million. In the reporting period the already realised income from the reduction of credit derivatives is reported in income from financial investments. In the comparative period measurement losses from credit derivatives in the amount of euro –58 million were recognised. Furthermore in the comparative period this position included impairments of Greek sovereign bonds, of securities whose market values are linked to baskets of various country risks (including Greece) and on participation capital in Kommunalkredit.

## Outlook for the Non-core Business

In the Leveraged Finance Austria/CEE/Germany business area, the transfer of the Frankfurt branch portfolio to DZ Bank will be completed in the fourth quarter, most of the portfolio was transferred in the first six months of the year. A transfer at market price will be attempted for the remainder of the Frankfurt portfolio in order to close operations at the Frankfurt branch at the end of 2012 following the disposal or transfer of all assets.

The winding down of the defined loan portfolio will also be continued on a proactive and focused basis in the International Project Finance, Renewable Energies and Corporate Finance Austria business areas, whereby a reduction in RWA in line with planning and a further improvement of the liquidity situation will be achieved.

The objective of activities in real estate finance over the coming months will continue to be reducing the loan portfolio and aligning its risk content towards capital relief. The focus will also remain on the workout unit for impaired real estate financing, REWO Holding GmbH, where sales activities are being concentrated.

Activities in the area of real estate leasing are focused on management of the existing portfolio and customer care. In addition to proactive selling, the natural maturity of the real estate leasing portfolio in the fourth quarter will total approximately euro 6 million. Despite the challenging economic conditions, VB Real Estate Services GmbH aims to sell further portfolio properties and participations and implement additional restructuring measures.

VB-Leasing International continues to work on strengthening its network as well as optimising its services.

Volksbank Romania will continue its repositioning and redimensioning strategy.

## Income statement

| | 1-9/2012 Euro thousand | 1-9/2011 Euro thousand | Changes Euro thousand | % |
|---|---|---|---|---|
| Interest receivable and similar income | 795,623 | 1,121,020 | –325,398 | –29.03% |
| Interest payable and similar expense | –633,680 | –777,177 | 143,497 | –18.46% |
| Income from companies measured at equity | –2,071 | 146 | –2,217 | <–200.00% |
| Net interest income | 159,872 | 343,990 | –184,118 | –53.52% |
| Risk provisions | –200,715 | –90,206 | –110,509 | 122.51% |
| Fee and commission income | 67,341 | 116,073 | –48,732 | –41.98% |
| Fee and commission expenses | –21,811 | –41,123 | 19,312 | –46.96% |
| Net fee and commission income | 45,529 | 74,949 | –29,420 | –39.25% |
| Net trading income | 31,434 | 11,941 | 19,494 | 163.25% |
| General administrative expenses | –194,702 | –269,907 | 75,204 | –27.86% |
| Other operating result | 703,368 | –357,020 | 1,060,388 | <–200.00% |
| Income from financial investments | 48,157 | –346,012 | 394,169 | –113.92% |
| Income from discontinued operation | 48,646 | –63,992 | 112,637 | –176.02% |
| **Result for the period before taxes** | **641,589** | **696,256** | **1,337,845** | **–192.15%** |
| Income taxes | –18,120 | 8,175 | –26,295 | <–200.00% |
| Income taxes from discontinued operation | –2,051 | –8,128 | 6,077 | –74.76% |
| **Result for the period after taxes** | **621,418** | **696,209** | **1,317,627** | **–189.26%** |
| **Result attributable to shareholders of the parent company (Consolidated net result)** | **598,702** | **–689,060** | **1,287,762** | **–186.89%** |
| thereof from continued operation | 552,108 | –616,940 | 1,169,048 | –189.49% |
| thereof from discontinued operation | 46,595 | –72,119 | 118,714 | –164.61% |
| Result attributable to non-controlling interest | 22,716 | –7,149 | 29,865 | <–200.00% |
| thereof from continued operation | 14,617 | 22,819 | –8,202 | –35.94% |
| thereof from discontinued operation | 8,099 | –29,968 | 38,067 | –127.02% |

| Comprehensive income | 1-9/2012 Euro thousand | 1-9/2011 Euro thousand | Changes Euro thousand | % |
|---|---|---|---|---|
| **Result for the period after taxes** | **621,418** | **–696,209** | **1,317,627** | **–189.26%** |
| **Other comprehensive income** | | | | |
| Currency reserve | 19,267 | 38,125 | –18,859 | –49.47% |
| Available for sale reserve (including deferred taxes) | | | | |
| Change in fair value | 85,313 | –23,493 | 108,806 | <–200.00% |
| Net amount transferred to profit or loss | –4,526 | 1,220 | –5,747 | <–200.00% |
| Hedging reserve (including deferred taxes) | | | | |
| Change in fair value (effective hedge) | –2,705 | –18,312 | 15,608 | –85.23% |
| Net amount transferred to profit or loss | 1,126 | 13,282 | –12,157 | –91.52% |
| **Other comprehensive income total** | **98,474** | **10,822** | **87,652** | **>200.00%** |
| **Comprehensive income** | **719,892** | **–685,387** | **1,405,278** | **<–200.00%** |
| **Comprehensive income attributable to shareholders of the parent company** | **693,536** | **–674,038** | **1,367,574** | **<–200.00%** |
| thereof from continued operation | 628,008 | –599,012 | 1,227,021 | <–200.00% |
| thereof from discontinued operation | 65,527 | –75,026 | 140,553 | –187.34% |
| Comprehensive income attributable to non-controlling interest | 26,356 | –11,349 | 37,704 | <–200.00% |
| thereof from continued operation | 15,636 | 21,299 | –5,663 | –26.59% |
| thereof from discontinued operation | 10,720 | –32,647 | 43,368 | –132.84% |

## Statement of financial position

| | 30 Sep 2012 Euro thousand | 31 Dec 2011 Euro thousand | Changes Euro thousand | % |
|---|---|---|---|---|
| **Assets** | | | | |
| Liquid funds | 719,759 | 430,943 | 288,816 | 67.02% |
| Loans and advances to credit institutions (gross) | 7,036,966 | 7,964,310 | –927,345 | –11,64% |
| Loans and advances to customers (gross) | 11,106,659 | 12,717,062 | –1,610,403 | –12.66% |
| Risk provisions (–) | –1,073,262 | –945,744 | –127,519 | 13.48% |
| Trading assets | 2,313,494 | 2,102,213 | 211,282 | 10.05% |
| Financial investments | 5,763,176 | 6,795,633 | –1,032,457 | –15.19% |
| Assets for operating lease | 343,063 | 308,412 | 34,651 | 11.24% |
| Companies measured at equity | 10,542 | 12,606 | –2,063 | –16.37% |
| Participations | 541,917 | 579,583 | –37,666 | –6.50% |
| Intangible assets | 11,916 | 13,778 | –1,862 | –13.51% |
| Tangible fixed assets | 124,504 | 127,751 | –3,247 | –2.54% |
| Tax assets | 118,187 | 133,985 | –15,798 | –11.79% |
| Current taxes | 21,920 | 22,870 | –950 | –4.15% |
| Deferred taxes | 96,267 | 111,116 | –14,849 | –13.36% |
| Other assets | 1,451,891 | 2,019,055 | –567,164 | –28.09% |
| Assets of the disposal group | 0 | 8,874,996 | –8,874,996 | –100.00% |
| **TOTAL ASSETS** | **28,468,812** | **41,134,582** | **–12,665,770** | **–30.79%** |
| **Liabilities and Equity** | | | | |
| Amounts owed to credit institutions | 9,550,000 | 11,649,751 | –2,099,751 | –18.02% |
| Amounts owed to customers | 2,772,441 | 2,712,738 | 59,703 | 2.20% |
| Debts evidenced by certificates | 10,339,436 | 13,452,120 | –3,112,684 | –23.14% |
| Trading liabilities | 1,884,035 | 1,631,437 | 252,598 | 15.48% |
| Provisions | 163,614 | 190,310 | –26,696 | –14.03% |
| Tax liabilities | 122,211 | 83,693 | 38,519 | 46.02% |
| Current taxes | 49,713 | 9,315 | 40,398 | >200.00% |
| Deferred taxes | 72,498 | 74,378 | –1,879 | –2.53% |
| Other liabilities | 1,329,121 | 1,927,828 | –598,707 | –31.06% |
| Liabilities of the disposal group | 0 | 7,281,880 | –7,281,880 | –100.00% |
| Subordinated liabilities | 840,099 | 1,728,658 | –888,559 | –51.40% |
| Equity | 1,467,854 | 476,167 | 991,688 | >200.00% |
| Shareholders' equity | 1,277,251 | 80,425 | 1,196,827 | >200.00% |
| Non-controlling interest | 190,603 | 395,742 | –205,139 | –51.84% |
| **TOTAL LIABILITIES AND EQUITY** | **28,468,812** | **41,134,582** | **–12,665,770** | **–30.79%** |

## Changes in the Group's equity

| Euro thousand | Subscribed capital [1] | Capital reserve | Retained earnings | Currency reserve | IAS 39 [2] valuation reserves: Available for sale reserve | IAS 39 [2] valuation reserves: 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] | | | –689,060 | | | | –689,060 | –7,149 | –696,209 |
| Currency reserve | | | | 38,797 | | | 38,797 | –671 | 38,125 |
| Available for sale reserve (including deferred taxes) | | | | | –21,151 | | –21,151 | –1,122 | –22,273 |
| Hedging reserve (including deferred taxes) | | | | | | –2,624 | –2,624 | –2,406 | –5,030 |
| Comprehensive income | 0 | 0 | –689,060 | 38,797 | –21,151 | –2,624 | –674,038 | –11,349 | –685,387 |
| Dividends paid | | | | | | | 0 | –5,483 | –5,483 |
| Change in treasury stocks | –254 | | –194 | | | | –448 | | –448 |
| Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation | | | –3,120 | | | | –3,120 | –151,414 | –154,534 |
| **As at 30 Sep 2011 [4]** | **1,338,939** | **0** | **–721,479** | **–6,422** | **–180,044** | **161** | **431,155** | **697,169** | **1,128,324** |
| | | | | | | | | | |
| **As at 1 Jan 2012** | **1,338,838** | **0** | **–1,002,116** | **–14,206** | **–243,924** | **1,833** | **80,425** | **395,742** | **476,167** |
| Consolidated net income [3] | | | 598,702 | | | | 598,702 | 22,716 | 621,418 |
| Currency reserve | | | | 18,232 | | | 18,232 | 1,035 | 19,267 |
| Available for sale reserve (including deferred taxes) | | | | | 77,771 | | 77,771 | 3,015 | 80,786 |
| Hedging reserve (including deferred taxes) | | | | | | –1,170 | –1,170 | –409 | –1,579 |
| Comprehensive income | 0 | 0 | 598,702 | 18,232 | 77,771 | –1,170 | 693,536 | 26,356 | 719,892 |
| Capital increase | 484,000 | | | | | | 484,000 | | 484,000 |
| Capital decrease | –941,621 | | 941,621 | | | | 0 | | 0 |
| Dividends paid | | | | | | | 0 | –2,975 | –2,975 |
| Change in treasury stocks [5] | 4,416 | | –4,474 | | | | –58 | | –58 |
| Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation | | | 19,349 | | | | 19,349 | –228,520 | –209,171 |
| **As at 30 Sep 2012** | **885,633** | **0** | **553,082** | **4,026** | **–166,152** | **663** | **1,277,251** | **190,603** | **1,467,854** |

1) Subscribed capital as at 30 September 2012 does correspond to the figures reported in the financial statements of Österreichische Volksbanken-Aktiengesellschaft.

2) As at 30 September 2012, the available for sale reserve included deferred taxes of euro 36,709 thousand (30 September 2011: euro 57,865 thousand). The hedging reserve contains deferred taxes in the amount of euro –296 thousand at the balance sheet date (30 September 2011: euro –846 thousand).

3) Currency translation differences amounting to euro 144 thousand (1-9/2011: euro 2,165 thousand) for shareholders' equity and euro 116 thousand (1-9/2011: euro 2,276 thousand) for non-controlling interest resulted from the application of average rates of exchange in the income statement.

4) In the figures as at 30 September 2011 the disposal group Banks CEE accounted for an amount of euro –7,609 thousand in the currency reserve, for an amount of euro –1,500 thousand in the available for sale reserve and for an amount of euro –1,404 thousand in the hedging reserve. At the same time the disposal group Selini accounted for an amount of euro 241 thousand in the currency reserve.

5) The change in treasury stocks includes the reclassification of capital decrease.

## Cash flow statement

| Euro thousand | 1-9/2012 | 1-9/2011 |
|---|---|---|
| Cash and cash equivalents at the end of the previous period (= liquid funds) | 1,256,936 | 1,982,446 |
| Cash flow from operating activities | –1,308,329 | –1,146,102 |
| Cash flow from investing activities | 514,867 | 256,151 |
| Cash flow from financing activities | 256,286 | -85,528 |
| Cash and cash equivalents at the end of period (= liquid funds) | 719,759 | 1,006,967 |

# NOTES

Interim Financial Statement as at 30 September 2012

## 1) General

The interim report as at 30 September 2012 of Österreichische Volksbanken-Aktiengesellschaft (VBAG) has been prepared in accordance with all IFRS/IAS published by the International Accounting Standards Board (IASB) as well as all interpretations (IFRIC/SIC) issued by the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee respectively as adopted for use in the European Union. These interim financial statements comply with IAS 34 Interim financial reporting.

The interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at 31 December 2011. In preparing this interim report the accounting principles, the estimates and assumptions were the same as those applied to the consolidated financial statements as at 31 December 2011.

On 28 September 2012, capital reduction was registered in the Austrian Commercial Register. This capital reduction also concerns amongst others participation capital which has to be shown as debt capital according to IFRS (PS 2008). Furthermore evident in third quarter 2012, supplementary capital bonds issued by VBAG will not be redeemded prospectively with the original agreed bond price due to loss participation. These liabilities are valued at amortised cost using the effective interest rate method.

In case of a loss participation, the redemption amount has to be adjusted on a regular basis for subsequent periods according to IAS 39 AG 8. This procedure also was clarified in two meetings held by IFRIC in March and May 2009. For calculating the book value of financial liabilities, estimated future cash flows have to be discounted with the original effective interest rate. In event of a redemption not at nominal value or rather not at the original agreed price but at a price reduced by loss participation, the book value of finanical liabilities with limited maturity decreases. Basis for the calculation of future cash flows of supplementary capital bonds was the current forecast, redemption price for PS 2008 is the redemption price after capital reduction. Difference between original passivated amount and newly calculated net present value is shown in other operating income. Effect of effective interest rate method of supplementary capital bonds and PS 2008 is shown in interest expenses.

In the reporting period an impairment test was carried out for one entity, which led to an impairment amounting to euro 230 thousand. As all other goodwill have already a carrying amount of zero, no further impairment tests were done.

These condensed consolidated interim financial statements were not audited or reviewed by an auditor.

The interim consolidated financial statements have been drawn up in euro as this is the Group's functional currency. All figures are indicated in thousands of euros, unless specified otherwise. The following tables may contain rounding differences.

### a) Going concern

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

As at 27 February 2012, stabilisation measures were agreed between the shareholders of VBAG and the Republic of Austria which were concluded in the Annual General Meeting of 26 April 2012, approved by the European Commission and the Financial Market Authority in September 2012 and registered in the Austrian Commercial Register on 28 September 2012. The measures include amongst others a capital reduction and a subsequent capital increase. Investkredit was merged with VBAG with retroactive effect from 31 December 2011. According to the by Financial Market Authority already approved association of credit institutions pursuant to section 30a of the Austrian Banking Act (based on a joint liability scheme and cash pool), the merged company will focus on its role as central organisation.

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

## 2) Changes in the Group structure

In Real Estate segment 28 companies were newly included into the scope of consolidation, as these companies are no longer immaterial for the presentation of the consolidated financial statements. The results from previous years in the amount of euro 19,408 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 88,282 thousand as well as investment property assets by an amount of euro 89,257 thousand. These assets offset in addition with Group-internal funding, amounts owed to credit institutions and customers totalling euro 41,754 thousand.

As at 8 September 2011 the contract of sale of VBI to the Russian Sberbank was signed. The sale was concluded with various conditions precedent, which must be fulfilled by the time the deal is closed. The closing took place as at 15 February 2012. The purchase price 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. As the presentation of the participation hold indirectly by VBI BeteiligungsGmbH was adapted in the second quarter 2012, the deconsolidation result changed in comparison to the first quarter 2012.

### Calculation of deconsolidation result Banks CEE

| 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 Banks CEE

| Euro thousand | 1 Jan - 15 Feb 2012 | 1-9/2011 |
|---|---|---|
| Net interest income | 24,137 | 204,411 |
| Risk provisions | 6,399 | –142,753 |
| Net fee and commission income | 5,412 | 55,521 |
| Net trading income | 627 | 4,679 |
| General administrative expenses | –17,344 | –166,439 |
| Other operating result | 12,932 | –19,917 |
| thereof deconsolidation result | 15,322 | 0 |
| Income from financial investments | 3,690 | 439 |
| **Result for the period before taxes** | **35,852** | **–64,059** |
| thereof consolidation | 2,203 | 5,420 |
| Income taxes | –2,051 | –8,128 |
| **Result for the period after taxes** | **33,801** | **–72,187** |
| **Profit attributable to shareholders of the parent company** | **25,703** | **–42,219** |
| Profit attributable to non-controlling interest | 8,099 | –29,968 |

### Assets of disposal group Banks CEE

| 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 Banks CEE

| 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 |
| Trading liabilities | 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 Banks CEE

| Euro thousand | 1 Jan - 15 Feb 2012 | 1-9/2011 |
|---|---|---|
| **Cash and cash equivalents at the end of previous period (= liquid funds)** | **825,992** | **749,659** |
| Cash flow from operating activities | –168,633 | –179,413 |
| Cash flow from investing activities | 9,774 | 47,861 |
| Cash flow from financing activities | 802 | –677 |
| **Cash and cash equivalents at the end of period (= liquid funds)** | **667,936** | **617,431** |

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

| | Average number of staff | | Number of staff at reporting date | |
|---|---|---|---|---|
| | 1-9/2012 | 1-9/2011 | 30 Sep 2012 | 31 Dec 2011 |
| Domestic | 13 | 62 | 0 | 72 |
| Foreign | 683 | 3,937 | 0 | 4,086 |
| **Total number of staff** | **696** | **3,999** | **0** | **4,158** |

The average number of staff was calculated for the whole first three quarters of 2012, which means 9 months, resulting in a decrease in comparison to 1-9/2011.

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. 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 operations.

### Calculation of deconsolidation result 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 | 1-9/2011 |
|---|---|---|
| Net interest income | –640 | 3,152 |
| Net trading income | 782 | 960 |
| General administrative expenses | –15 | –121 |
| Other operating result | 12,667 | 0 |
| thereof deconsolidation result | 12,667 | 0 |
| **Result for the period before taxes** | **12,793** | **3,991** |
| Income taxes | 0 | 0 |
| **Result for the period after taxes** | **12,793** | **3,991** |
| **Profit attributable to shareholders of the parent company** | **12,793** | **3,991** |
| Profit attributable to non-controlling interest | 0 | 0 |

### Assets of disposal group Selini

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

### Liabilities of disposal group Selini

| Euro thousand | 31 Dec 2011 |
|---|---|
| Amounts owed to credit institutions | 64,469 |
| Amounts 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 and financing activities in the first three quarters of 2012, the cash flow from operating activities is also zero.

The disposal group Selini does not employ any staff.

As at 2 July 2012, a contract concerning the sale of VB Real Estate Leasing 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 after 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 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 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** |

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 in the first three 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 the first three quarters of the year 2011 a deconsolidation result with an amount of euro –3,924 thousand was shown in income from discontinued operation.

## 3) Subsequent events

The agreed corporate and restructuring actions were concluded in the Annual General Meeting of 26 April 2012, approved by the European Commission and the Financial Market Authority in September 2012 and registered in the Austrian Commercial Register on 28 September 2012. Investkredit was merged with VBAG with retroactive effect from 31 December 2011. The joint liability scheme modelled on section 30a of the Austrian Banking Act, approved by the Financial Market Authority in September, specifies the new orientation of the merged company. The new institution will focus on its role as central institution. Operations outside this area (non-core business) are to be phased out or sold in accordance with their underlying repayment profile, which may lead to deductions that impact the result.

On 9 November 2012, the Managing Board of VBAG announced that VBAG's single-entity result after tax for the 2012 financial year (according to local GAAP) would be negative within a clearly double-digit million euro bandwidth. Due to the expected difficult economic environment and the resulting deductions on the run-down portfolio, interest payments on supplementary capital should not be expected in 2013 and 2014 for the business years 2012 and 2013. Due to that capital ratios of VBAG Group will be lower by the end of the year.

No other events took place during the period of the interim report that had any significant effect on the interim financial statements as at 30 September 2012.

## 4) Notes to the income statement

### Net interest income

| Euro thousand | 1-9/2012 | 1-9/2011 |
|---|---|---|
| Interest and similar income | 793,551 | 1,121,166 |
| Interest and similar income from | 754,121 | 1,082,475 |
| liquid funds | 2,640 | 11,155 |
| credit and money market transactions with credit institutions | 76,755 | 67,442 |
| credit and money market transactions with customers | 357,376 | 572,874 |
| debt securities | 152,696 | 196,436 |
| derivatives in the investment book | 164,654 | 234,569 |
| Current income from | 20,336 | 24,966 |
| equities and other variable-yield securities | 3,754 | 5,883 |
| other affiliates | 14,424 | 849 |
| companies measured at equity | –2,071 | 146 |
| investments in other companies | 4,229 | 18,088 |
| Income from operating lease and investment property | 19,094 | 13,725 |
| rental income investment property | 12,589 | 8,245 |
| income from operating lease contracts | 6,505 | 5,481 |
| rental income | 23,218 | 27,774 |
| depreciations | –16,712 | –22,294 |
| Interest and similar expenses of | –633,680 | –777,177 |
| deposits from credit institutions (including central banks) | –153,747 | –175,808 |
| deposits from customers | –67,057 | –78,798 |
| debts evidenced by certificates | –355,112 | –429,473 |
| subordinated liabilities | –25,272 | –43,126 |
| derivatives in the investment book | –32,491 | –49,971 |
| **Net interest income** | 159,872 | **343,990** |

### Net interest income according to IAS 39 categories

| Euro thousand | 1-9/2012 | 1-9/2011 |
|---|---|---|
| Interest and similar income | 793,551 | 1,121,166 |
| Interest and similar income from | 754,121 | 1,082,475 |
| financial investments at fair value through profit or loss | 3,428 | 11,576 |
| derivatives in the investment book | 164,654 | 234,569 |
| financial investments not at fair value through profit or loss | 586,038 | 836,330 |
| financial investments available for sale | 100,788 | 111,160 |
| financial investments at amortised cost | 453,955 | 678,604 |
| of which financial lease | 146,001 | 151,550 |
| of which unwinding of risk provisions | 907 | 0 |
| financial investments held to maturity | 31,295 | 46,567 |
| Current income from | 20,336 | 24,966 |
| financial investments at fair value through profit or loss | 1,568 | 2,255 |
| financial investments available for sale | 20,840 | 22,565 |
| companies measured at equity | –2,071 | 146 |
| Operating lease operations (including investment property) | 19,094 | 13,725 |
| Interest and similar expenses of | –633,680 | –777,177 |
| derivatives in the investment book | –32,491 | –49,971 |
| financial investments at amortised cost | –601,188 | –727,205 |
| **Net interest income** | 159,872 | **343,990** |

### Risk provisions

| Euro thousand | 1-9/2012 | 1-9/2011 |
|---|---|---|
| Allocation to risk provisions | –319,104 | –289,687 |
| Release of risk provisions | 117,054 | 217,541 |
| Allocation to provisions for risks | –5,007 | –7,879 |
| Release of provisions for risks | 2,837 | 546 |
| Direct write-offs of loans and advances | –2,605 | –12,581 |
| Income from loans and advances previously written off | 6,111 | 1,854 |
| **Risk provisions** | **–200,715** | **–90,206** |

### Net fee and commission income

| Euro thousand | 1-9/2012 | 1-9/2011 |
|---|---|---|
| Fee and commission income from | 67,341 | 116,073 |
| lending operations | 24,918 | 33,259 |
| securities businesses | 32,103 | 44,999 |
| payment transactions | 3,847 | 5,884 |
| foreign exchange, foreign notes and coins transactions | 0 | 16,090 |
| other banking services | 6,473 | 15,840 |
| Fee and commission expenses from | –21,811 | –41,123 |
| lending operations | –10,983 | –18,595 |
| securities businesses | –9,505 | –9,621 |
| payment transactions | –772 | –1,011 |
| foreign exchange, foreign notes and coins transactions | 0 | –10,626 |
| other banking services | –552 | –1,269 |
| **Net fee and commission income** | **45,529** | **74,949** |

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

### Net trading income

| Euro thousand | 1-9/2012 | 1-9/2011 |
|---|---|---|
| Equity related transactions | 5,505 | –648 |
| Exchange rate related transactions | 7,117 | 9,767 |
| Interest rate related transactions | 18,813 | 2,822 |
| **Net trading income** | **31,434** | **11,941** |

### General administrative expenses

| Euro thousand | 1-9/2012 | 1-9/2011 |
|---|---|---|
| Staff expenses | –106,573 | –146,968 |
| Other administrative expenses | –79,147 | –109,473 |
| Depreciation of fixed tangible and intangible assets | –8,982 | –13,466 |
| **General administrative expenses** | **–194,702** | **–269,907** |

### Other operating result

| Euro thousand | 1-9/2012 | 1-9/2011 |
|---|---|---|
| Other operating income and expenses | 776,310 | 15,794 |
| Proceeds from deconsolidation of subsidiaries | –12,431 | –285,092 |
| Other taxes | –60,281 | –31,299 |
| Impairment of goodwill and brands | –230 | –56,423 |
| **Other operating result** | **703,368** | **–357,020** |

Other operating income and expenses are added up in the table above. Adaptation of book value of PS 2008 and supplementary capital bond according to IAS 39 AG 8 (see note 1) results into income of euro 595,286 thousand for the reporting period. Other operating result also includes the income of repurchase of hybrid tier I capital to the amount of euro 143,239 thousand. The remaining amounts mostly are hire purchase transactions as well as operating expenses and insurance contributions passed on to customers. Offsetting these transactions contributes to a fairer economic view.

In the first three quarters of 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. 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.

In other taxes the banking tax is included. In the reporting period this position includes an allocation of a provision for the impending utilisation of a liability for investment income taxes in the amount of euro 18,625 thousand.

Due to an impairment test for Heilbad Sauerbrunn, goodwill was partly impaired by euro 230 thousand in the first three quarters of 2012. Amount of comparative period includes impairment of goodwill and brand of Investkredit.

### Income from financial investments

| Euro thousand | 1-9/2012 | 1-9/2011 |
|---|---|---|
| **Result from financial investments at fair value through profit or loss** | **2,195** | **–14,350** |
| **Result from fair value hedges** | **57,638** | **–58** |
| Result from revaluation of underlying instruments | 78,391 | –135,385 |
| Result from revaluation derivatives | –20,753 | 135,327 |
| **Result from valuation of other derivatives in the investment book** | **13,921** | **–102,437** |
| Exchange rate related transactions | 1,032 | –4,322 |
| Interest rate related transactions | –42,762 | –37,702 |
| Credit related transactions | 61,205 | –55,274 |
| Other transactions | –5,553 | –5,139 |
| **Result from available for sale financial investments (including participations)** | **14,352** | **–222,031** |
| Realised gains/losses | 31,444 | 3,578 |
| Income from revaluation | 2 | 450 |
| Impairments | –17,094 | –226,059 |
| **Result from loans & receivables financial investments** | **7,163** | **3,545** |
| Realised gains/losses | 7,559 | 3,578 |
| Income from revaluation | 30 | 0 |
| Impairments | –427 | –33 |
| **Result from held to maturity financial investments** | **2,553** | **–12,240** |
| Realised gains/losses | 2,553 | 5,340 |
| Impairments | 0 | –17,580 |
| **Result from assets for operating lease and investment property assets as well as other financial investments** | **–49,666** | **1,559** |
| Realised gains/losses | 1,394 | 1,559 |
| Change in value investment properties | –51,060 | 0 |
| **Result from financial investments** | **48,157** | **–346,012** |

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 the first three quarters of 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 the first three quarters of 2012, an amount of euro 4,526 thousand (1-9/2011: euro –1,220 thousand) previously recognised in the available for sale reserve was reclassified and shown in income statement.

| Euro thousand | 1-9/2012 | 1-9/2011 |
|---|---|---|
| **Result from financial investments, which are measured at fair value through profit and loss** | **22,695** | **–116,845** |
| Financial instruments at fair value through profit or loss | 2,195 | –14,350 |
| Fair value hedges | 57,638 | –58 |
| Other derivatives in investment book | 13,921 | –102,437 |
| Investment property assets | –51,060 | 0 |
| **Result from financial investments, which are not measured at fair value through profit and loss** | **25,462** | **–229,167** |
| Realised gains/losses | 42,950 | 14,055 |
| Available for sale financial investments | 31,444 | 3,578 |
| Loans & receivables financial investments | 7,559 | 3,578 |
| Held to maturity financial investments | 2,553 | 5,340 |
| Operating lease assets and other financial investments | 1,394 | 1,559 |
| Income from revaluation | 32 | 450 |
| Available for sale financial investments | 2 | 450 |
| Loans & receivables financial investments | 30 | 0 |
| Impairments | –17,520 | –243,672 |
| Available for sale financial investments | –17,094 | –226,059 |
| Loans & receivables financial investments | –427 | –33 |
| Held to maturity financial investments | 0 | –17,580 |
| **Income from financial investments** | **48,157** | **–346,012** |

## 5) Notes to the consolidated statement of financial position

### Loans and advances to credit institutions and customers

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Loans and advances to credit institutions | 7,036,966 | 7,964,310 |
| Loans and advances to customers | 11,106,659 | 12,717,062 |
| **Loans and advances to credit institutions and customers** | **18,143,625** | **20,681,372** |

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

| Risk provisions<br>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 | –304,093 | –10,862 | –314,954 | –5,623 |
| Currency translation | 0 | –14,716 | –570 | –15,286 | 8,499 |
| Reclassification | 0 | 6,015 | –103 | 5,912 | 0 |
| Unwinding | 0 | –8,355 | 0 | –8,355 | –8,355 |
| Utilisation | –169 | –84,516 | 0 | –84,685 | –36,980 |
| Release | 0 | –251,046 | –4,635 | –255,681 | –38,140 |
| Addition | 0 | 460,604 | 10,211 | 470,815 | 181,128 |
| As at 30 Sep 2011 | 703 | 1,274,297 | 50,921 | 1,325,921 | 349,184 |
| **As at 1 Jan 2012** | **703** | **1,261,444** | **59,258** | **1,321,405** | **375,661** |
| Changes in the scope of consolidation | 0 | –350,744 | –14,440 | –365,183 | –366,495 |
| Currency translation | 0 | 15,083 | 465 | 15,548 | 7,429 |
| Reclassification | 0 | –459 | 459 | 0 | 0 |
| Unwinding | 0 | –1,870 | 0 | –1,870 | –963 |
| Utilisation | 0 | –92,409 | 0 | –92,409 | –9,352 |
| Release | 0 | –130,041 | –3,737 | –133,778 | –16,725 |
| Addition | 0 | 328,135 | 1,415 | 329,550 | 10,445 |
| **As at 30 Sep 2012** | **703** | **1,029,139** | **43,420** | **1,073,262** | **0** |

The additions include an amount of euro 2,875 thousand (1-9/2011: euro 5,750 thousand), which is caused by allocation due to interest past-due. Loans and advances to credit institutions and customers include non-interest-bearing receivables amounting to euro 448,449 thousand (31 Dec 2011: euro 358,949 thousand).

### Trading assets

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Debt securities | 285,344 | 286,359 |
| Equity and other variable-yield securities | 37,453 | 32,697 |
| Positive fair value from derivatives | 1,990,698 | 1,801,156 |
| exchange rate related transactions | 28,637 | 45,424 |
| interest rate related transactions | 1,962,062 | 1,755,732 |
| **Trading assets** | **2,313,494** | **2,102,213** |

### Financial investments

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Financial investments at fair value through profit or loss | 220,201 | 495,578 |
| Debt securities | 150,123 | 419,614 |
| Equity and other variable-yield securities | 70,078 | 75,964 |
| Financial investments available for sale | 3,219,418 | 3,467,590 |
| Debt securities | 3,112,209 | 3,348,293 |
| Equity and other variable-yield securities | 107,209 | 119,297 |
| Financial investments loans & receivables | 1,204,193 | 1,456,567 |
| Financial investments held to maturity | 1,119,364 | 1,375,899 |
| **Financial investments** | **5,763,176** | **6,795,633** |

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

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

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 | 1 Jul 2008 |
|---|---|---|---|
| Carrying amount | 517,507 | 599,185 | 1,140,363 |
| Fair value | 495,611 | 543,225 | 1,140,363 |
| Available for sale reserve with reclassification | –36,027 | –40,663 | –79,177 |
| Available for sale reserve without reclassification | –58,159 | –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.

### Participations

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Investments in unconsolidated affiliates | 427,103 | 437,236 |
| Participating interests | 64,430 | 91,978 |
| Investments in other companies | 50,384 | 50,369 |
| **Participations** | **541,917** | **579,583** |

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

### Other assets

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Deferred items | 15,197 | 11,138 |
| Other receivables and assets | 249,313 | 456,519 |
| Positive fair value from derivatives in the investment book | 1,187,381 | 1,551,398 |
| **Other assets** | **1,451,891** | **2,019,055** |

### Amounts owed to credit institutions

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Central banks | 309,429 | 652,075 |
| Other credit institutions | 9,240,571 | 10,997,676 |
| Amounts owed to credit institutions | 9,550,000 | 11,649,751 |

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

### Amounts owed to customers

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Savings deposits | 198 | 198 |
| Other deposits | 2,772,243 | 2,712,540 |
| Amounts owed to customers | 2,772,441 | 2,712,738 |

The amounts owed to customers are measured at amortised cost.

### Debts evidenced by certificates

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Debts evidenced by certificates | 10,339,436 | 13,452,120 |

In debts evidenced by certificates only bonds are included and they are measured at amortised cost.

### Trading liabilities

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Negative fair value from derivatives | | |
| exchange rate related transactions | 26,847 | 36,828 |
| interest rate related transactions | 1,857,188 | 1,594,609 |
| Trading liabilities | 1,884,035 | 1,631,437 |

### Other liabilities

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Deferred items | 28,159 | 19,714 |
| Other liabilities | 262,552 | 540,009 |
| Negative fair value from derivatives in the investment book | 1,038,410 | 1,368,106 |
| Other liabilities | 1,329,121 | 1,927,828 |

### Subordinated liabilities

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Subordinated liabilities | 575,172 | 844,523 |
| Supplementary capital | 264,927 | 884,135 |
| Subordinated liabilities | 840,099 | 1,728,658 |

Subordinated liabilities are measured at amortised cost. Book value of supplementary capital, also including PS 2008, was newly calculated by discounting the estimated future cash flows with the original effective interest rate in order to get the net present value according to IAS 39 AG 8. Difference between original passivated amount and newly calculated book value is shown in other operating income (see note 1).

Subordinated liabilities comprise hybrid tier I capital in the amount of euro 57,698 thousand (31 December 2011: euro 300,000 thousand).

### Equity

Capital measures (capital reduction and capital increase) were registered in the Austrian Commercial Register on 28 September 2012. As full legal effectiveness is thereby fulfilled, these capital measures are considered in the present interim financial report. Subscribed capital amounts to euro 577,329 thousand and participation capital to euro 310,223 thousand.

The participation capital which was subscribed by the Republic of Austria in fiscal year 2009 carries an option for conversion for the Republic of Austria.

## 6) Own funds

The own funds of the VBAG Group of credit institutions which were calculated pursuant to the Austrian Banking Act can be broken down as follows (the amounts as at 31. December 2011 include the disposal group):

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Subscribed capital (less treasury stocks) | 1,035,632 | 1,031,217 |
| Open reserves (including differential amounts and non-controlling interests) | 961,815 | 1,833,768 |
| Funds for general banking risks | 10,162 | 10,667 |
| Intangible assets | –16,411 | –40,207 |
| Net loss | –254,376 | –484,287 |
| Core capital (tier I capital) before deductions | 1,736,822 | 2,351,158 |
| Deductions from core capital (50% deduction pursuant to section 23 (13) Austrian Banking Act) | –48,942 | –46,119 |
| Core capital (tier I capital) after deductions | 1,687,881 | 2,305,040 |
| Supplementary capital | 266,147 | 220,573 |
| Eligible subordinated liabilities | 500,869 | 648,281 |
| Hidden reserves pursuant to section 57 (1) Austrian Banking Act | 39,066 | 39,064 |
| IRB risk provision surplus | 0 | 62,684 |
| Supplementary capital (tier II capital) before deductions | 806,082 | 970,602 |
| Deductions from supplementary capital (50% deduction pursuant to section 23 (13) Austrian Banking Act) | –48,942 | –46,119 |
| Supplementary capital (tier II capital) after deductions | 757,141 | 924,483 |
| Deductions from own funds pursuant to section 103e no. 13 Austrian Banking Act | –3,518 | –24,297 |
| Short-term subordinated liabilities (tier III capital) | 104,956 | 120,866 |
| **Eligible qualifying capital** | **2,546,459** | **3,326,092** |
| Capital requirement | 1,392,250 | 2,100,985 |
| Surplus capital | 1,154,209 | 1,225,107 |

| | | |
|---|---|---|
| Core capital ratio (tier I) (in relation to the assessment base pursuant to section 22 Austrian Banking Act - credit risk) | 11.31% | 10.05% |
| Equity ratio (in relation to credit risk after deduction of capital requirements for market and operational risk) | 15.73% | 13.34% |
| Core capital ratio (in relation to the risks pursuant to section 22 (1) no. 1 - 5 Austrian Banking Act ) | 9.70% | 8.78% |
| Equity ratio (in relation to the risks pursuant to section 22 (1) no. 1 - 5 Austrian Banking Act) | 14.63% | 12.66% |

The capital measures (capital reduction and increase) agreed in the Annual General Meeting as at 26 April 2012 are already included (also as at 31 December 2011) in the own funds calculated pursuant to the Austrian Banking Act. According to IFRS these measures were able to be included in the consolidated financial statements only after having achieved full legal effect on 28 September 2012.

According to notification of 1 October 2012, Financial Market Authority approved (with effect from 30 September 2012) the return from IRB- to standard approach for VBAG Group of credit institutions.

Open reserves include the hybrid tier I capital totalling euro 57,698 thousand (31 December 2011: euro 300,000 thousand).

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

| Euro thousand | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Risk-weighted assessment base pursuant to section 22 Austrian Banking Act - credit risk | 14,925,394 | 22,946,850 |
| Of which 8% minimum capital requirement for credit risk | 1,194,032 | 1,835,748 |
| Capital requirement for position risk in debt instruments, equities, foreign exchange and commodities - market risk | 104,956 | 120,866 |
| Capital requirement for operational risk | 93,262 | 144,371 |
| **Total capital requirement** | **1,392,250** | **2,100,985** |

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. Therefore VB RO and VBI Bet 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. Since the closing date as at 15 February 2012 the companies of the VBI group are no more part of the VBAG Group of credit institutions. 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 or where the Group helds a majority of shares either direct or indirect are considered in the scope of consolidation according to the Austrian Banking Act.

In the first three quarters of the year 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.

## 7) Financial assets and liabilities

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

| Euro thousand | Held for trading | At fair value through profit or loss | Held to maturity | Available for sale | Amortised cost | Carrying amount – total | Fair value |
|---|---|---|---|---|---|---|---|
| **30 Sep 2012** | | | | | | | |
| Liquid funds | 0 | 0 | 0 | 0 | 719,759 | 719,759 | 719,759 |
| Loans and advances to credit institutions | 0 | 0 | 0 | 0 | 7,036,966 | 7,036,966 | 7,036,966 |
| Loans and advances to customers | 0 | 0 | 0 | 0 | 11,106,659 | 11,106,659 | 10,077,520 |
| Trading assets | 2,313,494 | 0 | 0 | 0 | 0 | 2,313,494 | 2,313,494 |
| Financial investments | 0 | 220,201 | 1,119,364 | 3,219,418 | 1,204,193 | 5,763,176 | 5,626,662 |
| Participations | 0 | 0 | 0 | 541,917 | 0 | 541,917 | 541,917 |
| Derivatives – investment book | 1,187,381 | 0 | 0 | 0 | 0 | 1,187,381 | 1,187,381 |
| **Financial assets total** | **3,500,875** | **220,201** | **1,119,364** | **3,761,334** | **20,067,578** | **28,669,353** | **27,503,669** |
| | | | | | | | |
| Amounts owed to credit institutions | 0 | 0 | 0 | 0 | 9,550,000 | 9,550,000 | 9,550,000 |
| Amounts owed to customers | 0 | 0 | 0 | 0 | 2,772,441 | 2,772,441 | 2,772,441 |
| Debts evidenced by certificates | 0 | 0 | 0 | 0 | 10,339,436 | 10,339,436 | 10,102,674 |
| Trading liabilities | 1,884,035 | 0 | 0 | 0 | 0 | 1,884,035 | 1,884,035 |
| Derivatives – investment book | 1,038,410 | 0 | 0 | 0 | 0 | 1,038,410 | 1,038,410 |
| Subordinated liabilities | 0 | 0 | 0 | 0 | 840,099 | 840,099 | 779,844 |
| **Financial liabilities total** | **2,922,445** | **0** | **0** | **0** | **23,501,976** | **26,424,421** | **26,127,405** |

| Euro thousand | Held for trading | At fair value through profit or loss | Held to maturity | Available for sale | Amortised cost | Carrying amount – total | Fair value |
|---|---|---|---|---|---|---|---|
| 31 Dec 2011 | | | | | | | |
| Liquid funds | 0 | 0 | 0 | 0 | 430,943 | 430,943 | 430,943 |
| Loans and advances to credit institutions | 0 | 0 | 0 | 0 | 7,964,310 | 7,964,310 | 7,963,608 |
| Loans and advances to customers | 0 | 0 | 0 | 0 | 12,717,062 | 12,717,062 | 11,817,152 |
| Trading assets | 2,102,213 | 0 | 0 | 0 | 0 | 2,102,213 | 2,102,213 |
| Financial investments | 0 | 495,578 | 1,375,899 | 3,467,590 | 1,456,567 | 6,795,633 | 6,537,627 |
| Participations | 0 | 0 | 0 | 579,583 | 0 | 579,583 | 579,583 |
| Derivatives – investment book | 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 | 24,866 | 10,377 | 78,011 | 447,578 | 8,420,150 | 8,980,983 | 8,313,780 |
| Amounts owed to credit institutions | 0 | 0 | 0 | 0 | 11,649,751 | 11,649,751 | 11,649,751 |
| Amounts owed to customers | 0 | 0 | 0 | 0 | 2,712,738 | 2,712,738 | 2,712,738 |
| Debts evidenced by certificates | 0 | 0 | 0 | 0 | 13,452,120 | 13,452,120 | 13,110,818 |
| Trading liabilities | 1,631,437 | 0 | 0 | 0 | 0 | 1,631,437 | 1,631,437 |
| Derivatives – investment book | 1,368,106 | 0 | 0 | 0 | 0 | 1,368,106 | 1,368,106 |
| Subordinated liabilities | 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 | 21,676 | 20,052 | 0 | 0 | 7,129,790 | 7,171,517 | 7,111,776 |

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

| Euro thousand | Level 1 | Level 2 | Total |
|---|---|---|---|
| 30 Sep 2012 | | | |
| **Financial assets** | | | |
| Trading assets | 73,577 | 2,239,918 | 2,313,494 |
| Financial investments | 3,131,439 | 308,180 | 3,439,619 |
| at fair value through profit or loss | 109,727 | 110,474 | 220,201 |
| available for sale | 3,021,712 | 197,706 | 3,219,418 |
| Derivatives – investment book | 0 | 1,187,381 | 1,187,381 |
| **Total** | **3,205,016** | **3,735,479** | **6,940,494** |
| **Financial liabilities** | | | |
| Trading liabilities | 0 | 1,884,035 | 1,884,035 |
| Derivatives – investment book | 0 | 1,038,410 | 1,038,410 |
| **Total** | **0** | **2,922,445** | **2,922,445** |

| Euro thousand | Level 1 | Level 2 | Total |
|---|---|---|---|
| 31 Dec 2011 | | | |
| **Financial assets** | | | |
| Trading assets | 92,003 | 2,010,210 | 2,102,213 |
| Financial investments | 3,460,652 | 502,516 | 3,963,168 |
| at fair value through profit or loss | 301,572 | 194,007 | 495,578 |
| available for sale | 3,159,080 | 308,509 | 3,467,590 |
| Derivatives – investment book | 0 | 1,551,398 | 1,551,398 |
| **Total** | **3,552,655** | **4,064,124** | **7,616,778** |
| Financial assets of the disposal group | 403,231 | 75,891 | 479,123 |
| **Financial liabilities** | | | |
| Trading liabilities | 0 | 1,631,437 | 1,631,437 |
| Derivatives – investment book | 0 | 1,368,106 | 1,368,106 |
| **Total** | **0** | **2,999,543** | **2,999,543** |
| Financial liabilities of the disposal group | 0 | 41,727 | 41,727 |

In 2012 and 2011 there have not been any reclassifications between the levels.

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

## 8) Number of staff

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

| | Average number of staff | | Number of staff at end of period | |
|---|---|---|---|---|
| | 1-9/2012 | 1-9/2011 | 30 Sep 2012 | 31 Dec 2011 |
| Domestic | 1,203 | 1,393 | 1,125 | 1,325 |
| Foreign | 1,468 | 6,082 | 783 | 4,871 |
| **Number of staff - total** | **2,671** | **7,475** | **1,908** | **6,196** |

The number of staff employed in disposal groups which is included in the table above is as follows

| | Average number of staff | | Number of staff at end of period | |
|---|---|---|---|---|
| | 1-9/2012 | 1-9/2011 | 30 Sep 2012 | 31 Dec 2011 |
| Banks CEE disposal group | | | | |
| Domestic | 13 | 62 | 0 | 72 |
| Foreign | 683 | 3,937 | 0 | 4,086 |
| Number of staff Banks CEE | 696 | 3,999 | 0 | 4,158 |

## 9) Branches

| | 30 Sep 2012 | 31 Dec 2011 |
|---|---|---|
| Domestic | 1 | 1 |
| Foreign | 1 | 296 |
| Total | 2 | 297 |

In the figures as at 31 December 2011, 295 branches of the disposal group Banks CEE are included.

## 10) Related party disclosure

| 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 |
|---|---|---|---|---|---|
| **30 Sep 2012** | | | | | |
| Loans and advances to credit institutions | 0 | 1,095,293 | 1,480,907 | 0 | 0 |
| Loans and advances to customers | 109,805 | 190,777 | 2,799 | 0 | 0 |
| Risk provisions (–) | –12,384 | –42,105 | 0 | 0 | 0 |
| Debt securities | 0 | 213,538 | 0 | 966,809 | 0 |
| | | | | | |
| Amounts owed to credit institutions | 0 | 1,151,159 | 82,918 | 0 | 0 |
| Amounts owed to customers | 45,118 | 16,670 | 32,803 | 219 | 0 |
| Liabilites arising from guarantees | 0 | 0 | 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 |
| Liabilities arising from guarantees | 3,675 | 0 | 0 | 15,224 | 0 |

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

The shareholders Volksbanken Holding e. Gen. and Republic of Austria exercise a significant influence on Österreichische Volksbanken-AG. Due to capital increase, shares of DZ Bank AG Deutsche Zentral-Genossenschaftsbank were diluted.

As at 30 September 2012, loans and advances to credit institutions contain transactions with the Volksbank-Sector amounting to eur 4,849,566 thousand (31 Dec 2011: euro 5,015,379 thousand) and amounts owed to credit institutions include transactions with the Volksbank-Sector amounting to euro 5,187,424 thousand (31 Dec 2011: euro 4,735,288 thousand).

## 11) Segment reporting

Segment reporting was adjusted in the course of restructuring. The VBAG Group has now seven operating segments which correspond to the strategic business segments. Financing, Financial Markets/Investment Book and Other Operations segments constitute VBAG's core business. Non-core Business segment comprises Non-core Corporates, Non-core Real Estate, Non-core Retail as well as Non-core Investment Book/Other Operations. The comparative figures were restated accordingly.

Segment Financing consists of the profit centers syndicate business, housing construction- and model financing as well as the VB Leasing Finanzierung group with domestic movable property leasing and VB Factoring Bank.

The segment Financial Markets/Investment Book also includes Investment Book and Immo KAG. This segment as well includes ALM - responsible for the overall interest management of the group.

The segment Other Operations consists of all business operations not directly attributable to one special segment. Results of VB Services für Banken GmbH and holding companies are also shown in this segment.

The segment Non-core Corporates comprises the corporate customers profit center, renewable energy projects as well as Investkredit Investmentbank AG from the former segment Corporates. The segment Non-core Real Estate entirely corresponds to the former Real Estate segment. VB Leasing International group, VBI group and VB Romania belong to the Non-core Retail segment. Parts of investment book which are to be phased out or sold according to their repayment profile are allocated in the Non-core Investment Book/Other Operations segment. This segment also includes Volksbank Malta Limited.

All other measurements and allocation procedures remain unchanged to the ones described in the annual report 2011.

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 | Con-solidation | Total |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | | | | | | | | | |
| 1-9/2012 | 32,782 | –84,376 | 3,518 | 41,944 | 58,493 | 73,728 | 40,203 | –6,420 | 159,872 |
| 1-9/2011 | 32,656 | –27,587 | 3,612 | 66,102 | 64,019 | 169,257 | 32,950 | 2,982 | 343,990 |
| Risk provisions | | | | | | | | | |
| 1-9/2012 | 563 | 0 | 0 | 5,444 | –192,038 | –17,000 | –2,316 | 0 | –200,715 |
| 1-9/2011 | –11,694 | –125 | 25,528 | –21,053 | –11,872 | –63,951 | –7,039 | 0 | –90,206 |
| Net fee and commission income | | | | | | | | | |
| 1-9/2012 | 5,752 | 24,200 | 3,694 | 2,825 | 1,095 | 4,322 | 3,917 | –276 | 45,529 |
| 1-9/2011 | 6,002 | 38,768 | 15,278 | 5,266 | 2,450 | 11,381 | 5,992 | –10,187 | 74,949 |
| Net trading income | | | | | | | | | |
| 1-9/2012 | 85 | 29,401 | –249 | –62 | 900 | 726 | 633 | 0 | 31,434 |
| 1-9/2011 | 84 | 223 | –378 | 1,520 | –188 | 10,471 | 207 | 0 | 11,941 |
| General administrative expenses | | | | | | | | | |
| 1-9/2012 | –27,421 | –50,552 | –17,633 | –28,772 | –28,779 | –37,563 | –16,831 | 12,848 | –194,702 |
| 1-9/2011 | –27,060 | –53,405 | –49,342 | –33,341 | –27,220 | –79,696 | –15,919 | 16,077 | –269,907 |
| Other operating result | | | | | | | | | |
| 1-9/2012 | 3,912 | 738,742 | –27,510 | –78 | –1,204 | 5,966 | –8,105 | –8,355 | 703,368 |
| 1-9/2011 | 5,429 | 87 | –15,952 | 28 | 3,119 | –289,859 | –56,420 | –3,452 | –357,020 |
| of which impairment of goodwill and brand | | | | | | | | | |
| 1-9/2012 | 0 | 0 | 0 | 0 | –230 | 0 | 0 | 0 | –230 |
| 1-9/2011 | 0 | 0 | 0 | 0 | 0 | 0 | –56,423 | 0 | –56,423 |
| Income from financial investments | | | | | | | | | |
| 1-9/2012 | –49 | 39,093 | 565 | 9,819 | –66,239 | 4,995 | 59,973 | 0 | 48,157 |
| 1-9/2011 | 0 | –41,068 | 1 | –2,842 | 1,298 | –2,292 | –301,109 | 0 | –346,012 |
| Income from discontinued operations | | | | | | | | | |
| 1-9/2012 | 0 | 0 | 0 | 0 | 12,793 | 33,650 | 0 | 2,203 | 48,646 |
| 1-9/2011 | 0 | 0 | 0 | 0 | 68 | –58,640 | 0 | –5,420 | –63,992 |
| **Result for the period before taxes** | | | | | | | | | |
| **1-9/2012** | **15,624** | **696,508** | **–37,614** | **31,120** | **–214,979** | **68,823** | **82,107** | **0** | **641,589** |
| **1-9/2011** | **5,418** | **–83,107** | **–21,254** | **15,680** | **31,674** | **–303,329** | **–341,338** | **0** | **–696,256** |
| Income taxes including taxes of discontinued operation | | | | | | | | | |
| 1-9/2012 | –3,466 | 10,502 | –25,558 | –7,118 | 35,649 | –8,183 | –21,997 | 0 | –20,171 |
| 1-9/2011 | –1,058 | 20,777 | –74,178 | –1,391 | –5,885 | –15,999 | 77,781 | 0 | 47 |
| **Result for the period after taxes** | | | | | | | | | |
| **1-9/2012** | **12,158** | **707,010** | **–63,173** | **24,002** | **–179,330** | **60,640** | **60,110** | **0** | **621,418** |
| **1-9/2011** | **4,360** | **–62,330** | **–95,432** | **14,289** | **25,789** | **–319,328** | **–263,557** | **0** | **–696,209** |
| Total assets | | | | | | | | | |
| 30 Sep 2012 | 2,729,946 | 25,149,698 | 1,832,277 | 2,489,062 | 3,554,204 | 1,830,203 | 4,263,461 | –13,380,039 | 28,468,812 |
| 30 Dec 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 | | | | | | | | | |
| 30 Sep 2012 | 2,701,479 | 1,815,445 | 0 | 2,430,271 | 3,272,423 | 1,905,913 | 531,496 | –1,550,368 | 11,106,659 |
| 30 Dec 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 |
| Amounts owed to customers | | | | | | | | | |
| 30 Sep 2012 | 145,608 | 2,617,938 | 21 | 72,382 | 164,156 | 10,676 | 17,770 | –256,109 | 2,772,441 |
| 30 Dec 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 | | | | | | | | | |
| 30 Sep 2012 | 551,399 | 11,386,592 | 0 | 644,688 | 875,954 | 0 | 1,257,776 | –3,536,875 | 11,179,534 |
| 30 Dec 2011 | 422,674 | 14,153,148 | 0 | 1,040,547 | 1,030,401 | 0 | 1,453,333 | –2,919,325 | 15,180,777 |

**Segment reporting by regional markets**

| Euro thousand | Austria | Central and Eastern Europe | Other markets | Total |
|---|---|---|---|---|
| Net interest income | | | | |
| 1-9/2012 | 18,153 | 82,640 | 59,079 | 159,872 |
| 1-9/2011 | 102,081 | 173,065 | 68,844 | 343,990 |
| Risk provisions | | | | |
| 1-9/2012 | –110,953 | –97,229 | 7,467 | –200,715 |
| 1-9/2011 | –9,048 | –63,951 | –17,207 | –90,206 |
| Net fee and commission income | | | | |
| 1-9/2012 | 36,925 | 4,060 | 4,545 | 45,529 |
| 1-9/2011 | 56,782 | 11,260 | 6,907 | 74,949 |
| Net trading income | | | | |
| 1-9/2012 | 29,781 | 727 | 927 | 31,434 |
| 1-9/2011 | 1,391 | 10,607 | –57 | 11,941 |
| General administrative expenses | | | | |
| 1-9/2012 | –127,026 | –39,936 | –27,740 | –194,702 |
| 1-9/2011 | –160,514 | –81,095 | –28,297 | –269,907 |
| Other operating result | | | | |
| 1-9/2012 | 695,851 | 4,341 | 3,176 | 703,368 |
| 1-9/2011 | –76,518 | –280,691 | 189 | –357,020 |
| Income from financial investments | | | | |
| 1-9/2012 | 87,112 | –43,199 | 4,243 | 48,157 |
| 1-9/2011 | –106,807 | –1,429 | –237,776 | –346,012 |
| Income from discontinued operation | | | | |
| 1-9/2012 | 0 | 48,646 | 0 | 48,646 |
| 1-9/2011 | –3,924 | –60,068 | 0 | –63,992 |
| **Result for the period before taxes** | | | | |
| **1-9/2012** | **629,843** | **–39,950** | **51,697** | **641,589** |
| **1-9/2011** | **–196,557** | **–292,303** | **–207,396** | **–696,256** |

## 11) Quarterly financial data

| Euro thousand | 7-9/2012 | 4-6/2012 | 1-3/2012 | 10-12/2011 | 7-9/2011 |
|---|---|---|---|---|---|
| Net interest income | 45,048 | 58,774 | 56,050 | 50,444 | 104,318 |
| Risk provisions | –126,867 | –51,685 | –22,162 | –13,384 | –6,143 |
| Net fee and commission income | 7,613 | 17,615 | 20,301 | 19,371 | 23,522 |
| Net trading income | 7,794 | 15,155 | 8,485 | –9,014 | –5,284 |
| General administrative expenses | –61,869 | –67,334 | –65,500 | –29,432 | –90,105 |
| Restructuring cost | 0 | 0 | 0 | –41,450 | 0 |
| Other operating result | 736,573 | –26,983 | –6,222 | –8,328 | –357,220 |
| Income from financial investments | –15,951 | 28,783 | 35,325 | –95,126 | –303,795 |
| Income from discontinued operation | 0 | 36,012 | 12,634 | –68,013 | -77,899 |
| **Result for the period before taxes** | **592,341** | **10,337** | **38,912** | **–194,931** | **–712,605** |
| Income taxes | –1,333 | –13,963 | –2,823 | –92,243 | –4,240 |
| Income taxes from discontinued operation | 0 | 0 | –2,051 | –5,885 | –1,461 |
| **Result for the period after taxes** | **591,008** | **–3,627** | **34,037** | **–293,059** | **–718,307** |
| | | | | | |
| **Result attributable to shareholders of the parent company** | **584,594** | **–8,050** | **22,159** | **–270,245** | **–696,099** |
| Result attributable to non-controlling interest | 6,413 | 4,424 | 11,878 | –22,814 | –22,208 |

# STATEMENT OF ALL LEGAL REPRESENTATIVES

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

Vienna, 30 November 2012

Stephan Koren
Chairman of the Managing Board
Steering
Legal affairs, Corporate Planning & Finance
HR Management, Marketing & Communication

Michael Mendel
Deputy Chairman of the Managing Board
Risk management

Rainer Borns
Member of the Managing Board
Association of Volksbanks
Organisation/IT

Martin Fuchsbauer
Member of the Managing Board
Market