VOLKSBANK AG

ANNUAL REPORT

2013

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

Translation by BBi (Scotland) Ltd.

KEY FIGURES OF VOLKSBANK AG

Euro million	2013	2012	2011
Statement of financial position [1]			
Total assets	**20,904**	**27,640**	**43,693**
Loans and advances to customers	7,081	10,040	12,717
Amounts owed to customers	2,148	2,542	2,713
Debts evidenced by certificates	7,085	9,935	13,452
Subordinated liabilities	555	621	1,729
Own funds			
Core capital (tier I) after deductions	1,588	1,709	2,305
Supplementary capital (tier II, tier III) after deductions	569	759	1,021
Eligible qualifying capital	2,156	2,467	3,326
Assessment base credit risk	9,574	13,443	22,947
Capital requirement market risk	63	95	121
Capital requirement operational risk	72	87	144
Surplus capital	1,254	1,210	1,225
Core capital ratio [2]	**14.1%**	**10.9%**	**8.8%**
Equity ratio [2]	**19.1%**	**15.7%**	**12.7%**
Income statement [3]			
Net interest income	188.6	222.1	441.0
Risk provisions	–23.5	–366.9	–103.6
Net fee and commission income	30.2	58.2	94.3
Net trading income	8.4	32.2	2.9
General administrative expenses	–249.8	–261.5	–299.3
Restructuring cost	0.0	0.0	–41.5
Other operating result	156.7	755.2	–365.3
Income from financial investments	–48.9	26.9	–441.1
Income from companies measured at equity	–126.1	–1.9	–46.5
Income from discontinued operation	15.3	48.6	–132.0
Result before taxes	**–49.0**	**513.0**	**–891.2**
Income taxes	–24.4	–66.2	–98.1
Result after taxes	**–73.4**	**446.8**	**–989.3**
Non-controlling interest	–26.6	–28.1	30.0
Consolidated net income	**–100.0**	**418.7**	**–959.3**
Key ratios [3]			
Operating cost-income-ratio	109.9%	83.7%	55.6%
ROE before taxes	–5.3%	65.3%	–71.5%
ROE after taxes	–7.4%	56.3%	–79.4%
ROE consolidated net income	–11.2%	75.2%	–118.7%
ROE before taxes (regulatory)	–7.0%	38.5%	–53.7%
Resources [3]			
Staff average	1,877	1,960	3,120
of which domestic	1,101	1,178	1,315
of which abroad	755	782	1,805
Staff at end of period	1,853	1,912	2,038
of which domestic	1,101	1,137	1,253
of which abroad	752	775	785
Number of sales outlets	2	2	2
of which domestic	1	1	1
of which abroad	1	1	1

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[1] The comparative figures of 2012 and 2011 were adjusted according to IAS 8.

[2] In relation to total risk

[3] The operating cost-income-ratio is the ratio between net interest income, net fee and commission income, net trading income and general administrative expenses.
All ratios were displayed without including discontinued operation or disposal group.

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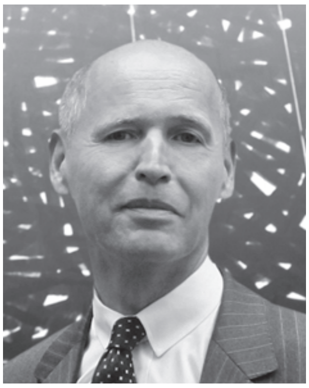
INTRODUCTION FROM THE CHIEF EXECUTIVE OFFICER



Stephan Koren
CEO and Chairman
of the Managing Board

We successfully implemented a considerable portion of VBAG's restructuring plan in 2013. We forged ahead with downsizing measures that were instigated following the bank's partial nationalisation in April 2012, with the result that we significantly exceeded the 2013 targets that we set out in our restructuring plan. At the same time, we succeeded in carrying out downsizing measures with minimum adverse effect on our capital, meaning that VBAG and the VBAG Group once again closed the year with improved equity ratios. The interim results of our reorganisation are therefore positive.

However, these are only interim results. We still have a long way to go. We are already aware of some of the hurdles we have to jump, such as the anticipated raising of equity ratio requirements by the supervisory authority, and the change to conform with Basel III rules, which will lead in the next few years to significant parts of existing equity no longer being fully eligible. We are also well aware that the European Central Bank is due to perform further regulatory audits in the current year; the outcome of these and their impact on VBAG cannot yet be assessed.

We must therefore press on with our restructuring work with great vigour. Public funds made available to the institution by the Republic of Austria must be utilised efficiently to reduce legacy issues and investment risks. At the same time, it is essential that we work purposefully to achieve our target of establishing a successful and sustainable Association of Volksbanks. Only then will we succeed in preventing, or at least minimising, the possibility of further pressure on the taxpayer.

This means that we will continue to do our utmost to reduce total assets and risks in the VBAG Group. In addition, it is necessary to strengthen the Volksbanks as a unified group on a sustainable basis. With this in mind, we launched a strategic project in the summer of last year that is currently developing a plan to reduce the number of independent Volksbanks significantly. VBAG and the Association of Volksbanks as a whole will need to invest considerable time and effort to implement this plan.

The aim of our realignment is to create a group of strong regional banks that enjoy both market proximity and close links with their customers. Alongside this, an efficient organisation will guarantee fast and cost-efficient handling of all transactions and processes. The central functions assigned to the top institution, VBAG, will allow provincial Volksbanks to concentrate wholly on the activities they perform on the market and on behalf their customers.

It is important to make the Association of Volksbanks sufficiently attractive to investors in the medium term to enable it to operate on the capital markets on a sustainable basis.

In any event, VBAG and its employees are totally focused on working towards achieving these aims. I would like to thank all our employees for this dedication, and to ask them to maintain their commitment in the difficult times which still lie ahead.

Vienna, March 2014

Stephan Koren
CEO and Chairman of the Managing Board

REPORT OF THE SUPERVISORY BOARD

of Österreichische Volksbanken-Aktiengesellschaft pursuant to section 96 of the Austrian Stock Corporation Act (Aktiengesetz) for the 2013 business year

Johann Georg Schelling
Chairman of the
Supervisory Board

1. The Supervisory Board of Österreichische Volksbanken-Aktiengesellschaft (the "COMPANY" or "VBAG") held five ordinary meetings and one extraordinary meeting during the 2013 business year. During these meetings and in other discussions and committees, the Board examined management's actions to verify that they were lawful, expedient, and cost effective, and it also reviewed the COMPANY's position, performance and proposed business policies.

The Supervisory Board acknowledged the reports from the COMPANY's Managing Board and adopted the necessary resolutions.

The chairs of the Supervisory Board's committees regularly reported to the Supervisory Board on the work of their committees. This gave the Supervisory Board sufficient opportunity to fulfil its duty to stay informed about and oversee the work of the Managing Board.

The Supervisory Board has formed the following committees: Approvals Committee, Audit Committee, Risk Committee, Remuneration and Nomination Committee, HR Committee and Working Committee. The HR and Remuneration Committee was replaced by the HR Committee and the Remuneration and Nomination Committee from 23 May 2013.

2. The Approvals Committee met on four occasions during 2013 to deal with matters falling within its area of competence. All members regularly took part in these meetings.

The Audit Committee met on three occasions during 2013 to review the audit of both the financial statements and the consolidated financial statements, and to monitor the internal control system, the internal audit system and the risk management system. The majority of the committee's members took part in all meetings.

During the five meetings it held in 2013, the Risk Committee looked in detail at risk issues, risk strategy and the current risk position of the COMPANY and other significant Group companies. The majority of the committee's members took part in all meetings.

The HR and Remuneration Committee was active until 23 May 2013. Based on its responsibilities as the HR Committee, it made recommendations in a meeting in 2013 to fill a vacant Managing Board position and discussed matters connected with the employment contracts of Board members. All members took part in this meeting.

The Remuneration and Nomination Committee was set up on 23 May 2013 and met on three occasions in 2013 to discuss remuneration policy at VBAG and in the Association of Volksbanks as well as the annual review of remuneration issues. All members took part in these meetings.

The Working Committee is responsible for making decisions in urgent cases when the decision cannot wait until the next meeting of the Supervisory Board. This authority essentially covers matters that fall under the Supervisory Board's remit. The Working Committee did not need to be convened in 2013.

3. During the 2013 business year, the Supervisory Board dealt extensively with progress made with the COMPANY's restructuring and received regular reports on this. In each ordinary meeting and in its various committees, the Supervisory Board also discussed Managing Board reports on current risks and earnings, as well as information on key projects connected to the Association of Volksbanks in accordance with section 30a of the Austrian Banking Act, on Volksbank Romania as the most important equity participation and on new regulatory requirements at national and EU level. The progress of the association's strategy was another key topic. Last but not least, in connection with filling a vacant Managing Board position, the Supervisory Board had to ensure that the Managing Board could continue its management activity in a manner befitting the prevailing challenges.

More information on the activity of the Supervisory Board and its committees in the 2013 business year can be found in the Corporate Governance Report.

THE VBAG financial statements as at 31 December 2013 (the "FINANCIAL STATEMENTS") including the management report and notes, and the consolidated financial statements as at 31 December 2013 (the "CONSOLIDATED FINANCIAL STATEMENTS") including the Group management report, were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft ("KPMG") and, no grounds for objection having been found, received an unqualified audit opinion.

4. Waldemar Jud Corporate Governance Forschung CGF GmbH was commissioned to audit the Corporate Governance Report. The final outcome of this audit found no grounds for objection. The audit also confirmed that the Corporate Governance Report complies not only with formal requirements under the Austrian Corporate Governance Code, but also with additional requirements as regards content.

5. The Supervisory Board acknowledged the report submitted by the Managing Board and, following a review by the Audit Committee, examined the FINANCIAL STATEMENTS, including the management report, and the CONSOLIDATED FINANCIAL STATEMENTS, including the Group management report, the appendix to the audit report in accordance with section 63 (5) and (7) of the Austrian Banking Act, and the Corporate Governance Report in accordance with section 96 (1) of the Austrian Stock Corporation Act. The Supervisory Board's examination did not result in any grounds for objections. In particular, the FINANCIAL STATEMENTS and the CONSOLIDATED FINANCIAL STATEMENTS were deemed by the Supervisory Board to be properly prepared. As a result, the Supervisory Board approves the FINANCIAL STATEMENTS, including the management report, meaning that they are now adopted in accordance with section 96 (4) of the Austrian Stock Corporation Act, and the CONSOLIDATED FINANCIAL STATEMENTS, including the Group management report, the appendix to the audit report in accordance with section 63 (5) and (7) of the Austrian Banking Act, and the Corporate Governance Report. The Supervisory Board also agrees with the results of the audit, which were discussed in detail with KPMG in the Audit Committee.

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

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

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

Vienna, March 2014

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

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

CORPORATE GOVERNANCE REPORT OF ÖSTERREICHISCHE VOLKSBANKEN-AKTIENGESELLSCHAFT

subject to Section 243b of the Austrian Commercial Code (UGB) and Rules 60 and 61 of the Austrian Corporate Governance Code

Corporate Governance Code

The Austrian Corporate Governance Code (hereinafter referred to as: "Code") provides a framework for Austrian stock corporations to manage and supervise their operations.

The rules of the Code are based on the provisions of Austrian equity, stock and capital market law, EU recommendations regarding the tasks assigned to supervisory board members and directors' remuneration, as well as OECD corporate governance guidelines, and extend beyond purely legal requirements for stock corporations.

The rules set out in the Code are subdivided into

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

For non-listed companies such as Österreichische Volksbanken-Aktiengesellschaft (VBAG), all L rules that are not mandatory must be interpreted as C rules according to the preamble of the Code.

Companies voluntarily undertake to adhere to the Code.

The Code can be downloaded from www.corporate-governance.at.

Commitment to comply with the rules of the Code

Since 2013, VBAG has undertaken to adhere to the rules of the Code with the purpose of creating transparency regarding responsible corporate governance and corporate control based on sustainable added value vis-à-vis shareholders, customers, employees and other stakeholders as well as the general public.

An external body will audit the implementation of and compliance with the individual rules of the Code on a regular basis, at least every three years.

In 2013, this evaluation was carried out by "Univ.Prof. Waldemar Jud Corporate Governance Forschung CGF GmbH". The report on the results of the evaluation can be downloaded from www.volksbank.com.

VBAG complied with all L rules and R rules in 2013. It deviated from the C rules noted below:

Rule 2:

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

Rule 27:

While undergoing restructuring, VBAG will not apply the criteria set out in Rule 27, in conjunction with the appendix to section 39b of the Austrian Banking Act (BWG), relating to the variable remuneration components of the Managing Board for all VBAG Board members.

Rule 45:

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

Rule 74:
VBAG deviated from the rule stating that a corporate calendar containing all dates relevant to investors and other stakeholders must be published on the company's website at least two months before the start of the new business year. This was published in December 2013 once all relevant dates had been fixed.

Information on the Managing Board

Composition of the Managing Board

(C Rule 16, Code)

VBAG Managing Board members in 2013:

- Stephan Koren, born 14 December 1957, appointed for the period from 3 September 2012 until 31 August 2017 (Chairman)
- Michael Mendel, born 13 June 1957, appointed for the period from 1 January 2009 until 31 December 2016 (Deputy CEO)
- Christoph Raninger, born on 3 February 1972, appointed for the period from 15 February 2013 until 28 February 2017
- Rainer Borns, born 7 August 1970, appointed for the period from 6 August 2012 until 31 July 2016

Managing Board working methods

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

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

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

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

COMPOSITION OF THE MANAGING BOARD

Stephan Koren

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

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

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

- Wiener Stadtwerke Holding AG (member)
- Österreichische Industrieholding AG (member)
- Wüstenrot Wohnungswirtschaft rGmbH (member)
- Volksbanken-Beteiligungsgesellschaft m.b.H. (member)
- Schulze-Delitzsch-Haftungsgenossenschaft eG (member)
- Österreichische Industrieholding AG (member)

Member:

Christoph Raninger

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

Responsibilities:
- Strategy & Capital Measures
- Financial Markets & Group Treasury
- Capital Markets Products & Sales
- Commercial Banking

Holdings:
- Victoria-Volksbanken Pensionskassen AG
- Volksbank Invest Kapitalanlage GesmbH
- Victoria-Volksbanken Vorsorgekasse AG
- VB Leasing Finanzierung
- Leasing West
- IMMO KAG
- IKIB Verwaltung GmbH

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

- Schulze-Delitzsch-Haftungsgenossenschaft eG (member)

Michael Mendel

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

Responsibilities:
- Strategic restructuring projects
- VB Romania
- Strategic risk management
- Operational risk management
- Non Core
- Workout properties

Holdings:
- VB Managementberatung
- Investkredit Malta
- VB Real Estate Services
- REWO Unternehmensverwaltung GmbH.
- Volksbank Malta Ltd.
- Volksbank Leasing International

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

- RHÖN-KLINIKUM AG
  Bad Neustadt / Saale (member)
- Schulze-Delitzsch-Haftungsgenossenschaft eG (member)

Member:

Rainer Borns

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

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

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

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

- Bank für Ärzte und Freie Berufe Aktiengesellschaft (chairman)
- ARZ Allgemeines Rechenzentrum GmbH (chairman)
- Volksbanken-Beteiligungsgesellschaft m.b.H. (member)
- Allgemeine Bausparkasse reg. Gen.m.b.H. (member)
- Volksbank Quadrat Bank AG (member)
- Volksbank Obersteiermark e.Gen. (member)
- Schulze-Delitzsch-Haftungsgenossenschaft eG (member)

INFORMATION ON THE SUPERVISORY BOARD

Composition of the Supervisory Board

(C Rule 58, Code)

Members of VBAG's Supervisory Board in the 2013 business year:

Johann Georg **Schelling**, born 27 December 1953, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)
(Chairman)

Rainer **Kuhnle**, born 7 January 1967, appointed for the period from 27 May 2004 to 26 April 2012, and from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)
(First Deputy Chairman)

Franz **Zwickl**, born 11 November 1953, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)
(Second Deputy Chairman)

Susanne **Althaler**, born 22 March 1959, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)

Richard **Ecker**, born 22 February 1968, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)

Markus **Hörmann**, born 19 September 1963, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)

Klaus **Kumpfmüller**, born 29 November 1969, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017), left as of 14 February 2013

Klaus **Liebscher**, born 12 July 1939, posted for an indefinite period commencing on 28 December 2012

Josef **Preissl**, born 2 March 1959, appointed for the period from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)

Edwin **Reiter**, born 6 May 1962, appointed for the period from 24 May 2006 until 26 April 2012, and from 26 April 2012 until VBAG's 43rd Annual General Meeting (2017)

Thomas **Steiner**, born on 28 January 1980, posted for an indefinite period commencing on 27 February 2013

Works council delegates:

Hans **Lang**, born 17 October 1953, appointed since 8 June 2004
Hermann **Ehinger**, born 12 October 1958, appointed since 3 March 2010
Otto **Kantner**, born 5 September 1949, appointed since 1 October 2012, left on 25 October 2013
Wolfgang **Agler**, born 11 May 1957, appointed from 1 October 2012, left on 13 June 2013, appointed since 25 October 2013
Matthäus **Thun-Hohenstein**, born 22 February 1963, appointed since 13 April 2005
Gabriele Bauer, born 7 March 1967, appointed since 13 June 2013

Other supervisory board positions or comparable functions in other domestic and foreign listed companies for each Supervisory Board member

(C Rule 58)

Johann Georg Schelling
- none

Rainer Kuhnle
- none

Franz Zwickl
- Wiener Privatbank SE (chairman until May 2013)
- CA Immobilien Anlagen Aktiengesellschaft (member)

Susanne Althaler
- Wiener Privatbank SE (member since December 2013)

Richard Ecker
- none

Markus Hörmann
- none

Klaus Kumpfmüller
- none

Klaus Liebscher
- none

Josef Preissl
- none

Edwin Reiter
- none

Thomas Steiner
- none

Supervisory Board committees

(C Rule 39, Code)

Approvals Committee

- Edwin Reiter, chairman
- Klaus Kumpfmüller (until 14 February 2013)
- Susanne Althaler
- Josef Preissl
- Thomas Steiner (since 27 February 2013)

Works council delegates:
- Hans Lang
- Hermann Ehinger

Audit Committee

- Franz Zwickl, chairman, finance expert
- Rainer Kuhnle
- Richard Ecker
- Klaus Kumpfmüller (until 14 February 2013)
- Klaus Liebscher (since 23 May 2013)

Works council delegates:
- Hans Lang
- Hermann Ehinger

Risk Committee

- Josef Preissl, chairman
- Susanne Althaler
- Klaus Kumpfmüller (until 14 February 2013)
- Edwin Reiter
- Klaus Liebscher (since 23 May 2013)

Works council delegates:
- Hermann Ehinger
- Matthäus Thun-Hohenstein

HR and Remuneration Committee (until 23 May 2013)

- Johann Georg Schelling, chairman, remuneration expert (until 23 May 2013)
- Rainer Kuhnle (until 23 May 2013)
- Markus Hörmann (until 23 May 2013)
- Franz Zwickl (until 23 May 2013)

Works council delegates:

- Hans Lang (until 23 May 2013)
- Otto Kantner (until 23 May 2013)

Remuneration and Nomination Committee (since 23 May 2013)

- Johann Georg Schelling, chairman, remuneration expert (until 23 May 2013)
- Rainer Kuhnle (since 23 May 2013)
- Markus Hörmann (since 23 May 2013)
- Franz Zwickl (since 23 May 2013)

Works council delegates:

- Hans Lang (since 23 May 2013)
- Otto Kantner (until 14 June 2013)
- Gabriele Bauer (since 14 June 2013)

HR Committee (since 23 May 2013)

- Johann Georg Schelling, chairman (since 23 May 2013)
- Rainer Kuhnle (since 23 May 2013)
- Markus Hörmann (since 23 May 2013)
- Franz Zwickl (since 23 May 2013)

Working Committee (since 23 May 2013)

- Johann Georg Schelling, chairman (since 23 May 2013)
- Rainer Kuhnle (since 23 May 2013)
- Josef Preissl (since 23 May 2013)
- Franz Zwickl (since 23 May 2013)

Works council delegates:

- Hans Lang (since 14 June 2013)
- Hermann Ehinger (since 14 June 2013)

Supervisory Board independence

(C Rule 53, Code)

Following the introduction of the Code, the VBAG Supervisory Board determined criteria for the independence of its members based on Appendix 1 of the Code:

Guidelines for independence

A member of the Supervisory Board is deemed to be independent if he or she has no business or personal relationship with the company or its Managing Board that constitutes a material conflict of interest and that might therefore influence the behaviour of said member.

- The Supervisory Board member may not have been a Managing Board member or senior employee of the company or a subsidiary of the company in the last five years.
- The Supervisory Board member should have no business relationship with the company or a subsidiary company that is significant for the Supervisory Board member, or have had one in the last year. This also applies to business relationships with companies in which the Supervisory Board member has a significant economic interest, but not to positions on Group management bodies. The approval of individual transactions by the Supervisory Board as per L Rule 48 does not automatically result in being classified as non-independent.
- The Supervisory Board member may not have been an auditor of the company or an investor in or employee of the audit firm in the last three years.
- The Supervisory Board member may not be a Managing Board member in another company in which a Managing Board member of the company is a Supervisory Board member.
- Membership of the Supervisory Board should not exceed 15 years. This shall not apply to Supervisory Board members who are shareholders with entrepreneurial interests or who represent the interests of such shareholders.

- The Supervisory Board member should not be a close family relative (direct descendant, spouse, common-law spouse, parent, uncle, aunt, sibling, niece, nephew) of a Managing Board member or of people in any of the positions described above.

Members considered independent
(C Rule 53, Code)

Based on the aforementioned criteria, all elected members of the Supervisory Board and those delegated by a shareholder have declared their independence.

Information on the Supervisory Board's self-evaluation
(C Rule 36, Code)

In November 2013, the Supervisory Board evaluated the efficiency of its activities, in particular its organisation and working procedures, with the help of external adviser Univ. Prof. DDr. Waldemar Jud Corporate Governance Forschung CGF GmbH. The results of this self-evaluation were discussed in the meeting held on 12 December 2013. The Supervisory Board will use the results of this self-evaluation for its activities in 2014.

Information regarding the work and activities of the Supervisory Board and its committees

Number of Supervisory Board meetings in the 2013 business year and the report on its activities
(C Rule 36, Code)

The Supervisory Board is required to carry out its activities in accordance with the law, articles of association and rules of procedure. It is responsible for monitoring the Managing Board's activities, including whether the Managing Board's activities further the company's business purpose and benefit its members and whether VBAG is complying with its obligations as a central organisation under section 30a of the Austrian Banking Act.

The Supervisory Board convened six times during the 2013 business year.

In each ordinary meeting, the Supervisory Board discussed Managing Board reports on current risks and earnings, as well as information on progress made with restructuring, on Volksbank Romania as the most important equity participation and on key projects connected to the Association of Volksbanks in accordance with section 30a of the Austrian Banking Act and new regulatory requirements at national and EU level. Internal audit reports were also discussed. The committee chairpersons reported on issues discussed in the various committees.

The Supervisory Board also dealt regularly with applications submitted which required its approval in accordance with the law, articles of association and rules of procedure.

In its extraordinary meeting on 11 February 2013, the Supervisory Board appointed Christoph Raninger as a Managing Board member based on the recommendation of the HR and Remuneration Committee.

In the ordinary meeting held on 21 March 2013, the Supervisory Board reviewed the annual financial statements for the year ended 31 December 2012 along with the management report and the consolidated financial statements for the year ended 31 December 2012, as well as discussing the auditor's audit reports in detail. Based on the recommendation of the Audit Committee, the annual financial statements for the year ended 31 December 2012 were approved in accordance with section 96 (4) of the Austrian Stock Corporation Act, and the management report and consolidated financial statements were acknowledged. The Supervisory Board also approved the Managing Board's proposal that VBAG should comply with the Code from the 2013 business year onwards. Annual reports on compliance and money laundering were also submitted. The Supervisory Board approved the agenda as well as the proposed elections and decisions for the ordinary Annual General Meeting on 23 May 2013 and adopted the Report of the Supervisory Board for the 2013 business year in accordance with section 96 of the Austrian Stock Corporation Act.

At the constitutive meeting of the Supervisory Board which took place after the ordinary Annual General Meeting on 23 May 2013, the Chairman of the Supervisory Board and his deputy were elected, the composition of the Supervisory Board committees was determined, and a decision was made to replace the HR and Remuneration Committee with an HR Committee and a Remuneration and Nomination Committee. Furthermore, the Fit & Proper policy was discussed and subsequently approved in a circular resolution.

In its ordinary meeting on 20 June 2013, the Supervisory Board received a detailed report on progress made with the restructuring measures and projects in the banking association in accordance with section 30a of the Austrian Banking Act. The Supervisory Board approved proposals to repurchase Tier 2 instruments and sell Group properties.

In the ordinary meeting held on 26 September 2013, the Supervisory Board approved capital measures for subsidiary bank Volksbank Romania.

In the ordinary meeting on 12 December 2013, the Supervisory Board adopted the planning as well as the project and investment budget for 2014, and discussed the continued development of the banking association strategy. The annual report on combating corruption within the company was also presented to the Supervisory Board. The Supervisory Board discussed the results of the Supervisory Board's efficiency review in accordance with C Rule 36 of the Code, and adopted a resolution on the criteria for independence of Supervisory Board members in accordance with C Rule 53 of the Code.

Number and type of committees and their decision-making powers

(C Rule 34)

number of committee meetings in the 2013 business year and reports on their activities

(C Rule 39)

The Supervisory Board has formed six committees: the Approvals Committee, the Audit Committee, the Risk Committee, the Remuneration and Nomination Committee, the HR Committee and the Working Committee.

The Approvals Committee is responsible for approving assets which exceed a specific threshold determined by the Supervisory Board, and for approving the acquisition and sale of investments, provided their carrying value does not exceed euro 2,000,000. It made the assessments required of it during four meetings held in 2013.

The Audit Committee is responsible for
i) overseeing the accounting process;
ii) monitoring the effectiveness of the internal control system, the internal audit system, and the risk management system;
iii) supervising the audit of the financial statements and the consolidated financial statements;
iv) verifying and monitoring the independence of the auditor of the financial statements (consolidated financial statements), including with respect to additional services performed for VBAG and/or the Group;
v) verifying the annual financial statements and undertaking preparatory work for their approval, verifying the proposal for the appropriation of funds, verifying the management report and Corporate Governance Report and reporting the results of the audit to the Supervisory Board;
vi) verifying the consolidated financial statements and the Group management report;
vii) vii) carrying out preparatory work for the Supervisory Board's recommendation on the selection of auditor for the financial statements (consolidated financial statements)
It discussed these matters at the three meetings it held during 2013.

The Risk Committee is responsible for
i) advising management with regard to current and future risk appetite and risk strategy,
ii) monitoring the implementation of this risk strategy in connection with the management, monitoring and limitation of risks in accordance with section 39 (2b) points 1 to 14 of the Austrian Banking Act, as well as monitoring equity and liquidity levels,
iii) checking whether the prices of services and products offered are in line with the business model and the risk strategy, and submitting a plan with remedial measures if necessary;
iv) notwithstanding the responsibilities of the Remuneration Committee, verifying whether risk, capital, liquidity and the probability and timing of realised earnings are taken into account in the incentives offered by the internal remuneration system.

The Risk Committee looked in detail at risk issues, risk strategy and the current risk position of VBAG and other significant Group companies during the five meetings it held in 2013.

Until 23 May 2013, the HR and Remuneration Committee was responsible for concluding contracts with Managing Board members and for making decisions on their remuneration and the related bonus system. It was also responsible for monitoring policies, practices and incentive schemes relating to remuneration, in each case having regard to the management, monitoring and limitation of risks in accordance with section 39 (2b) points 1-10 of the Austrian Banking Act. Furthermore, it monitors equity and liquidity levels, while also taking into account the long-term interests of the bank's shareholders, investors and employees. It exercised its responsibilities as an HR committee during one meeting held in 2013 by making recommendations on filling vacancies on the Managing Board and dealt with matters concerning the employment contracts of Managing Board members. The HR and Remuneration Committee was replaced by an HR Committee and a Remuneration and Nomination Committee on 23 May 2013.

The Remuneration and Nomination Committee is responsible for remuneration and nomination issues. Remuneration matters include
i) preparing and adopting decisions on remuneration, including those impacting on the bank's risks and risk management;
ii) monitoring policies, practices and incentive schemes relating to remuneration, in each case having regard to the management, monitoring and limitation of risks in accordance with section 39 (2b) points 1-10 of the Austrian Banking Act, as well as monitoring equity and liquidity levels, while also taking into account the long-term interests of the bank's shareholders, investors and employees, as well as the economic interest in having a functional banking sector and financial market stability.
Nomination matters include the following:
i) identifying applicants to fill vacant management positions and making related proposals to the Supervisory Board;
ii) supporting the Supervisory Board in drawing up proposals to be submitted to the Annual General Meeting regarding the filling of vacant positions on the Supervisory Board;
iii) performing regular evaluations of the structure, size, composition and performance of management and the Supervisory Board, and whenever events call for a new evaluation, and submitting change proposals to the Supervisory Board where necessary;
iv) iv) regular evaluations, at least annually, of the know-how, capabilities and experience of both management and individual members of the Supervisory Board and the given management bodies in their entirety, and reporting findings to the Supervisory Board;
v) checking management practices with regard to selecting senior managers and supporting the Supervisory Board with recommendations to be submitted to management.
The Remuneration and Nomination Committee has existed since 23 May 2013. Since the nomination issues outlined above were assigned to the committee as of 1 January 2014, it met on three occasions in 2013 to discuss remuneration policy at VBAG and in the Association of Volksbanks along with the annual review of remuneration issues.

The HR Committee is responsible for handling all HR-related matters relating to Managing Board members from a company and employment law perspective and for making decisions on their remuneration and the related bonus system. The HR Committee has been a separate body since 23 May 2013; previously these matters were managed by the HR and Remuneration Committee. The HR Committee has held one meeting since it was formed in 2013, during which it discussed agreements reached with a former Managing Board member.

The Working Committee is responsible for making decisions in urgent cases when the decision cannot wait until the next meeting of the Supervisory Board. This authority essentially covers matters that fall under the Supervisory Board's remit. The Working Committee did not need to be convened in 2013.

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

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

Commitment to promoting women in board and management positions

Equal opportunities and diversity are important to VBAG, particularly regarding gender, age, cultural background, etc. This is why the "Diversity Management" project was created in 2009/2010 as part of a Corporate Social Responsibility (CSR) initiative. VBAG is also mindful of ensuring a work-life balance in connection with the advancement of women, and is committed to maintaining existing initiatives and being open to new initiatives with a view to further increasing the number of women in higher-level positions. It calls upon women to take advantages of the opportunities available in this respect.

Commitment to combating corruption

The VBAG Managing Board is firmly committed to combating corruptive practices and reports annually to the Supervisory Board about the precautions taken at VBAG in this regard. Alongside instructions regarding the acceptance and offering of gifts, which apply to the Managing Board, all employees and other representatives of VBAG in equal measure, VBAG has implemented a structured and comprehensive internal control system. Since January 2014, VBAG has been a corporate member of Transparency International – Austrian Chapter, and actively supports its work to combat corruption.

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

Remuneration of the members of the Managing Board

(C Rule 30 and 31, Code)

Compensation for the 2013 business year, in euro:

	Fixed compensation	Other compensation	Variable compensation	Total
Stephan Koren	549,999.94	65,578.77	0	615,578.71
Michael Mendel	475,000.12	136,071.50	0	611,071.62
Christoph Raninger	393,859.33	51,992.42	0	445,851.75
Rainer Borns	389,999.96	53,587.23	0	443,587.19

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

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

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

Principles and prerequisites of the pension scheme:

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

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

The contracts of all members of the Managing Board are subject to the new severance payment system. The obligations and guidelines of Rule 27a of the Corporate Governance Code and the Appendix to section 39b of the Austrian Banking Act are complied with. In accordance with the Austrian Stock Corporation Act, the contracts of Managing Board members include tie-in clauses for the termination of contracts under the law of obligations, if they are removed from their position as board member.

Disclosure of remuneration paid to each Supervisory Board member in the 2013 business year in euros

(C Rule 51, Code)

In a decision made by the Annual General Meeting on 24 May 2006, the sum of euro 101,000 (not including attendance fees and daily allowances) was set for the remuneration of Supervisory Board members. This amount has not been raised since, even after taking VBAG's restructuring into account.

The remuneration framework for the Supervisory Board is as follows:

Chairman	EUR	25,000.–
Deputy Chairman	EUR	12,500.–
Committee chairman	EUR	7,000.–
Normal member	EUR	6,000.–

The remuneration is paid out to Supervisory Board members after the Annual General Meeting on a retrospective basis for the previous business year (pro-rated according to length of mandate).

The following attendance fees, daily allowances and remuneration were paid to Supervisory Board members in the 2013 business year:

	Attendance fee and daily allowance[1]	Sup. Board remuneration[2]	Total
Susanne Althaler	1,322.61	6,000.00	7,322.61
Richard Ecker	857.52	6,000.00	6,857.52
Markus Hörmann	973.79	6,000.00	6,973.79
Rainer Kuhnle	1,046.46	12,500.00	13,546.46
Klaus Kumpfmüller	101.74	739.73	841.47
Klaus Liebscher	755.78	6,000.00	6,755.79
Josef Preissl	1,220.87	7,000.00	8,220.87
Edwin Reiter	1,322.61	7,000.00	8,322.61
Hans Jörg Schelling	872.05	25,000.00	25,872.05
Thomas Steiner	726.71	5,063.01	5,789.72
Franz Zwickl	1,220.87	12,500.00	13,720.87
Wolfgang Agler	–	–	–
Gabriele Bauer	–	–	–
Hermann Ehinger	–	–	–
Otto Kantner	–	–	–
Hans Lang	–	–	–
Matthäus Thun-Hohenstein	–	–	–
In Summe:	10,421.01	93,802.74	104,223.75

[1] Already paid in 2013

[2] Will be paid in 2014 after the Annual General Meeting

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

D&O insurance

VBAG maintains directors' and officers' liability insurance for the Managing Board, Supervisory Board and senior employees.

Vienna, March 2014

The Managing Board

Stephan Koren Chairman	Michael Mendel Deputy Chairman	Christoph Raninger Member	Rainer Borns Member

MANAGEMENT REPORT

MANAGEMENT REPORT

Report on business development and the economic situation

Österreichische Volksbanken Aktiengesellschaft (VBAG) is the parent company of subsidiaries operating in Austria and abroad (notably the Czech Republic, Slovakia, Malta, Poland and Hungary). Since its partial nationalisation in April 2012, VBAG has been undergoing a reorganisation process based on a restructuring plan and the requirements laid down by the European Commission and the Republic of Austria. VBAG is being fundamentally restructured, meaning that virtually all of the bank's own business in Austria and abroad has to be closed or sold.

In 2012 it was also decided to reorganise the Volksbank sector into a banking association in accordance with section 30a of the Austrian Banking Act (joint liability and liquidity association): Since 18 September 2012, primary banks and VBAG have constituted the Association of Volksbanks, with VBAG as the central organisation. The responsibilities of VBAG within this banking association are clearly specified: as the central organisation, it carries out extensive management and control functions, and is also responsible for risk and liquidity management throughout the Volksbank sector. Its business activity is restricted to the provision and brokering of products and services for Volksbanks and their customers (for further details of the so called core business we refer to the notes (chapter 51)).

The Non-core domain includes all assets, equity participations and subsidiaries that are no longer part of VBAG's core business. In accordance with the restructuring plan, these must be wound down while ensuring value is maintained, or sold. This includes subsidiary companies and affiliated companies, such as Volksbank Romania S.A., VB Leasing International, Volksbank Malta and IK International Bank, Malta. Various wind-down and sales scenarios with regard to these companies are currently being evaluated. In addition, loan portfolios and other financing facilities attributable to the Non-core business are gradually being reduced or sold.

Economic situation

The economy was so lacklustre last year, with estimated real annual growth of just 0.3% according to the Austrian Institute of Economic Research (WIFO), that it was hardly surprising to see the credit market contracting. Yet both it and the economy as a whole are growing faster in Austria than in the euro zone, with foreign trade as the main driving force. However, private domestic demand is more important for banking, and this either stagnated (consumption) or contracted (investments).

An average inflation rate of 2.1% calculated using EU methodology (2% using national methodology) was moderate and declining, but was still higher than the euro zone rate at the end of the year. The unemployment rate – once again the lowest in the euro zone – was high by Austrian standards, rising to 9.5% (under national methodology) over the course of the year. Using the same methodology, the annual average rate was 7.7%.

Despite a reduction in the key interest rate by the European Central Bank, both short-term and long-term interest rates rose slightly during the year, but they still remain at a very low level. Yields on 10-year Austrian government bonds totalled 2.27% at year-end, roughly 50 basis points higher than at the beginning of the year.

The unusually low interest rate, sluggish development of disposable income and growing unemployment all contributed to stagnation of private household deposits across the country in 2013. While 2012 was still characterised by a "flight into material assets", this trend faded throughout 2013. Demand for securities increased, but dropped somewhat for real estate. Real estate price trends levelled off slightly. According to the Austrian National Bank's residential property price index, growth in Vienna totalled 8.6% (2012: 15.8%), while in the rest of the country it was 2.7% (2012: 10.8%). Growth was again strongest for owner-occupied houses (6.4% after 11.6% in 2012). The annual change in residential real estate prices in the euro zone, by contrast, was still negative, at least in the third quarter, but some moderate quarterly growth has been evident since the second quarter. Developments in Romania were the other way round, where prices in the third quarter were higher than twelve months previously, but q-o-q rates fell again from the second quarter. According to EBUILD, construction activity in the Romanian residential sector – which posted negative annual rates from 2010 to 2012 – began to rise again in 2013, with the same applying to non-residential construction.

In most countries in Central and South-Eastern Europe, residential real estate prices were a bit lower at the end of the third quarter than in the previous year, according to Eurostat. However, the decline in Croatia was very significant. Construction activity in most Central European countries was weak, and not only in terms of residential building.

In 2013, gross value added increased in Austria in the following sectors – in descending order: energy and water supply and waste disposal, banking and insurance, goods manufacturing and mining, construction, real estate and housing. However, gross value added declined in the sectors of agriculture and forestry, trade, transport, accommodation and food services, information and communication activities as well as other economic services.

Despite the increase in gross value added for banking and insurance, operating profits for all Austrian banks in the first three quarters of 2013 was 13% lower than in the same period of 2012 according to the Austrian National Bank. Interest income in particular suffered from low interest rates, dropping by nearly 20% compared to the previous year. Over the same period, net interest income fell by approximately 2%. Income from securities and equity investments also suffered, while net fee and commission income increased.

In comparison to other European countries, the quality of lending in Austria is still very good. According to statistics published by the International Monetary Fund, the share of non-performing loans in Austria totalled 2.8% in the first quarter of 2013. The number of insolvencies declined in 2013 in almost every federal province compared to the previous year (overall figure for Austria: –10%), but some individual cases were unusually large. Vorarlberg recorded the sharpest fall by almost 25%. A modest increase was registered in Tyrol only.

Key macroeconomic figures in Romania were extremely robust in 2013. Third quarter gross domestic product generated a real annual growth rate of 4.1%. While some of this was attributable to a positive base effect in agriculture, as expected, real GDP growth of more than 2% was still expected for 2013 as a whole (e.g. European Commission, November 2013: 2.2%). The current account deficit, which prior to the financial crisis had made the country increasingly dependent on short-term capital flows and therefore vulnerable, continued to fall in 2013. Inflation decreased sharply, returning to its target range in the second half of the year and actually hitting its lowest level for 24 years in December at 1.55%. Despite economic growth in 2013, the non-performing-loan ratio for the entire banking sector in Romania continued to rise in the first three quarters, and totalled 21.6% in the third quarter according to the National Bank of Romania.

Business development

Many wind-down measures were successfully implemented in 2013, which, apart from the reduction of the Non-core Business Corporate Customers business amounting to more than euro 1 billion and ultimately its closure at the end of 2013, included the sale of a number of office properties (Renngasse 10, Wasagasse 2, Peregringasse 2 and 4 as well as Kolingasse 15-17 and 19, all located in Vienna). It was possible to continue winding down private equity positions in 2013, and to make further reductions in the securitisation portfolio. The successful repurchase and conversion of supplementary capital bonds boosted equity capital in 2013.

For a bank that is undergoing a substantial winding down of operations, it is not so much profit or loss but capital ratios which are at the centre of its strategic objectives. The 2013 result was inevitably influenced by one-off effects derived from losses on sales during wind-down measures. Further more new responsibilities at VBAG required considerable investment in personnel and material capacities together with associated costs, which also affected the result.

Consolidated result for the 2013 business year

The consolidated result before taxes amounted to euro –49 million, while the consolidated result after taxes and non-controlling interest totalled euro –100 million.

Net interest income for the 2013 business year totalled euro 189 million (previous year: euro 222 million), which is euro 33 million less than the result in the previous period. While interest remained largely stable in the Core Business, the Non-core area recorded a sharp fall of euro 42 million. This was mainly due to a decline of euro 27 million in the Non-core Corporates segment , which was in turn primarily attributable to the disposal of loans and advances to customers (falling from euro 1.9 billion at the end of 2012 to euro 700 million in 2013). These loans have been sold in several tranches, the main item being the sale of loans to RBI. Loans and contingent liabilities totalling euro 632 million (Corporates) and euro 204 million (Real Estate) were transferred to RBI over the course of several sub-transactions in the 2013 business year. These transfers resulted in a loss of euro 17 million for VBAG, but this was countered by the effect of reduced capital requirements. The Real Estate segment also posted a decline in net interest income of euro 14 million, which was also due to the reduction in loans and advances to customers. Since most sales took place in the second half of the year, the effect on interest is smaller than in Non-core Corporates.

Further more, interest rate elasticity (adjustment to the lower level of interest rates took place more rapidly on the assets side than on the liabilities side) reduced net interest income.

Net fee and commission income in the reporting period totalled euro 30 million (previous year: euro 58 million), therefore down by euro 28 million in comparison to the previous period. The decline in the Core Business area is due to collateral cost (euro 8 million), which is partly attributable to these now being recognised under fee and commission expense, and partly to the higher cost of maintaining liquidity buffers. The decline in the Non-core area can be attributed to lower credit and guarantee fees resulting from a fall in volume and the absence of new business in this field. The cost of the government's asset guarantee also created a charge of euro 10 million in the income statement for the first time in 2013.

Net trading income in the reporting period totalled euro 8 million, down by euro 24 million compared to the previous period (euro 32 million).

General administrative expenses fell marginally by euro 11 million to euro 250 million (previous year: euro 261 million). The impact of the cost-cutting programme is partly offset by expenses due to the involvement of external advisers. A change in the interest rate in the previous year resulted in a higher allocation to staff provisions. The headcount declined by 59 compared to the end of 2012 and now totals 1,853 employees, 752 of whom are employed outside Austria.

The other operating result for the 2013 business year amounted to euro 157 million (previous year: euro 755 million). The asset guarantee provided by the Republic of Austria on 15 March 2013, up to a maximum amount of euro 100 million, along with the earnout clause included in the guarantee, was recognised for the first time in the reporting period with an amount of euro 69 million. The sale of owner-occupied buildings generated euro 40 million. The repurchase of supplementary capital bonds in the third quarter of 2013 produced a result of euro –26 million in the consolidated financial statements. In the previous year, the carrying values of the 2008 participation capital and of supplementary capital were adjusted for the first time by discounting estimated future cash flows (in accordance with IAS 39.AG8); this led to a result in the previous year's other operating result of euro 648 million, euro 89 million in the reporting period. As announced in an ad-hoc release on 28 November 2013, VBAG's single entity results are expected to be negative in 2014 as well as in 2015. For this reason interest payments on profit-related instruments are extremely unlikely in 2015 and 2016 from today's viewpoint, even if those instruments are not affected by the ban on dividend payments imposed by the European Commission. According to the Austrian Banking Act, section 23 para. 7 (version before publication of the Federal Law Gazette 1 2013/184), upper tier II bonds can be repaid at their maturity only after a pro-rata deduction of net losses incurred over the life of the bonds. It therefore is to be expected that the repayment of upper tier II bonds issued by VBAG will be clearly below par as a consequence of VBAG's substantial losses, in particular in the years 2009 and 2011. Please refer to the Notes (chapter 34) for more details. The previous period also included income from the sale of hybrid Tier 1 capital in July 2012 totalling euro 143 million as well as a provision of euro 19 million for the anticipated use of a guarantee for capital gains tax.

Risk provisions in the 2013 business year amounted to euro 23 million. Compared to the previous year's figure of euro 367 million, this constitutes a reduction of euro 344 million. Based on the decline in estimated future impairments, the portfolio-based allowance was reduced through profit and loss by euro 120 million; this relates primarily to the Non-core Real Estate segment.

Income from financial investments in the reporting period totalled euro –49 million (previous year: euro +27 million), down euro 76 million on the comparative period. The valuation of guarantees for capital-guaranteed funds generated a result of euro –21 million for the reporting period. The result of the valuation of investment property in the 2013 business year was euro –31 million (previous year: euro –53 million), and the valuation result of investments in real estate companies was euro –9 million (previous year: euro –20 million). The sale of VICTORIA Volksbanken insurance companies in the first quarter of 2012 produced a disposal gain of euro 18 million in the comparative period.

The result from companies measured at equity comprises the impairment of the carrying amount of VB Romania S.A. (VB RO), which was increased by means of capital measures in 2013.

Deferred tax income on differences derived from the valuation of derivatives and securities as well as from the repurchase of supplementary capital is offset by a deferred tax expense from the recognition of the asset guarantee, the reversal of portfolio-based allowances and the impairment of deferred tax assets since they cannot be used over the next four years according to current tax planning.

The purchase price adjustment agreed during the sale of Selini GmbH and the Vremena Goda project which were valued using the equity method was determined in the second quarter of 2013 and is recognised in the income of a discontinued operation at euro 15 million. For details on the purchase price adjustment, please refer to chapter 2 of the Notes. The deconsolidation result in the prior period amounted to euro 13 million.

For details on the adjustment of previous year figures in accordance with IAS 8, please refer to the Notes, chapter 1 Adjustment of comparative figures.

Net assets and own funds

As at 31 December 2013, total assets amounted to euro 20.9 billion, which was euro 6.7 billion lower than at the end of 2012 (euro 27.6 billion).

Loans and advances to credit institutions in the amount of euro 5.8 billion fell by euro 1.5 billion compared to the end of the previous period, which is mainly attributable to the reduction in refinancing for Volksbank Romania S.A. and for Volksbanks.

Loans and advances to customers dropped by euro 2.9 billion and stood at euro 7.1 billion as at 31 December 2013 (previous year: euro 10.0 billion). Declines were registered mainly in the Non-core business segments. During the 2013 business year, loans totalling euro 398 million were reclassified from loans and advances to customers to assets held for sale.

Decline of derivatives in the trading book reduced total assets by euro 0.7 billion compared to the end of 2012; also due to decline in volume of derivatives.

Sales and repayments reduced financial investments by almost euro 2.2 billion to euro 3.4 billion compared to the end of 2012 (euro 5.6 billion).

Assets held for sale include also loans, participations and financial investments whose sale has already been contractually agreed or was executed after the reporting date.

Amounts owed to customers stood at euro 2.1 billion (previous year: euro 2.5 billion), a modest decline compared to the figure at the end of 2012.

Debts evidenced by certificates amounted to euro 7.1 billion as at 31 December 2013 (previous year: euro 9.9 billion), a fall of euro 2.8 billion compared to 31 December 2012. This reduction is largely attributable to scheduled repayments – mainly the repayment of the last issue guaranteed by the Austrian government amounting to euro 1 billion.

Trade liabilities and other liabilities fell by euro 0.7 billion to euro 1.4 billion due to the decline of derivatives.

The conversion of supplementary capital bonds into new subordinated bonds compatible with Basel III produced a modest increase in the subordinated capital item, since the issue amount of the new subordinated bonds was higher than the originally estimated cash flows (in accordance with IAS 39.AG8) of the withdrawn supplementary capital bonds. In total, however, this position decreased by euro 66 million.

Report on branches

The VBAG Group has no branches.

Financial and non-financial performance indicators

Key financial indicators

For a bank that is undergoing a substantial winding down of operations, it is not so much result but capital ratios and strengthening own funds which are at the centre of its strategic objectives. VBAG Group's own funds amounted to euro 2.2 billion as at 31 December 2013 (previous year: euro 2.5 billion). Compared to the end of 2012, risk-weighted assets were reduced by euro 3.8 billion to euro 9.6 billion (total risk), which is mainly attributable to successful winding-down measures in Non-core Corporates, Non-core Real Estate and investment book positions. Thanks to these winding-down measures, VBAG is ahead of the targets set by the European Commission.

Eligible own funds exceed the regulatory requirement by nearly euro 1.3 billion.

- The Tier I ratio based on total risk was 14.1% (31 December 2012: 10.9%), and based on credit risk 16.6%.
- The Equity ratio based on total risk was 19.1% (31 December 2012: 15.7%), and based on credit risk 21.1%.

The return on equity (ROE) before taxes in the 2013 business year totalled –5.3% (31 December 2012: 65.3%), while ROE after taxes was –7.4% (31 December 2012: 56.3%). Return on equity (ROE) before taxes is calculated by dividing net income before taxes by average equity capital, and ROE after taxes is calculated by dividing net income by average equity capital. Average equity capital is calculated using the equity values at the balance sheet date and the balance sheet date of the previous year.

The operating cost/income ratio in the reporting year totalled 109.9% (2012: 83.7%).

Non-financial performance indicators

Human Resources

VBAG's new roles and responsibilities require modifications to structures and processes, and often involve changes in requirements for various positions. This is why a whole range of changes were made to management positions in the reporting year. 10 area head positions were newly filled. Some areas were merged to create a leaner organisational structure. There was also a change in the Managing Board: Christoph Raninger took over Board responsibilities for Financial Markets & Group Treasury, Commercial Banking and Leasing as of 15 February 2013. Generally speaking, these new roles and responsibilities have placed new emphasis on compliance, accounting and risk management.

As of the end of 2013, the VBAG Group employed 1.853 people (full-time equivalents), including 1.101 in Austria and 752 abroad. This is 59 fewer staff than at the end of 2012. This decline is in line with the restructuring process agreed upon with the owners.

The average age in the past year was 41.1, and is therefore slightly above the average age of past years. The ratio of graduates of 39.8% reveals the high standard of personnel. The proportion of women is stable at 55.0%. The number of part-time employees increased to 19.6%, primarily because of statutory parental part-time.

Training and broadening the knowledge and experience of staff remain key priorities. In this context we place emphasis not only on talent management and leadership development but also on key basic topics. As well as the Volksbank Academy, 2013 also included external training courses, clearly defined in-house training, and above all, a number of courses organised as part of the internal training initiative "WIN" (Wissen intern nutzen – Using Knowledge Internally). Each Austrian employee attended roughly 2.4 seminar days on average, while the rate for managers was approximately 4.6 days.

Corporate responsibility and sustainability

Corporate responsibility means giving business activity a sustainable focus, and demonstrating how ecological, social and ethical criteria are integrated into the diverse areas of the bank. The rollout of sustainability management in regional Volksbanks helps VBAG to support the implementation of cooperative values in specific sustainable objectives and measures.

According to the market report entitled "Investing Sustainably 2013", euro 5.6 billion was committed to sustainable investments in Austria in 2012. This represents growth of 17% compared to 2011. VBAG has worked together with regional Volksbanks to develop a basic, sustainable financial product. Volksbanks involved in the corporate responsibility project have been selling WERTsparbuch, the first ethical regional savings account with a separate accounting entity set up specifically for it, since the end of the first quarter of 2013. This sustainable investment product is characterised by ethics, transparency and a regional focus. WERTsparbuch was ranked 4th in the "Nachhaltige GestalterInnen 2013" sustainability award. www.wertsparbuch.volksbank.at

Environmental and climate protection initiatives

In the reporting year, VBAG again took part in and successfully completed the City of Vienna's "ÖKOPROFIT" corporate environmental programme, and received an award in March 2014 for its environmental efforts. In early 2014, VBAG published its second environmental report for the 2013 business year. The reporting of environmental management data since 2012 has focused on the Group's headquarters at Kolingasse 14-16, 1090 Vienna, and another location at Peregringasse 2-4, 1090 Vienna. The full report is available to view at www.volksbank.com

Heating

All heated office space is supplied through district heating. The significant reduction in overall heating requirements is due to concentrating all office space in two locations.

Energy consumption

	Unit	2011	2012	2013
Consumption of district heating	kWh	3,719,780	2,302,070	2,389,480

Business travel

Since 2011 the number of miles flown has dropped markedly. In the last two reporting years this figure totalled roughly 1,100,000 km. Details on mobility can be found in the Environmental Report.

Electricity

Wien Energie Vertrieb GmbH & Co KG provided VBAG with a hydropower certificate for 2013 which guarantees that power generation for VBAG will not result in any CO2 emissions and that only electricity generated from hydropower will be supplied to VBAG in 2013. The photovoltaic system on the roof of the Group's headquarters supplied 27,303 kWh of green electricity in 2013. In the last two reporting years, total electricity consumption was roughly 3,800,000 kWh, while electricity consumption per employee was approximately 4,600 kWh.

Waste and cleaning

Concentrating operations in two locations in 2012 resulted in a reduction of waste volumes in 2013.

Paper

Double-sided printing is the standard setting for all printer pools at Group headquarters. 100% recycled paper bearing the EU Ecolabel continues to be procured for local printers on each floor.

International trade with climate protection certificates

As a trustee for Austrian companies in the electricity and mineral oil sector and the glass and brick industry, VBAG has invested euro 7 million in KfW's climate protection fund of around euro 83 million. This project purchases emission certificates for fund participants from climate protection projects that reduce greenhouse gases, known as JI/CDM projects. This programme officially ended on 30 April 2013. In 2013, a total of 41,251 certificates were transferred to industry and energy clients.

Markets

The Capital Markets Products & Sales unit offers a broad range of sustainable investment products. The volume of money invested sustainably has risen constantly in the past few years, as has the percentage it represents in the total volume of funds and certificates. More details can be found at www.volksbankinvestments.com.

At the end of 2013, 23.5% of the total volume of certificates were sustainable certificates, while the share of sustainable funds in the fund volume amounted to roughly 16.3%. Overall, the proportion of sustainable products stood at 19.4% of the total volume (total volume means the sum of all sustainable certificates and retail funds). There are currently three funds with sustainability certification marks available: VB Mündel-Rent, Volksbank-Mündel-Flex and VB Ethik-Invest.

All three funds were externally reviewed and awarded the EUROSIF transparency logo and the Austrian eco-label. Furthermore, the Fix Plus Garant 4/2011 certificate series (and selected subsequent tranches) was the first certificate to be awarded the Austrian eco-label.

No agricultural commodities

The business strategy decision taken in the previous year not to bring any new agricultural commodity products onto the market was upheld in 2013.

Outlook

Sustainability management will be rolled out to additional regional Volksbanks in the 2014 reporting year. Another sustainable financial product will also be developed by a project group. A further education scheme was established for VBAG's management in 2013, which will be offered for the first time in 2014. The increased number of customer conferences in regional Volksbanks promotes direct dialogue with

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[1] Forum Nachhaltige Geldanlagen e.V.

customers. As regards environmental management, specific measures to conserve resources were formulated as part of the Ökoprofit programme for 2014, and their implementation will be coordinated by the environmental team. More detailed information on sustainability management at VBAG can be found at www.verantwortung.volksbank.com.

Significant organisational and IT projects

Activities in "Organisation/IT" focused on modernising existing Treasury systems.

The "Murex Roll-Out" project, which will go live over several phases (the first was completed at the end of 2012) will shortly be moving towards the end of phase 2 that began in January 2013. In this phase, FX and money market transaction functions – recording transactions, managing positions, processing and risk management – are being implemented. This will enable the replacement of older systems. System integration and total distance tests will take place in the first quarter of 2014. Phase 2 of the project will be completed in May 2014.

Building on the foundations laid by Murex, VBAG began to introduce an IFRS hedge engine in 2013 for the prospective and retrospective calculation of hedge efficiency under IFRS and the Austrian Commercial Code (UGB). This application will be integrated into VBAG's IT architecture. The technical specification has been inspected and approved and the development and test system has been made available. Data loading is underway, and the system should be approved by mid-2014.

Within the Association of Volksbanks, VBAG also drives joint projects in its role as the central organisation. The "Mustermandant" project should be highlighted here, which aims to standardise processes and IT in the Volksbank sector. This simplification will lead to efficiency gains at Volksbanks, for which sustainable service structures are being created at VBAG. The first project phase was completed in October 2013. Since then, three Volksbanks have switched to the "Mustermandant" system, while another six Volksbanks intending to merge are currently in the migration phase.

VBAG is also driving a joint project to implement the new Basel III standards and set up a reporting system for the banking association. The sub-project to set up a reporting system for the banking association was completed in June 2013, while the Basel III charts, which have to be reported for the first time as of 31 March 2014, have also been rolled out. There are still some charts which do not have to be reported until 30 June 2016, but they are expected to be delivered on time.

In the second quarter of 2013, the Austrian National Bank carried out a comprehensive review under section 70 of the Austrian Banking Act regarding the implementation status of the Internal Capital Adequacy Assessment Process (ICAAP) at banking association level as per section 30a of the Austrian Banking Act. The review report by the Austrian National Bank revealed that the standardisation of the various ICAAP systems is still incomplete, while the risk management culture in the banking association remains weak and insufficiently unified and centralised. The results of the review were used as an opportunity to launch an extensive project to process these findings. This will last the whole of 2014.

Significant events after the balance sheet date

Downsizing as part of restructuring process

At the start of 2014, loans in a real estate portfolio totalling around euro 400 million were sold and repaid early as part of the restructuring process.

The sales of Investkredit International Bank plc, the VB Leasing International group and Volksbank Malta Ltd. were commenced in the 2013 business year. Sale negotiations with potential buyers are currently underway. The aim is to complete all sales procedures in 2014, but this is dependent on the outcome of further negotiating rounds and on the agreement of the respective local regulatory authorities. Due to existing uncertainties no reclassification according to IFRS 5 was carried out.

With regard to the sale of Volksbank Romania S.A., negotiations are currently taking place on granting a mandate to an investment bank to support the sales process. Under the restructuring agreement of 26 April 2012, the sale of Volksbank Romania S.A. is to be completed by 31 December 2015.

Joint risk assessment and decision (JRAD) and Internal Capital Adequacy Assessment Process (ICAAP)

In the second quarter of 2013, the Austrian National Bank carried out a comprehensive review under section 70 of the Austrian Banking Act regarding the implementation status of the Internal Capital Adequacy Assessment Process (ICAAP) at the level of the banking association as per section 30a of the Austrian Banking Act. This on-site review also included a regulatory assessment of capital adequacy in the banking association as part of the joint risk assessment and decision (JRAD) process.

The review report by the Austrian National Bank revealed that the standardisation of the various ICAAP systems is still incomplete, while the risk management culture in the banking association is still weak and not yet sufficiently unified and centralised. The results of the review were used as an opportunity to launch an extensive project to process these findings. This will last the whole of 2014.

As part of the JRAD process that took place at the same time, the Austrian Financial Market Authority issued a draft decision on 19 December 2013 that provides for an equity ratio of 13.6% for the banking association in accordance with section 30a of the Austrian Banking Act. There has so far been no final decision from the Financial Market Authority specifying the exact equity ratio or the effective date.

Asset quality review (AQR) and 2014 banking stress test

Since the European Central Bank (ECB) will also be taking on supervision responsibilities for the Association of Volksbanks as part of the Single Supervisory Mechanism (SSM), a “Comprehensive Assessment” is being conducted at 128 institutions throughout Europe in preparation for SSM and to increase transparency regarding the quality of assets.

The asset quality review forms part of this assessment. By examining the quality of assets, this provides an estimate regarding the adequacy of risk provisions recognised by the Association of Volksbanks as of 31 December 2013 – potentially requiring an increase in the equity ratio. Institutions must allow inspection of risky positions in accordance with standardised data definitions.

A team of representatives from the ECB, the Austrian National Bank and external experts will examine processes, procedures and accounting practices at the Association of Volksbanks, analyse credit exposures and risk provisions, and measure collateral and real estate assets. These will be accompanied by checks of data consistency, comparative portfolio analyses and an in-depth inspection of data and assumptions entered into models. The on-site audit, which will be executed from March to July 2014, includes among other things a detailed credit evaluation on a basis of a sample given by the Austrian FMA.

In this context, the association structure represents a significant challenge that sets the Association of Volksbanks apart from other banks being inspected as part of the AQR. Based on the risky portfolios still to be determined, the test sample could cover all institutions in the association: primary Austrian banks, Volksbank Romania, VBAG itself and VBAG subsidiary companies.

In preparation for this, VBAG, as the central organisation of the Association of Volksbanks, launched an association-wide project in the fourth quarter of 2013, which will be taken forward in 2014 with the following key objectives in particular:

- Transforming ECB data definitions into internal banking association data requirements;
- Preparing and producing a solution for adequate AQR data storage. This includes, inter alia, setting up a data room, checking data availability and data quality, preparing and supplying the portfolio indicators defined by the Austrian FMA in accordance with the portfolio template and preparing the supply of transactions identified as “risky portfolios” at individual transaction level as per the ECB “loan tape” data definition;
- Preparation for credit evaluation by external advisors.

As the central organisation, VBAG’s aim with this project is to prepare the Association of Volksbanks for the forthcoming supervisory process in the most efficient manner possible.

The results of the AQR and subsequent banking stress tests will be used within the Association of Volksbanks to increase the understanding of existing risks and their impact. We also aim to create as solid a foundation as possible for the 2014 banking stress test which will follow on from the AQR.

Further relevant events after the balance sheet date

In November 2013, Sberbank of Russia filed a lawsuit against VBAG at the International Court of Arbitration. No indemnifiable losses can be identified at present based on the claims set forth in the lawsuit and following an in-depth analysis of the accusations made. Talks are currently in progress with Sberbank of Russia concerning this lawsuit.

With regard to the outstanding Alpine Group financing, we would point out that the Republic of Austria is contesting among other things the proper fulfilment of the information obligations required of the finance provider, as set out in Austrian company liquidity law (ULSG), and that so far guarantee payments totalling euro 15 million for the ULSG financing facility provided by VBAG have not been made.

Report on the company's future development and risks

Future development of the company

Economic environment

In its economic forecast published in January, the Austrian Institute of Economic Research (WIFO) anticipates real growth in GDP of 1.7%. Private consumption, which is responsible for by far the largest part of Austria's economic output, is only likely to grow very slowly. One of the main reasons for this is the persistently high unemployment rate. Expected slow development of real wages is another contributing factor here. Ongoing fiscal adjustments mean that public-sector consumption is not likely to offer much in the way of growth stimulus either. As a result, growth next year will be driven mainly by investment and – thanks to international demand – by net exports. Investment demand is also likely to trigger a gradual revival of credit demand, lagging slightly behind economic growth. Based on subdued consumer demand, stable commodity prices and European trends, inflation should remain low in 2014. That said, capital market interest rates will likely maintain their modest upward trend from the previous year thanks to correlations with international yields.

In its forecast published last November, the European Commission predicts Romanian gross domestic product will grow by 2.1%, with foreign trade likely to be gradually replaced by domestic demand as the driving force behind growth. The modest decline compared to 2013 is attributable amongst other things to the base effect in agriculture referred to above. EBUILD expects the moderate recovery in the real estate sector to continue in the coming years. Euroconstruct forecasts that construction in the Czech Republic in 2014 will be slightly down on the level recorded in 2013 in all three sectors, but will not contract any further after that (2015, 2016). However, positive growth rates are expected across all sectors for Hungary and Poland.

Material risks and uncertainties

With regard to legally required disclosures on use of financial instruments, risk management objectives and methods as well as existing pricing, default, liquidity and cash flow risks, please refer to the details in the Notes (particularly the Risk Report in chapter 52).

The Managing Board at Österreichische Volksbanken-AG has launched a range of measures over the past two years to strengthen VBAG's capital base at individual bank and Group level and, by doing so, to strengthen the Association of Volksbanks by virtue of its role as central organisation of the Association of Volksbanks in accordance with the banking association agreement as per section 30a BWG. In particular:

- conversion or redemption of supplementary, hybrid and subordinated capital, following approval from the regulator and the European Commission, with an effect of more than euro 350 million on CET1,
- introduction of a 95% base amount for cooperative capital, which prevented its phasing out and therefore secured CET1 of more than euro 110 million for the banking association,
- adjustments to the issue conditions of various Tier I and Tier II instruments in order to meet Basel III requirements and thus retain them as equity of more than euro 100 million in the banking association,
- various RWA reduction measures
- implementation of substantial wind-down measures, which markedly improved VBAG's risk position (at individual bank and Group level) and thus indirectly that of the banking association, which is clearly reflected in the steady rise in the equity ratio,
- substantial improvement in the quality and significance of risk management

RWAs in VBAG Group were lowered from euro 22.9 billion at the end of 2011 to euro 13.4 billion at the end of 2012 and euro 9.6 billion at the end of 2013 by reducing risks arising from the Non-core area on an ongoing basis.

By means of the measures described above, VBAG Group raised its Basel II equity ratio from 12.7% in 2011 to 15.7% in 2012 and 19.1% in 2013, while the banking association's equity ratio increased from 13.9% in 2012 to 14.9% (unaudited) in 2013 (Basel II), representing a steady improvement.

These ratios are also much higher than the figures upon which the restructuring plan approved by the European Commission is based, which were accepted with a core capital ratio of 8% and an equity ratio of 10%, both of which were also considered appropriate by the Austrian regulator.

Even though medium-term planning for the Group from 2016 onwards shows that the Group will fall short of minimum regulatory equity requirements, capital measures taken by shareholders will be able to close this gap. Volksbanks are obliged to execute such measures as part of the liability association based on the banking association agreement.

The Managing Board anticipates that the FMA will prescribe a Basel III equity ratio of 13.6% for VBAG in its capacity as the central organisation in the Association of Volksbanks in accordance with the association agreement pursuant to section 30a Austrian Banking Act.

This will be determined based on the credit portfolio and the risk regime as of 31 December 2012. It cannot be estimated to what extent the scheduled 2014 JRAD process as of 31 December 2013 will acknowledge the association's wind-down achievements – which are far ahead of schedule – and its handling of section 70 audit findings – which have largely been completed – in terms of reducing the capital requirement. It is also impossible to say at present how the results of the current AQR process and the subsequent stress test will affect the prescribed equity ratio for the banking association.

The Association of Volksbanks' equity ratio is expected to be 14.9% (Basel II, unaudited) as of 31 December 2013. Based on current planning by VBAG and the Volksbanks, a banking association equity ratio of 14.4% can be expected by the end of 2014 in accordance with Basel III.

These budgeted figures, and therefore the fulfilment of these requirements, could be jeopardised if potential charges arising from the AQR or winding-down of VBAG's Non-core portfolio, for example, prove higher than expected, although such a scenario is not anticipated at present.

However, medium-term planning from 2015 onwards forecasts a marked decline in equity ratios within the banking association. This is primarily due to equity reductions resulting from:

- agreements with the Republic of Austria and the European Commission (government participation capital of euro 300 million no longer eligible, non-controlling interest and capital differences of almost euro 500 million no longer eligible following the sale of VBLI and VB Romania in 2014 and 2015),
- various Basel III effects (phasing out of members' uncalled liabilities [Haftsummenzuschlag] totalling more than euro 300 million, and of private participation capital within the banking association totalling euro 180 million),
- forecast charges arising from the continued wind-down of VBAG's Non-core portfolio.

Current medium-term planning indicates a shortfall in own funds in the banking association in 2015, should the regulatory authority – as announced – stipulate a higher equity ratio of 13.6% on the basis of a JRAD assessment. Insofar as the Managing Board can assess the situation, regulatory authorities in Europe do not currently have a uniform approach with regard to the legal status of an SREP ratio stipulated in a JRAD process. As a consequence, it is difficult at present to predict the extent of measures and sanctions which would be required or imposed by the regulatory authorities in the event of non-compliance.

As a precaution, a number of further initiatives have already been set in motion. Various programmes to reduce RWAs within the banking association have already resulted in these decreasing at the primary banks by euro 400 million, despite weaker credit growth in 2013. VBAG's Managing Board believes these initiatives should also be continued over the next few years to achieve a decrease in RWAs that exceeds the level currently planned. A feasibility study has been commissioned to determine whether switching to the IRB approach could result in a significant fall in RWAs. Other opportunities and requirements are also being assessed with a view to issuing new Basel III-compliant bonds (even though the ability to issue bonds seems limited at present). Finally, discussions will be held with shareholders and owners of participation capital regarding measures to optimise the existing capital structure further.

As part of state assistance provided in 2012, the European Commission and the Republic of Austria set VBAG an ambitious downsizing programme. This wind-down programme is legally binding on VBAG and is to be implemented by VBAG's governing bodies. As a result, the winding-down, and in particular the associated compulsory sale of equity investments within the narrow time frame prescribed by the European Commission, cannot be halted even to prevent the loss of non-controlling interest.

A comprehensive strategy project was launched for the Association of Volksbanks in 2013 to improve its current medium-term planning. The aim is to leverage all earnings potential and cost synergies within the banking association in the short to medium term. As things currently stand according to the conception of the Managing Board, 55 Volksbanks and specialist institutions would merge into nine provincial Volksbanks and three specialist institutions. Once these Volksbanks' structures and procedures are harmonised, their regional focus and market dominance should highlight the benefits of a group-like divisional structure. This programme is expected to make an additional and significant contribution to earnings by 2018. However, these extra earnings will be offset by implementation costs, especially between 2014 and 2016.

In the long run, these measures are expected to improve the banking association's equity ratios in current medium-term planning. Whether the medium-term improvement this will bring about in the banking association's earnings power will pave the way for external reinforcement of capital depends on how potential investors view the sustainability of the association's new focus.

Conversely, it cannot be ruled out that costs involved in the ongoing winding-down of the Non-core portfolio may end up being higher than anticipated in medium-term planning, thereby countering any positive effects, although this is not expected at present.

It is expected that, as a result of the JRAD assessment, the regulatory authorities will raise the equity ratio for the Association of Volksbanks far above both statutory minimum capital requirements and capital requirements adopted for the purposes of state aid legislation – at least in the short term. It will be possible to comply with this equity ratio for the time being. However, over the medium term, it will only be possible to adhere to an equity ratio of 13.6% imposed on the Association of Volksbanks as part of the scheduled JRAD process, which not only exceeds statutory minimum capital requirements but is also higher than capital requirements adopted for the purposes of state aid legislation, if:

- sufficient opportunities and satisfactory conditions can be created to improve the association's ability to issue bonds, and/or
- the equity ratio that was increased very sharply and at short notice as part of the scheduled JRAD process can accordingly be reduced again in acknowledgement of wind-down measures that have been successfully implemented in accordance with the requirements set out in the European Commission's decision on state aid rules, and/or
- suitable measures can be implemented in order to optimise VBAG's existing equity structure or increase equity on the part of the owners.

Based on requirements set out in the restructuring agreement with the Republic of Austria dated 26 April 2012 and the European Commission's decision of 19 September 2012 based upon this, VBAG is required to dispose of key business areas and holdings in Austria and abroad over the coming years.

Previous experience in Austria and abroad has shown that these wind-down processes often involve higher costs than previously foreseeable. VBAG's Non-core segment is also exposed to this uncertainty.

VBAG has a substantial real estate portfolio in Austria and Central and Eastern Europe. In addition to credit risks, valuation haircuts may also be imposed as a result of spread risks when selling parts of this portfolio.

VBAG holds a 51% interest in Volksbank Romania S.A. (the company is measured at equity in the consolidated financial statements due to it being controlled jointly with non-Group third parties). The entire carrying amount of VB Romania was previously written off. Substantial risk provisions were recognised by Volksbank Romania S.A. in the current business year following a revaluation of real estate collateral in the first six months of 2013 and due to anticipated legal risks. Together with the equity planning reflecting Basel III regulations, this resulted in a much increased equity capital requirement.

The owners of VB Romania S.A. increased the company's capital by euro 120 million in October 2013 to stabilise equity ratios. In addition, VBAG took steps to ease the liquidity situation of VB Romania S.A. in the business year by agreeing follow-on finance which adjusted existing refinancing facilities with respect to their term and maturity profile. This initiative is expected above all to alleviate high volumes of refinancing with 2017 and 2018 maturities, and align them with VB Romania S.A.'s planned increase in primary funds.

As at 31 December 2013, refinancing of euro 0.8 billion (31.12.2012: euro 1.4 billion) provided by VBAG to VB Romania S.A. was still outstanding. VBAG is currently proceeding on the assumption that, on the basis of existing documentation provided by VB Romania S.A. and following adjustment of credit line maturities to match liquidity requirements and the expected increase in VB Romania's primary deposits, repayments will be made in accordance with given maturities. It is not possible to assess, however, whether the difficult and volatile macroeconomic environment could conceivably give rise to stress scenarios that could impact – even though this is not currently predicted – the carrying amount of refinancing provided by VBAG to VB Romania S.A. It is also not possible to assess whether, as part of the sale process, it will be necessary to introduce additional measures that adversely impact earnings or if other concessions will be required.

In November 2013, Sberbank of Russia filed a lawsuit against VBAG at the International Court of Arbitration. No indemnifiable losses can be identified at present based on the claims set forth in the lawsuit and following an in-depth analysis of the accusations made. Talks are currently in progress with Sberbank of Russia concerning the lawsuit brought against VBAG.

Having prepared VB Romania's plans for 2014 onwards and with a better understanding of the way the market climate is developing as the sale of VB Romania S.A. commences – which must be completed no later than 31 December 2015 – the risk profile is expected to sharpen.

Ongoing difficulties faced by economic development, especially in banking, mean there is a risk of falling incomes and distributions from equity participations. This may lead to lower market values in the future.

Regulators at European and national level are demanding that companies comply, both now and in the future, with increasingly elaborate provisions. This constitutes a huge drain on Group resources in terms of personnel as well as project and IT costs, but also has an impact due to potentially higher capital requirements which far exceed the minimum regulatory requirement under Basel II and Basel III. In this context, please refer to the detailed information provided in connection with the joint risk assessment and decision (JRAD), the asset quality review (AQR) and the 2014 bank stress test.

Report on research and development

The VBAG Group is not involved in research and development.

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

Control system

VBAG's uppermost priority with regard to financial reporting is to comply with all relevant statutory requirements. The Managing Board is responsible for establishing and defining a suitable internal control and risk management system that encompasses the entire accounting process, and provides a group-wide implementation framework in the "ICS Group Guidelines". The "Process Quality Management" Group at Österreichische Volksbanken-AG is responsible for implementation within the VBAG Group.

The respective managing board or management for all companies included in the consolidated financial statements is responsible for designing and rolling out an ICS for the respective company, as well as ensuring compliance with group-wide guidelines and regulations. In order to ensure that data supplied by Group subsidiaries is properly recorded, this data is first checked for plausibility. The data is then processed using the consolidation software "Tagetik". Control mechanisms are based on the dual-control principle and are subject to an additional check by the department managers.

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

- Operational controls include manual controls, which are carried out by employees in specific steps, automatic controls, which are carried out with the aid of IT systems, and preventative controls, which aim to prevent errors and risks in advance through the separation of functions, the regulation of competencies and access authorisation.
- Management controls serve to ensure, on the basis of spot checks, that managers are complying with operational controls. The regularity of checks is determined by the relevant manager (head of division, head of department), in accordance with the level of risk. These spot checks are documented in the control plan in a way that is comprehensible to third parties. The results are reported at half-yearly intervals as part of management reporting.

Internal Auditing also performs independent and regular checks of compliance with internal regulations in accounting. As a department, Internal Auditing is assigned directly to the Managing Board, reports directly to the chairman of the board, and compiles a quarterly report for the Supervisory Board.

Risk assessment

Risks relating to the accounting process are recorded and monitored by the process managers, with a focus on risks considered significant.

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

Information and communication

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

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

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

Monitoring

Top management receives regular summarised financial reports, such as quarterly reports on the development of the respective segments and key financial figures. Financial statements that are to be published are checked by management-level employees in accounting, the management of the division and the Managing Board before they are forwarded to the responsible committees. The results of monitoring of accounting processes are included in the management report. The report contains a risk assessment of the processes on a qualitative basis, and documents how many controls are being carried out in relation to control guidelines.

Vienna, 21 March 2014

Stephan Koren
Chairman of the Managing Board
Corporate planning & Finance, Human Resources,
Legal & Compliance, Marketing & Communication

Michael Mendel
Deputy Chairman of the Managing Board
Risk management

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

Christoph Raninger
Member of the Managing Board
Market

STRATEGIC SEGMENTS

FINANCING SEGMENT

The Financing segment comprises the Commercial Banking business areas of Syndicate Services and Structured Financing (focusing on subsidies, export finance and project finance) as well as VB Leasing Finanzierungsgesellschaft m.b.H. and VB Factoring Bank AG.

The Financing segment is responsible for supporting the regional Volksbanks and companies in the Association of Volksbanks through joint management of existing customer relationships and providing advice and support in relation to new business opportunities. This involves assessing project and financing risks, assuming credit risks as part of syndicate financing and providing suitable products and financing solutions through companies assigned to the Financing segment.

In this process, the Association of Volksbanks unites the strengths of the regional Volksbanks with the entire spectrum of VBAG services, in order to provide their common target group – small and medium-sized Austrian enterprises – with the liquidity they need for growth, thereby ensuring the required profitability of customer relations at banking association level.

VBAG no longer pursues any independent corporate customer business in its core market. This is why large companies and major international groups are no longer part of the target group for VBAG or the Association of Volksbanks. Consequently, this strategic focus means there is no point in comparing the performance of VBAG in this segment with previous business years.

Segment result

The Financing segment's result before taxes came to euro 8.0 million, down on the previous year's figure of euro 20 million. Principal factors were loan loss provisions totalling euro 9.7 million and general administrative expenses, which were up by euro 2.8 million compared to 2012. Higher net interest income did not fully offset higher risk provisions and an increase in general administrative expenses. The volume of financing in the Financing segment fell by euro 104 million to euro 2,544 million (under loans and receivables from customers).

Commercial Banking – Syndicate Services

The Commercial Banking area with its Syndicate Services and Structured Financing departments was well positioned in 2013 to ensure an efficient, professional and service-oriented structure enabling it to provide an optimal level of service to association banks. The area's core task is to support Volksbanks in their commercial banking marketing activities as well as helping them to serve existing customers and gain new customers.

The Syndicate Services area can be seen as the first point of contact for Volksbanks on commercial banking matters – true to the principle of "one face to the customer/market" – especially as regards business with small and medium-sized enterprises (SMEs) in Austria, and in doing so is committed to needs-based solutions.

Owing to high repayments and transfers of exposures in the Non-core segment amounting to roughly euro 393 million, lending volume (including guarantees) dropped by euro 141 million compared to the previous year, despite new business and the transfer of selected customer exposures to the Association of Volksbanks' core business amounting to approximately euro 252 million. Lending volume totalled around euro 1,161 million at 2013 year-end.

Interest margins for both existing and new business, however, improved again in relation to the entire lending portfolio in the syndicate business, which triggered a sustained increase in interest contributions of euro 3.1 million compared to the budget.

The syndicate business is one of the most important strategic success factors for the Association of Volksbanks in terms of ensuring the profitable implementation of the Volksbanks' business model for managing Austrian SMEs. Accordingly, the team in this business area focuses on establishing partnerships and long-term customer relationships.

Structured Financing

Subsidies and export financing are among the Volksbank sector's core products. These products support Austrian SMEs in their growth, as well as reducing credit risk via public-sector guarantees and RWAs (risk weighted assets) as a result. Project-based, long-term refinancing is also provided via funding agencies.

New financing in 2013 once again came from local Volksbanks either in syndicates with VBAG or using the services and advisory support provided by product professionals within the central organisation. The Volksbanks can use it to support the Austrian SMEs in their growth, emphasizing their policy implications in the regions.

The "Structured Financing" area provides support to banking association business in Syndicated Services in the form of advice and product knowledge, and is also responsible for the day-to-day management of these products in the Non-core Business segment. In this unit, specific know-how and experience in structured export and project financing are now combined in order to minimise risks for the Volksbanks and their customers and to allow the implementation of complex finance products.

Development of selected product groups

At the end of 2013, the total volume of European Recovery Programme (ERP) loans fell from roughly euro 193 million (as at 31 December 2012) to approximately euro 156 million. This year-on-year decline is due to the focus on Volksbanks' small and medium-sized customers who generally apply for low volumes of credit, while large customers are no longer a strategic target group for the Association of Volksbanks because VBAG no longer has any own business. However, the number of loans continued to rise significantly, despite large scheduled and unscheduled repayments in the Non-core Business segment, increasing from 426 (end of 2012) to 490 ERP loans (including 334 small ERP loans). In 2013, a total of 105 ERP loans (including 88 small ERP loans) with a volume of around euro 26 million were paid out, either partially or in full.

The Volksbank Group ranked third in 2013 as regards approvals for small ERP loans (excluding ÖHT loans) and sixth for large ERP loans, once again making it one of the top performers out of the 20 ERP trustee banks.

Exposure to OeKB short-term financing together with its refinancing facility was reduced further as planned to around euro 16 million. This can also be attributed to the primary strategic focus on SMEs, which now transact this type of financing solely via the export fund.

The volume of financing for SME customers in the Volksbank sector under the Austrian export fund was around euro 40 million across 131 loans at the end of 2013, lower than the long-term average of around euro 50 million. The reason for this was the increase in loan repayments following removal of SME limits for Volksbank customers.

The volume of OeKB long-term financing for corporate customers as at 31 December 2013 fell from roughly euro 292 million across 40 loans at the end of 2012 to euro 83 million across 29 loans as planned, since a large number of these loans are attributable to the bank's Non-core Business and were wound down in the past year.

Soft loan exposure remained unchanged compared to 2012 at roughly euro 55 million, aside from planned repayments.

The bank primarily concentrates on documentary business in the case of trade finance, involving letters of credit and guarantees for customers of the Volksbank sector.

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

VBLF was set up in 2001 as a wholly-owned subsidiary of VBAG. Together with two subsidiaries and two affiliated companies, it is responsible for the VBAG Group's leasing activities in Austria. VBLF has a strong regional focus. Its distribution network consists of nine branches throughout Austria. As well as selling its own products, VBLF primarily provides services to Austrian Volksbanks.

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

Good result in 2013

Since its formation, the VBLF Group has aimed for a granular portfolio structure and has followed an approval policy based on balancing risk and return. Thanks to relatively stable margins coupled with a continually good risk trend, VBLF was able to follow up on 2012's record result in 2013. VBLF concluded new business worth euro 324 million in 2013, corresponding to 18,500 new contracts.

Growth was seen in all areas of the business. The number of new contracts exceeded that in the record year of 2012, and was the highest in the history of the VBLF. The spread on the Euribor was satisfactory over the year as a whole. Very few write-downs were required despite the difficult situation in the wider economy. Furthermore, repayments of doubtful debts from previous years continued to be high.

VB Factoring Bank AG

In 2013, VB Factoring Bank AG purchased receivables of euro 1.54 billion (2012: euro 1.57 billion). While this represents a modest decline on the 2012 business year of euro 31.2 million or 2.0%, it is still the second highest business volume in the bank's history.

The share of turnover with the Association of Volksbanks amounted to euro 911 million (2012: euro 924 million), or 59.2% of VB Factoring Bank AG's total turnover in the reporting year.

In 2013, the Austrian factoring market recorded growth of 29.0% on a receivables portfolio of euro 14.1 billion (2012: euro 10.9 billion). The market share of VB Factoring Bank AG currently amounts to 10.9% (2012: 14.3%).

Outlook

One of the main tasks for 2014 is to turn as yet unprofitable joint corporate customers in the association into profitable ones. This will be achieved primarily by exploiting cross-selling potential, but also by raising margins and boosting collateral, in order to make a suitable contribution to the return on equity with these customers too.

One crucial step towards implementing an SME strategy across the banking association will be supporting Volksbanks' acquisition activities in terms of gaining new corporate customers from the SME segment and selected large customers. This should create profitable business areas across Austria to compensate for the reduction in unprofitable assets in the medium term.

Since many small and medium-sized enterprises expect the Basel III restrictions to result in a tighter credit supply, and the capital market has yet to offer any alternatives in this segment, we expect to see a general increase in demand for subsidised loans and export finance throughout 2014 and in subsequent years.

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

One of the main objectives for 2014 is once again to assign factoring a more important role in Volksbanks' activities and to increase the number of customers along with the business volume. As part of the market focus on SMEs, factoring should be increasingly employed by Volksbank customers as a way of securing liquidity. We shall also strive to create new business via third-party banks and other intermediaries, such as business and tax advisers. We anticipate that Basel III and intensive work at the Volksbanks will create solid demand for the business model we offer.

FINANCIAL MARKETS

The Financial Markets segment is the competence centre for all financial market services. Its mission is to serve, advise and support association banks and VBAG's institutional customers. The key areas of the Financial Markets segment are Financial Markets & Group Treasury and Capital Markets Products & Sales.

Segment result

The Financial Markets segment's result before taxes was euro -43 million, significantly less than the previous year's result before taxes of euro 758 million. The main reason for this difference was the previous year's other operating result, which was influenced by one-off effects (adjustment of carrying amounts of PS 2008 and of supplementary capital bonds in accordance with IAS 39 AG 8 and the result from repurchases of capital).

Financial Markets & Group Treasury

The Financial Markets & Group Treasury area is responsible for central issues of general bank management at VBAG and the Association of Volksbanks. Its main tasks are liquidity management, interest risk management, market execution and the analysis of countries, banks and businesses.

General money and capital market conditions

In 2013, the European capital markets were characterised by a recovering economy and a return to political stability in peripheral countries. ECB interest rate cuts and the implementation of the European Stability Mechanism (ESM) strengthened market confidence. Significant demand for new issues of government bonds led to a gradual decline in risk premiums, particularly in the peripheral country segment. Other areas of the European credit markets developed positively too. The greater risk appetite of investors coupled with the improved economic climate resulted in a substantial contraction of risk premiums in the relevant segments. However, as tensions steadily eased, the Federal Reserve's tapering announcement (gradual reduction of bond purchases) created renewed volatility on the money and capital markets.

Financial Markets Execution

The operational management of liquidity and hedging interest rate risks were the focal areas for Financial Markets Execution in 2013.

After the successful roll-out of the MUREX front office system for derivative products, the second phase was launched in 2013, during which currency and money market transactions were also integrated into the new system. Furthermore, projects related to the European Market Infrastructure Regulation (EMIR) were supported – especially the introduction of Central Counterparty Clearing and reporting derivative transactions to a central reporting register.

The number and volume of transactions in commission business for securities were up on the previous year. This positive development was partly due to an expansion of services offered to the Volksbanks. These products include equities, bonds and funds; in the case of bonds, fixed-income, step-up and MinMax bonds from various issuers posted the strongest revenue. Funds focused on equity funds with dividend-bearing stocks, alongside real estate and bond funds.

A project to centralise the trading books of the Volksbanks was also successfully completed in the fourth quarter of 2013.

ALM Liquidity Management

As the central organisation, VBAG is responsible for strategic, centralised liquidity management for the entire Association of Volksbanks from a regulatory and economic perspective. This is performed by the ALM Liquidity Management department, and involves the structural and strategic orientation of the association's liquidity position as well as balancing short-term liquidity between primary banks. The liquidity structure in the Group and the banking association is based on standardised planning and monitoring guidelines, ensuring that all regulatory and banking liquidity requirements are met. A transparent allocation of liquidity costs ensuring the fair distribution thereof has been implemented.

The Association of Volksbanks' liquidity buffer totalled euro 5.6 billion as of 31 December 2013, and was therefore higher than the prescribed figure. Successful cooperation with the Volksbanks as part of the collateral programme to bring collateral into VBAG's mortgage cover pool helped to diversify funding sources and increase liquidity potential.

ALM Bank Book

The strategic bank book contains all securities holdings required for regulatory and banking purposes as well as other capital market investments. There were two significant strategic shifts in the bank book in 2013. Firstly, bank book positions were reduced substantially based on RWA-, risk- and return-criteria in line with the focused implementation of downsizing measures, and secondly, the bank book was aligned with the new regulatory provisions of Basel III. The positive market environment was used to wind down the majority of the securitisation portfolio via disposals. Work also began on adjusting the investment book to regulatory requirements governing the liquidity coverage ratio which will take effect from 2015. For this reason, a portfolio was built up of extremely high-quality covered bonds. In terms of interest rate book management, winding-down measures in the Non-core segments resulted in changes in the balance sheet structure. Appropriate hedging measures were taken to avoid significant distortions in net interest income.

Advisory services provided to Volksbanks in the field of asset/liability management focused on liquidity and investment opportunities. Narrowing credit spreads and low interest rates are leading to historically low yields in many areas of the bond market, thereby increasing the challenges faced by overall bank management.

Banks & Credit Markets

The Banks & Credit Markets department is the Group's competence centre for the fundamental analytical assessment of bank and company risks, focusing on the capital market. It is the point of contact with regard to the granting of credit lines for companies and banks in the Group's bank book or within the context of Volksbanks' own business investments. Relationship management for banks, institutional customers and VBAG subsidiaries complete the range of services on offer.

A good portion of the unsecured bank and company risks in VBAG's bank book, which are managed by Banks & Credit Markets, can be utilised for regulatory purposes and banking operations. Remaining assets, essentially bonds with a short-term maturity profile, were largely wound down in 2013. The focus remains on ensuring a timely reduction of other positions, taking risk/return aspects into consideration.

Capital Markets Products & Sales

The Capital Markets Products & Sales business area contains all VBAG capital market and financial products (under the Volksbank Investments brand), hedging and treasury services for Volksbanks and their customers (under the Treasury Solutions brand) as well as sales activities.

Competitive investment products for Volksbanks

The investment markets were again affected in 2013 by low interest rates and cautious investors. This is why Capital Markets Products & Sales concentrated on providing Volksbanks with investment products that take account of safety but also ensure investments are as attractive as possible even in times of low interest rates. While focus in the earlier quarters was placed on selected emerging markets, by the autumn attentions had switched mostly to corporate securities.

In 2013, private households invested just 3% of their disposable income in financial assets, much less than before the financial and economic crisis. The shift towards daily or short-term deposits continued.

The volume of assets under management in terms of products contained under the "Volksbank Investments" brand (funds, certificates, wealth management and foreign assets) fell to euro 6.2 billion as of 31 December 2013 (2012: euro 7.1 billion). Following declining volumes in the first two quarters and a modest increase in the third quarter, a contracting market trend was reflected by the development of Volksbank Investment's funds and certificates, particularly towards the end of the year.

Fund volume: overall market and Volksbank Investments

The volume of the Austrian investment fund market at the end of the year totalled euro 145.3 billion. Net gains in special funds of roughly euro 1 billion did not come close to offsetting net declines in retail funds and principally in large-scale investor funds. Overall, the Austrian market experienced a net outflow of funds totalling more than euro 800 million in 2013, the main culprits being mixed funds (euro -371 million), alternative funds (euro -357 million) and bond funds (euro -270 million).

This market trend also impacted on VB Invest KAG. The fund volume at year-end totalled euro 2.6 billion (2012: euro 2.7 billion). While retail funds declined, in line with the overall market, the volume of VB Invest KAG's special funds rose by almost 17%.

The Volksbank-Mündel-Flex fund also rose in every single quarter. Its volume has now increased to more than euro 112 million in two years. Flex products are based on a special, rules-based system used to manage the interest rate risk of a eurobond portfolio. Price losses in times of rising interest rates are thereby hedged, and when interest rates fall, Flex products participate in the performance of the underlying base portfolio.
A new pension planning product, VB Garantie-Spar-Fonds 3, was launched on the market in the third quarter, which is particularly suited to private pension planning. The topic of safety was also addressed with the "Smart Corporates" series launched in the last quarter. This "intelligent" fixed-term fund combines the simple functions of a fixed-interest bond with the high safety aspects of a broadly-diversified corporate bond fund.

Immofonds 1: net growth in 2013

Immofonds 1, also marketed under the Volksbank Investments brand, enjoyed some positive development. Its sales volume exceeded euro 90 million in 2013, and after deducting redemptions, net growth in volume amounted to euro 66 million. Immofonds 1 currently comprises 22 properties in the stable markets of Austria and Germany, focusing on commercial real estate such as retail parks, office buildings, hotels and medical centres. The total volume of immofonds 1 at year-end amounted to euro 284 million.

Certificate volumes decrease on the Austrian market and at Volksbank Investments

The total market volume of structured investment products held by Austrian private investors dropped by euro 1 billion in 2013 to euro 12.6 billion. The open interest (market volume) of the five members of Zertifikate Forum Austria fell from euro 5.6 billion to euro 5.2 billion as of 31 December 2013, while the volume invested in interest-rate products contracted by more than 7% in 2013, particularly because of low interest rates.

Development of Volksbank Investments certificates was somewhat varied during the course of the year. Although sales in the first few months were considerably higher than at the same time in the previous year, the large volume of certificates maturing in the first few months of the year could not be replaced. Certificate volumes at Volksbank Investments also declined in the second half of the year, as they did on the overall market. At year-end, Volksbank Investments' open interest amounted to euro 1.4 billion (2012: euro 1.8 billion). Its market share of the certificate market is about 26.5%, and over 30% in the case of guarantee certificates.

Significant increase in bond sales

Euro 144 million in bonds were sold in 2013, which represents growth of 14% compared to the previous year. Demand was particularly high for step-up bonds, which resulted in another six-year step-up bond being issued in both the third and fourth quarter.

Significant expertise in wealth management

Following a previously steady increase in volume in the area of wealth management, this volume then declined in the first half of 2013, due in part to an expiring mandate. In the second half of the year, wealth management mandates were stable, totalling euro 1.9 billion as per 31 December 2013.

On the basis of Volksbank Investments' extensive expertise in institutional wealth management, work is taking place together with regional Volksbanks to acquire new customers. This is targeted at companies, including SMEs, as well as institutions such as chambers, pension and provision funds and private foundations. Volksbank Investments' expertise in the area of institutional wealth management is underpinned by the many years of experience it has gathered in managing the Group's internal pension fund.

Hub for treasury transactions

Treasury services for Volksbanks and their customers constitute a key part of VBAG's services. Solutions for hedging risks and liquidity and foreign currency planning form part of the Capital Markets Products & Sales area and are offered under the Treasury Solutions brand. These services comprise the supply of risk hedging and money market investment products for the Association of Volksbanks and their customers.

Outlook

In the current business year, the main priority for the Financial Markets & Group Treasury area is to implement management mechanisms for the Association of Volksbanks. Investment and interest-rate management strategies for the entire banking association as part of a standard asset/liability management process will represent crucial elements of this.

The centralisation of trading books in 2013 and the integration of money market transactions in the standard MUREX front-office system will ensure efficient processes in market execution.

Persistently low interest rates mean Capital Markets Products & Sales is facing a growing challenge to create attractive products in the certificates business for example. This also applies to products in the corporate bond segment, as yields are much narrower for corporate bonds than in the previous year.

Volksbank Investments is tackling this challenge by expanding its range of certificates offering partial protection with appealing potential returns. Furthermore, a pool of third party issuers offers the possibility of diversification, in addition to VBAG a number of reputed international issuers is available. Additionally, the issuance of „intelligent bond funds“ (fixed term funds), a product launched in 2013, will be continued.

In the current business year, the Financial Markets segment as a whole will continue to focus on optimally fulfilling all tasks arising from VBAG's role as the central organisation in the Association of Volksbanks.

NON-CORE BUSINESS

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

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

Non-core Corporates

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

Segment result

The result before taxes came to euro -16.3 million. Restructuring had a significant impact on net interest income and on the decline in general administrative expenses. Net interest income fell by euro 27.5 million and general administrative expenses by euro 12.3 million.

Business development

VBAG began to reduce obligations and RWAs in 2012, and this continued successfully in the reporting year. Starting from more than euro 3 billion in RWAs on the lending side, these were reduced to just euro 375 million in 2013. A significant portfolio deal with RZB Group represented a key step in this process, where a credit volume of euro 631.6 million was wound down early. This meant the Non-core Business Corporate Customers area was discontinued at the turn of the year. The remainder, which has a regional focus on Austria, coupled with other exposures in Germany, Hungary, Poland and Spain for example, will now be jointly handled by the second wind-down unit (real estate).

Measures were also taken in the area of Private Equity – Fund Investments in 2013 to reduce volumes and free up capital. A structured sales process was launched and implemented as part of a two-level bidding procedure. A partial transaction was completed in December 2013. The remaining private equity portfolio totalling euro 140 million is still being sold, and this should be completed in the first half of 2014.

Non-core Real Estate

The Non-core Real Estate segment comprises commercial real estate financing, corresponding work-out activities, asset management operations relating to own property and real estate lease financing carried out by VB Real Estate Services GmbH. Portfolios are concentrated primarily in Austria, CEE and SEE.

Further measures were taken in 2013 in line with the strategy and objective of winding down the Non-core Real Estate segment in a structured way that preserves value. A volume of euro 912 million was wound down in 82 transactions. The resultant reduction in risk-weighted assets amounted to roughly euro 670 million at the end of 2013, which freed up a considerable amount of capital for the VBAG Group.

Segment results

The Non-core Real Estate segment's result before taxes was euro –13.4 million. While net interest income was down as a result of the contracting portfolio, loan loss provisions dropped markedly compared to the previous year, and there was a corresponding decrease in general administrative expenses. Proceeds from the sale or deconsolidation of various companies led to an increase in other operating income. However, the result from financial investments was negative again in 2013 following a devaluation of the Group's real estate holdings.

Real estate financing

Real estate financing is concentrated in the Czech Republic, Romania, Poland, Austria and Hungary. Loans totalling around euro 490 million were redeemed early in 2013 thanks to active wind-down activities. This resulted in a reduction in RWAs of around euro 395 million. These wind-down projects included the portfolio of financings taken over by RZB Group with a total volume of around euro 170 million. Credit exposures in Moscow and Saratov were completely wound down, thus completing the exit from the Russian market. The portfolio of loans and advances to customers was reduced by roughly one third compared to 31 December 2012, while income from the existing portfolio improved following increases in interest margins.

Real estate leasing and asset management

In addition to natural maturities in the real estate lease portfolio, real estate lease volumes declined by around euro 300 million, which corresponds to a fall in RWA of roughly euro 200 million. This includes the transfer of an Austrian lease exposure to RZB Group totalling approximately euro 35 million.

Parts of own real estate holdings and minority interests in real estate companies in Austria, Germany, the Czech Republic, Romania and Bulgaria were successfully placed on the market. The interest in a property developer – listed on the London stock exchange – was sold together with a non-performing credit portfolio.

At the start of July 2013, six properties – mostly owner-occupied – in Vienna's first and ninth districts were sold for more than euro 90 million following a bidding process.

As regards the sale of shares in Selini Holding GmbH (Vremena Goda shopping centre project in Moscow) that took place in 2012, the performance-related "earn-out" fee of roughly euro 15 million was received.

The "investment property" volume fell from around euro 287 million as at the end of 2012 to roughly euro 250 million in 2013.

Non-core Retail

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

Segment results

The Non-core Retail segment's pre-tax result was euro -64.5 million, a drop of euro 144 million compared to the previous year. The result for 2013 was particularly impacted by the result from companies measured at equity amounting to euro 126.6 million. Net interest income is similar to that of the previous year, while risk provisions showed a slight improvement over the previous year of euro 10 million.

VB-Leasing International Holding GmbH (VBLI)

In the 2013 business year, VB Leasing once again produced the best result in its history with a profit on ordinary activities of euro 62 million. Fuelled by the economic situation in CEE, which is generally somewhat more stable, all of the national offices generated a profit in 2013 for the third year in a row. New business increased by 10.12% to euro 1,042.7 million, which equates to 37,914 new contracts. The whole portfolio contains 124,037 contracts.

The leasing markets of Central and Eastern Europe generated markedly different trends in 2013 as regards new business volumes. Declines in new business volumes – in Romania and Slovakia for example – were offset by growth in Poland and Croatia. The main impetus came from the leasing of passenger and commercial vehicles.

Stable focus and regular self-evaluation

In the 2013 business year, a number of strategic and organisational measures launched in previous years had a noticeable impact on earnings. A sustained focus on the core business – moveable goods leasing – was one of the success factors for the VB Leasing Group. As a long-standing player on the leasing markets of Central and Eastern Europe, the professionals at VB Leasing command extensive market know-how that serves as a basis for sound planning and strategies. In 2011, the VB Leasing Group began to concentrate on refocusing sales activities and organising the sales team and various underlying processes. Based on the results of this internal audit, a sales-oriented structure was set up in early 2013 that concentrates on sales via dealers and international vendors as well as direct sales.

The conservative risk and margin policy of recent years is also bearing fruit. Risk costs have been steadily lowered thanks to the granular nature of the portfolio and focusing on a stable customer structure.

Concentration on vendor partners

The VB Leasing Group operates to a large extent within its close-knit network. Partners and customers benefit from the same standards, identical processes, and above all, local know-how. The ability to put together individual, cross-border packages and process them centrally has contributed not just to increased stability in the past business year, but also to an expanded network of partners.

At the start of the year, the successful cooperation with CLAAS KGaA mbH that has been in place since 2010 was stepped up by means of a partnership agreement. VB Leasing will now support CLAAS with sales financing in Serbia, Slovenia, Croatia and Bosnia-Herzegovina. In addition, VB Leasing also offers stock financing for selected CLAAS dealer partners in these countries.

In the passenger car segment, the existing cooperation agreement with BMW Financial Services in Croatia and Serbia was expanded to include the Bosnian market.

In the 2013 business year, the owners of VB Leasing – Österreichische Volksbanken-AG and Germany-based VR-LEASING AG – launched a sales process for the VB Leasing Group. VB Leasing will continue to focus on ensuring successful development of the Group until a buyer is identified.

Volksbank Romania S.A.

The economic activity in Romania was on an upward trend in 2013, but growth remained modest. The domestic banking sector reported a positive result after three consecutive years of losses. Major drivers have been lower provisioning costs as well as the reduction in financing costs amid the improvement in Romania's sovereign risk perception. The major threat for the Romanian banking sector remains the significant level of non-performing loans. and a faster cross border de-leveraging.

The ongoing turnaround process in Volksbank Romania witnessed favorable developments. The deposit base and the client base grew by 47% and 19% respectively. Customer's deposit increases exceeded planned values by far. The deposits were used to improve the funding strength – the Loan/Deposit Ratio dropped from above 400 % in December 2012 to around 250 % in December 2013 - and for new loan business. New loans granted in 2013 increased by 130% to EUR 144 million, non-performing loans decreased by 9.1%.

Volksbank Romania's 2013 result of EUR -103.6 million includes, besides the loss that had been expected and included in the budget, the impact of a special item. The bank has received a final offer before year end 2013 for the sale of a major part of its non-performing loan portfolio and has provisioned it subject to the sale transaction expected to be closed in the first half year of 2014. At the end of the year, the banks solvability stood at a comfortable level of 18.65 %, which is considerably above the minimum required value of 10%.

Non-core Bank Book/Other Operations

This segment includes all parts of the investment book which are to be wound down or sold in accordance with their repayment profile. VB Malta Ltd and holding companies with participations in the Non-core area were also assigned to the Non-core Investment Book/Other Operations segment.

Segment result

The Non-core Bank Book / Other Operations segment's result before taxes was euro 47 million. This represents a year-on-year decrease of around euro 13 million. The result for the current year is particularly impacted by the first-time recognition of a fee and commission expense of euro 10 million for the Republic of Austria's asset guarantee.

Outlook for Non-core Business

From 2014, the Non-core Real Estate segment will be merged with the Non-core Corporates segment to create a management structure in line with the reduced business volume, to leverage synergies and to reduce costs. The focus will remain on reducing the portfolio's risk and capital commitment.

CONSOLIDATED FINANCIAL STATEMENTS

Statement of comprehensive income

Income statement	Note	1-12/2013 Euro thousand	restated 1-12/2012 Euro thousand	Changes Euro thousand	%
Interest and similar income		713,773	1,000,383	–286,609	–28.65%
Interest and similar expense		–525,187	–778,233	253,046	–32.52%
Net interest income	4	188,586	222,149	–33,563	–15.11%
Risk provisions	5	–23,462	–366,916	343,453	–93.61%
Fee and commission income		73,577	86,939	–13,361	–15.37%
Fee and commission expenses		–43,331	–28,731	–14,600	50.82%
Net fee and commission income	6	30,246	58,208	–27,962	–48.04%
Net trading income	7	8,434	32,195	–23,761	–73.80%
General administrative expenses	8	–249,783	–261,453	11,670	–4.46%
Other operating result	9	156,665	755,154	–598,489	–79.25%
Income from financial investments	10	–48,913	26,863	–75,777	<–200.00%
Income from companies measured at equity		–126,062	–1,852	–124,210	>200.00%
Income from discontinued operations	2	15,308	48,646	–33,338	–68.53%
Result before taxes		**–48,982**	**512,994**	**–561,976**	**–109.55%**
Income taxes	11	–24,403	–64,183	39,780	–61.98%
Income taxes from discontinued operations	11	0	–2,051	2,051	–100.00%
Result after taxes		**–73,385**	**446,760**	**–520,145**	**–116.43%**
Result attributable to shareholders of the parent company (Consolidated net result)		**–100,009**	**418,696**	**–518,705**	**–123.89%**
thereof from continued operations		–115,317	372,102	–487,418	–130.99%
thereof from discontinued operations		15,308	46,595	–31,287	–67.15%
Result attributable to non-controlling interest		26,624	28,064	–1,440	–5.13%
thereof from continued operations		26,624	19,965	6,659	33.35%
thereof from discontinued operations		0	8,099	–8,099	–100.00%

Other comprehensive income	1-12/2013 Euro thousand	1-12/2012 Euro thousand	Changes Euro thousand	%
Result after taxes	–73,385	446,760	–520,145	–116.43%
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation obligation of defined benefit plans (IAS 19)	–1,649	–3,541	1,893	–53.44%
Deferred taxes of revaluation IAS 19	415	888	–473	–53.24%
Total items that will not be reclassified to profit or loss	–1,233	–2,653	1,420	–53.51%
Items that may be reclassified to profit or loss				
Currency reserve	–11,666	19,678	–31,344	–159.29%
Available for sale reserve (including deferred taxes)				
Change in fair value	80,074	99,917	–19,843	–19.86%
Net amount transferred to profit or loss	–11,958	–12,148	191	–1.57%
Hedging reserve (including deferred taxes)				
Change in fair value (effective hedge)	–1,826	–2,750	924	–33.59%
Net amount transferred to profit or loss	1,058	1,468	–410	–27.91%
Change in deferred taxes of untaxed reserves	372	48	324	>200.00%
Change from companies measured at equity	3,401	0	3,401	100.00%
Total items that may be reclassified to profit or loss	**59,455**	**106,213**	**–46,757**	**–44.02%**
Other comprehensive income total	**58,222**	**103,559**	**–45,338**	**–43.78%**
Comprehensive income	**–15,163**	**550,319**	**–565,482**	**–102.76%**
Comprehensive income attributable to shareholders of the parent company	–37,213	521,507	–558,720	–107.14%
thereof from continued operations	–52,521	455,980	–508,501	–111.52%
thereof from discontinued operations	15,308	65,527	–50,219	–76.64%
Comprehensive income attributable to non-controlling interest	22,050	28,812	–6,762	–23.47%
thereof from continued operations	22,050	18,092	3,958	21.88%
thereof from discontinued operations	0	10,720	–10,720	–100.00%

Statement of financial position

		31 Dec 2013	restated 31 Dec 2012	Changes	
	Note	Euro thousand	Euro thousand	Euro thousand	%
Assets					
Liquid funds	12	1,762,453	851,262	911,191	107.04%
Loans and advances to credit institutions (gross)	13	5,798,139	7,270,203	–1,472,064	–20.25%
Loans and advances to customers (gross)	14	7,081,347	10,039,571	–2,958,224	–29.47%
Risk provisions (–)	15	–773,009	–1,067,045	294,036	–27.56%
Trading assets	16	1,627,392	2,574,227	–946,835	–36.78%
Financial investments	17	3,422,739	5,561,058	–2,138,319	–38.45%
Investment property	18	252,410	286,806	–34,396	–11.99%
Companies measured at equity	19	5,626	10,293	–4,668	–45.35%
Participations	20	359,531	444,562	–85,031	–19.13%
Intangible assets	21	13,672	13,967	–296	–2.12%
Tangible fixed assets	22	131,503	198,008	–66,506	–33.59%
Tax assets	23	52,905	92,103	–39,197	–42.56%
Current tax assets		19,974	11,104	8,869	79.87%
Deferred tax assets		32,932	80,998	–48,066	–59.34%
Other assets	24	614,744	1,365,216	–750,471	–54.97%
Assets held for sale	25	554,657	0	554,657	100.00%
TOTAL ASSETS		**20,904,109**	**27,640,232**	–6,736,123	–24.37%
Liabilities and Equity					
Amounts owed to credit institutions	26	7,707,002	9,834,518	–2,127,516	–21.63%
Amounts owed to customers	27	2,148,440	2,542,128	–393,688	–15.49%
Debts evidenced by certificates	28	7,084,825	9,935,036	–2,850,211	–28.69%
Trading liabilities	29	1,377,709	2,073,118	–695,409	–33.54%
Provisions	30, 31	188,703	179,443	9,261	5.16%
Tax liabilities	32	66,511	105,900	–39,388	–37.19%
Current tax liabilities		14,112	16,662	–2,550	–15.31%
Deferred tax liabilities		52,399	89,238	–36,838	–41.28%
Other liabilities	33	554,549	1,056,694	–502,145	–47.52%
Subordinated liabilities	34	554,957	620,718	–65,762	–10.59%
Equity	36	1,221,412	1,292,677	–71,265	–5.51%
Shareholders' equity		1,067,553	1,099,003	–31,449	–2.86%
Non-controlling interest		153,859	193,675	–39,816	–20.56%
TOTAL LIABILITIES AND EQUITY		**20,904,109**	**27,640,232**	–6,736,123	–24.37%

Changes in the Group's equity

Euro thousand	Subscribed capital [1]	Retained earnings	Currency translation	IAS 39 [2] valuation		Shareholders' equity	Non-controlling interest	Equity
				Available for sale reserve	Cash flow hedge reserve			
As at 1 Jan 2012 [5]	**1,338,838**	**–1,002,116**	**–14,206**	**–243,924**	**1,833**	**80,425**	**395,742**	**476,167**
Restatement [3]		**–7,640**				**–7,640**	**–98**	**–7,738**
As at 1 Jan 2012 restated	**1,338,838**	**–1,009,756**	**–14,206**	**–243,924**	**1,833**	**72,785**	**395,644**	**468,429**
Consolidated net income [4]		418,696				418,696	28,064	446,760
Change in deferred taxes arising from untaxed reserve		48				48		48
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)		–2,650				–2,650	–3	–2,653
Currency translation reserve			21,606			21,606	–1,928	19,678
Available for sale reserve (including deferred taxes)				84,753		84,753	3,016	87,769
Cash flow hedge reserve (including deferred taxes)					–946	–946	–336	–1,282
Change from companies measured at equity			–191	343	–153	0		0
Comprehensive income	0	416,094	21,415	85,097	–1,098	521,507	28,812	550,319
Capital increase	484,000					484,000		484,000
Capital decrease	–941,621	941,621				0		0
Dividends paid						0	–533	–533
Change in treasury stocks [6]	4,416	–4,475				–60		–60
Change due to reclassifications shown under non-controlling interest and deconsolidation		–136,730		157,500		20,770	–230,249	–209,478
As at 31 Dec 2012	**885,632**	**206,754**	**7,209**	**–1,327**	**735**	**1,099,003**	**193,675**	**1,292,677**
Consolidated net income [4]		–100,009				–100,009	26,624	–73,385
Change in deferred taxes arising from untaxed reserve		372				372		372
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)		–1,205				–1,205	–29	–1,233
Currency translation reserve			–6,836			– 6,836	–4,830	–11,666
Available for sale reserve (including deferred taxes)				68,117		68,117		68,117
Cash flow hedge reserve (including deferred taxes)					–1,053	–1,053	285	–768
Change from companies measured at equity		32	–151	346	3,174	3,401		3,401
Comprehensive income	0	–100,810	–6,987	68,463	2,122	–37,213	22,050	–15,163
Dividends paid						0	–4,709	–4,709
Change in treasury stocks						0		0
Change due to reclassifications shown under non-controlling interest and deconsolidation		3,566		2,198		5,764	–57,156	–51,393
As at 31 Dec 2013	**885,632**	**109,511**	**221**	**69,333**	**2,856**	**1,067,553**	**153,859**	**1,221,412**

[1] Subscribed capital corresponds to the figures reported in the financial statements of Österreichische Volksbanken-Aktiengesellschaft. As at 1 January 2012 the subscribed capital did not correspond to the figures reported in the financial statements of Österreichische Volksbank-Aktiengesellschaft. In the seperate financial statements of VBAG the capital measures (capital reduction and increase) were included as at 1 January 2012. According to IFRS these measures could only be included in the consolidated financial statement.

[2] As at 31 December 2013, the available for sale reserve included deferred taxes of euro –12,366 thousand (31 December 2012: euro –1,404 thousand). The cash flow hedge reserve contains deferred taxes in the amount of euro –534 thousand at the balance sheet date (31 December 2012: euro –291 thousand).

[3] The restatement was done according to IAS 8 (see chapter 1).

[4] Currency translation differences amounting to euro –268 thousand (1-12/2012: euro 98 thousand) for shareholders' equity and euro –335 thousand (1-12/2012: euro 138 thousand) for non-controlling interest resulted from the application of average rates of exchange in the income statement.

[5] In the figures as at 1 January 2012 the disposal group Banks CEE accounted for an amount of euro –16,765 thousand in the currency translation reserve, for an amount of euro –3,456 thousand in the available for sale reserve and for an amount of euro 543 thousand in the cash flow hedge reserve. At the same time the disposal group Selini accounted for an amount of euro 746 thousand in the currency translation reserve.

[6] In the change in treasury stocks the reclassification due to the capital reduction is included.

Cash flow statement

in Euro thousand	1-12/2013	restated 1-12/2012
Annual result (before non-controlling interest)	**–73,385**	**446,760**
Non-cash positions in annual result		
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	–29,308	–593,395
Allocation to and release of provisions, including risk provisions	–6,638	311,894
Result from the sale of financial investments and fixed assets	11,400	–25,714
Non-cash changes in taxes	8,773	33,920
Changes in assets and liabilities from operating activities		
Loans and advances to credit institutions	1,074,358	1,892,771
Loans and advances to customers	2,958,224	2,578,030
Trading assets	201,890	–37,663
Financial investments	1,961,491	1,105,165
Assets for operating lease	–7,918	–17,789
Other assets from operating activities	–165,094	264,812
Amounts owed to credit institutions	–2,127,516	–1,968,296
Amounts owed to customers	–393,688	–129,062
Debts evidenced by certificates	–2,850,211	–3,513,238
Derivates	233,234	–87,289
Other liabilities	–147,519	–568,329
Cash flow from operating activities	**648,094**	**–307,422**
Proceeds from the sale or redemption of		
Securities held to maturity	264,106	271,473
Participations	48,751	69,328
Fixed assets	94,639	15,437
Disposal of subsidiaries (net of cash disposed)	5,048	–399,403
Payments for the acquisition of		
Participations	–71,093	–45,944
Fixed assets	–7,112	–20,813
Cash flow from investing activities	334,340	**–109,922**
Increase of capital	0	484,000
Change in treasury stocks	0	–60
Change in subordinated liabilities	–16,920	–458,828
Other changes	–54,324	–13,442
Cash flow from financing activities	**–71,244**	**11,670**
Cash and cash equivalents at the end of previous period (= liquid funds)	**851,262**	**1,256,936**
Cash flow from operating activities	648,094	–307,422
Cash flow from investing activities	334,340	–109,922
Cash flow from financing activities	–71,244	11,670
Cash and cash equivalents at the end of period (= liquid funds)	**1,762,453**	**851,262**
Payments of taxes, interest and dividends		
Income taxes paid	–15,630	–18,940
Interest received	698,208	960,644
Interest paid	–598,679	–958,981
Dividends received	8,904	11,712

Details of the calculation method of the cash flow statement are shown in Note 3) ii).

Details on the calculation of the disposal of subsidiaries are included in Note 2).

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NOTES

to the consolidated financial statements of Österreichische Volksbanken-Aktiengesellschaft 2013

1) General information

Österreichische Volksbanken-Aktiengesellschaft (VBAG), which has its registered office at Kolingasse 14-16, 1090 Vienna, is the parent company of national and international (in particular Czech Republic, Slovakia, Malta, Poland, Hungary) acting subsidiaries. Since the partial nationalisation in April 2012 the VBAG undergoes a transformation process based on a restructuring plan which is underlying the conditions of the EU Commission and the Republic of Austria. The VBAG is a restructuring unit who needs to discontinue or sell its's own national and international business. VBAG is the central institution of the Austrian Volksbank sector and concentrates in its responsibility as sector group bank on the domestic market. Busines outside this area (non-core business) should be reduced according to their redemption plan or sold.

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

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

The present consolidated financial statements were signed by the Managing Board on 24 March 2014 and then subsequently submitted to the Supervisory Board for notice.

a) Going concern

The Managing Board at Österreichische Volksbanken-AG has launched a range of measures over the past two years to strengthen VBAG's capital base at individual bank and Group level, and by doing so, to strengthen the Association of Volksbanks by virtue of its role as central organisation of the Association of Volksbanks in accordance with the banking association agreement as per section 30a BWG. In particular:

- following approval from the regulator and the European Commission, conversion or redemption of supplementary, hybrid and subordinated capital with an effect of more than euro 350 million on CET1,
- introduction of a 95% base amount for cooperative capital, which prevented its phasing out and therefore secured CET1 of more than euro 110 million for the banking association,
- adjustments to the issue conditions of various Tier I and Tier II capital amounts in order to meet Basel III requirements and thus retain them as equity of more than euro 100 million in the banking association,
- various RWA reduction measures,
- implementation of substantial wind-down measures, which markedly improved VBAG's risk position (at individual bank and Group level) and thus indirectly that of the banking association, which is clearly reflected in the steady rise in the equity ratio,
- substantial improvement in the quality and significance of risk management.

RWAs in the VBAG Group were lowered from euro 22.9 billion at the end of 2011 to euro 13.4 billion at the end of 2012 and euro 9.6 billion at the end of 2013 by reducing risks arising from the Non-core area on an ongoing basis.

By means of the measures described above, the VBAG Group raised its Basel II equity ratio from 12.7% in 2011 to 15.7% in 2012 and 19.1% in 2013, while the banking association's equity ratio increased from 13.9% in 2012 to 14.9% (unaudited) in 2013 (Basel II), representing a steady improvement.

These ratios are also much higher than the figures upon which the restructuring plan approved by the European Commission is based, which were accepted with a Core Tier 1 ratio of 8% and an equity ratio of 10%, both of which were also considered appropriate by the Austrian regulator.

Even though medium-term planning for the Group from 2016 onwards shows that the Group will fall short of minimum regulatory equity requirements, capital measures taken by shareholders will be able to close this gap. Volksbanks are obliged to execute such measures as part of the liability association based on the banking association agreement.

The Managing Board anticipates that the FMA will prescribe a Basel III equity ratio of 13.6% for VBAG in its capacity as the central organisation in the Association of Volksbanks in accordance with the association agreement pursuant to section 30a Austrian Banking Act.

This will be determined based on the credit portfolio and the risk regime as of 31 December 2012. It cannot be estimated to what extent the scheduled 2014 JRAD process as of 31 December 2013 will acknowledge the association's wind-down achievements – which are far ahead of schedule – and its handling of section 70 audit findings – which have largely been completed – in terms of reducing the capital requirement. It is also impossible to say at present how the results of the current AQR process and the subsequent stress test will affect the prescribed equity ratio for the banking association.

The Association of Volksbanks' equity ratio is expected to be 14.9% (Basel II, unaudited) as of 31 December 2013. Based on current planning by VBAG and the Volksbanks, a banking association equity ratio of 14.4% can be expected by the end of 2014 in accordance with Basel III.

These budgeted figures, and therefore the fulfilment of these requirements, could be jeopardised if potential charges arising from the AQR or winding-down of VBAG's Non-core portfolio, for example, prove higher than expected, although such a scenario is not anticipated at present.

However, medium-term planning from 2015 onwards forecasts a marked decline in equity ratios within the banking association. This is primarily due to equity reductions resulting from:

- agreements with the Republic of Austria and the European Commission (government participation capital of euro 300 million no longer eligible, non-controlling interest and capital differences of almost euro 500 million no longer eligible following the sale of VBLI and VB Romania in 2014 and 2015),
- various Basel III effects (phasing out of members' uncalled liabilities [Haftsummenzuschlag] totalling more than euro 300 million, and of private participation capital within the banking association totalling euro 180 million),
- forecast charges arising from the continued wind-down of VBAG's Non-core portfolio.

Current medium-term planning indicates a shortfall in own funds in the banking association in 2015, should the regulatory authority – as announced – stipulate a higher equity ratio of 13.6% on the basis of a JRAD assessment. Insofar as the Managing Board can assess the situation, regulatory authorities in Europe do not currently have a uniform approach with regard to the legal status of an SREP ratio stipulated in a JRAD process. As a consequence, it is difficult at present to predict the extent of measures and sanctions which would be required or imposed by the regulatory authorities in the event of non-compliance.

As a precaution, a number of further initiatives have already been set in motion. Various programmes to reduce RWAs within the banking association have already resulted in these decreasing at primary level by euro 400 million, despite weaker credit growth in 2013. VBAG's Managing Board believes these initiatives should also be continued over the next few years to achieve a decrease in RWAs that exceeds the level currently planned. A feasibility study has been commissioned to determine whether switching to the IRB approach could result in a significant fall in RWAs. Other opportunities and requirements are also being assessed with a view to issuing new Basel III-compliant bonds (even though the ability to issue bonds seems limited at present). Finally, discussions will be held with shareholders and owners of participation capital regarding measures to optimise the existing capital structure further.

As part of state assistance provided in 2012, the European Commission and the Republic of Austria set VBAG an ambitious downsizing programme. This wind-down programme is legally binding on VBAG and is to be implemented by VBAG's governing bodies. As a result, the winding-down, and in particular the associated compulsory sale of equity investments within the narrow time frame prescribed by the European Commission, cannot be halted even to prevent the loss of non-controlling interest.

A comprehensive strategy project was launched for the Association of Volksbanks in 2013 to improve its current medium-term planning. The aim is to leverage all earnings potential and cost synergies within the banking association in the short to medium term. As things currently stand, according to the conception of the managing board, 55 Volksbanks and specialist institutions would merge into nine provincial Volksbanks and three specialist institutions. Once these Volksbanks' structures and procedures are harmonised, their regional focus and market dominance should highlight the benefits of a group-like divisional structure. This programme is expected to make an additional and significant contribution to earnings by 2018. However, these extra earnings will be offset by implementation costs, especially between 2014 and 2016.

In the long run, these measures are expected to improve the banking association's equity ratios in current medium-term planning. Whether the medium-term improvement this will bring about in the banking association's earnings power will pave the way for external reinforcement of capital depends on how potential investors view the sustainability of the association's new focus.

Conversely, it cannot be ruled out that costs involved in the ongoing winding-down of the Non-core portfolio may end up being higher than anticipated in medium-term planning, thereby countering any positive effects, although this is not expected at present.

It is expected that, as a result of the JRAD assessment, the regulatory authorities will raise the equity ratio for the Association of Volksbanks far above both statutory minimum capital requirements and capital requirements adopted for the purposes of state aid legislation – at least in the short term. It will be possible to comply with this equity ratio for the time being. However, over the medium term, it will only be possible to adhere to an equity ratio of 13.6% imposed on the Association of Volksbanks as part of the scheduled JRAD process, which not only exceeds statutory minimum capital requirements but is also higher than capital requirements adopted for the purposes of state aid legislation, if:

- sufficient opportunities and satisfactory conditions can be created to improve the association's ability to issue bonds, and/or
- the equity ratio that was increased very sharply and at short notice as part of the scheduled JRAD process can accordingly be reduced again in acknowledgement of wind-down measures that have been successfully implemented in accordance with the requirements set out in the European Commission's decision on state aid rules, and/or
- suitable measures can be implemented in order to optimise VBAG's existing equity structure or increase equity on the part of the owners.

Based on requirements set out in the restructuring agreement with the Republic of Austria dated 26 April 2012 and the European Commission's decision of 19 September 2012 based upon this, VBAG is required to dispose of key business areas and holdings in Austria and abroad over the coming years.

Previous experience in Austria and abroad has shown that these wind-down processes often involve higher costs than previously foreseeable. VBAG's Non-core segment is also exposed to this uncertainty.

VBAG has a substantial real estate portfolio in Austria and Central and Eastern Europe. In addition to credit risks, valuation haircuts may also be imposed as a result of spread risks when selling parts of this portfolio.

VBAG holds a 51% interest in Volksbank Romania S.A. (the company is measured at equity in the consolidated financial statements due to it being controlled jointly with non-Group third parties). The shares of VB Romania are held by VBI Beteiligungs GmbH. The entire carrying amount of VB Romania was previously written off. Substantial risk provisions were recognised by Volksbank Romania S.A. in the current business year following a revaluation of real estate collateral in the first six months of 2013 and due to anticipated legal risks. Together with the equity planning reflecting Basel III regulations, this resulted in a much increased equity capital requirement.

The owners of VB Romania S.A. increased the company's capital by euro 120 million in October 2013 to stabilise equity ratios. In addition, VBAG took steps to ease the liquidity situation of VB Romania S.A. in the business year by agreeing follow-on finance which adjusted existing refinancing facilities with respect to their term and maturity profile. This initiative is expected above all to alleviate high volumes of refinancing with 2017 and 2018 maturities, and align them with VB Romania S.A.'s planned increase in primary funds.

As at 31 December 2013, refinancing of euro 0.8 billion (31.12.2012: euro 1.4 billion) provided by VBAG to VB Romania S.A. was still outstanding. VBAG is currently proceeding on the assumption that, on the basis of existing documentation provided by VB Romania S.A. and following adjustment of credit line maturities to match liquidity requirements and the expected increase in VB Romania's primary deposits, repayments will be made in accordance with given maturities. It is not possible to assess, however, whether the difficult and volatile macroeconomic environment could conceivably give rise to stress scenarios that could impact – even though this is not currently predicted – the carrying amount of refinancing provided by VBAG to VB Romania S.A. It is also not possible to assess whether, as part of the sale process, it will be necessary to introduce additional measures that adversely impact earnings or if other concessions will be required.

Having prepared VB Romania's plans for 2014 onwards and with a better understanding of the way the market climate is developing as the sale of VB Romania S.A. commences – which must be completed no later than 31 December 2015 – the risk profile is expected to sharpen.

In November 2013, Sberbank of Russia filed a lawsuit against VBAG at the International Court of Arbitration. No indemnifiable losses can be identified at present based on the claims set forth in the lawsuit and following an in-depth analysis of the accusations made. Talks are currently in progress with Sberbank of Russia concerning the lawsuit brought against VBAG.

Ongoing difficulties faced by economic development, especially in banking, mean there is a risk of falling incomes and distributions from equity participations. This may lead to lower market values in the future.

Regulators at European and national level are demanding that companies comply, both now and in the future, with increasingly elaborate provisions. This constitutes a huge drain on Group resources in terms of personnel as well as project and IT costs, but also has an impact due to potentially higher capital requirements which far exceed the minimum regulatory requirement under Basel II and Basel III. In this context, please refer to the detailed information provided in connection with the joint risk assessment and decision (JRAD), the asset quality review (AQR) and the 2014 bank stress test.

b) Changes in accounting principles

IAS 19 Employee Benefits which was reviced in 2011 entered into force on 1 January 2013 and was therefore applied in this annual report. IAS 19 as reviced eliminated the "corridor method" and now calls for actuarial gains and losses to be recognised directly in other comprehensive income. Furthermore, expected returns on plan assets and interest cost on defined benefit obligations have been replaced in the amended IAS 19 by a single net interest component. All past service costs must now be recognised in the period in which the plan is amended. The amendment to IAS 19 also changes the rules for termination benefits as well as expanding the disclosure and explanation requirements. The amendments were applied retrospectively in accordance with the transitional regulations of IAS 19, which resulted in the alteration of the previous year's figures.

The following changes were made to financial information due to the application of IAS 19

Adjustment statement of comprehensive income

Euro thousand	2012
Staff expenses	2,051
Result for the period before taxes	**2,051**
Income taxes	–513
Result for the period after taxes	**1,538**
Result attributable to shareholders of the parent company	1,538
thereof from continued operations	1,538
Result attributable to non-controlling interest	0
Other comprehensive income	
Revaluation obligation of defined benefit plans (IAS 19)	–3,541
Deferred taxes of revaluation IAS 19	888
Other comprehensive income total	**–2,653**
Comprehensive income	**–1,115**
Comprehensive income attributable to shareholders of the parent company –1,112	
thereof from continued operations	–1,182
thereof from discontinued operations	70
Comprehensive income attributable to non-controlling interest	–3
thereof from continued operations	–71
thereof from discontinued operations	68

Adjustment in statement of financial position

Euro thousand	31 Dec 2012	1 Jan 2012
Deferred tax assets	2,933	2,528
Assets of the disposal group	0	30
Total Assets	**2,933**	**2,558**
Provisions	11,786	10,128
Provisions for pensions	8,846	8,588
Provisions for severance payments	2,940	1,541
Liabilities of the disposal group	0	168
Equity	–8,853	–7,738
Shareholders' Equity	–8,752	–7,640
Non-controlling interest	–101	–98
Total Liabilities and Equity	**2,933**	**2,558**

In addition, application of amendments to IAS 1 Presentation of individual items of other comprehensive income, IFRS 13 Fair value measurement and annual improvements to IFRS, are compulsory since 1 January 2013.

c) Adjustment of comparative figures according to IAS 8

Processing errors related to financial instruments, among other things in the course of the VBAG – Investkredit merger and intercompany consolidation, which led to misrepresentations in the consolidated financial statments 2012, meant that comparative figures in the balance sheet as at 31 December 2012 as well as comparative figures in the statement of comprehensive income for 2012 had to be adjusted in line with IAS 8.41. Moreover in 2012, given the modified approach of the tax authority, amended income tax regulations and the new legal framework, it became apparent that the 2008 participation capital would be treated as equity for tax purposes. Since the temporary differences ceased to apply, the conditions for recognition of deferred tax liabilities were therefore no longer met and therefore adjusted retrospectively.

Adjustment statement of comprehensive income

Euro thousand	2012
Other operating result	–16,460
Income from financial investments	28,336
Result for the period before taxes	**11,876**
Income taxes	92,728
Result for the period after taxes	**104,604**
Result attributable to shareholders of the parent company	104,604
Result attributable to non-controlling interest	0
Other comprehensive income	
Available for sale reserve (including deferred tax)	
Change in fair value	6,699
Other comprehensive income total	**6,699**
Comprehensive income	**111,303**
Comprehensive income attributable to shareholders of the parent company	111,303
Comprehensive income attributable to non-controlling interest	0

The restatement is attributable to continued operation.

Adjustment in statement of financial position

Euro thousand	31 Dec 2012
Loans and advances to customers	–16,163
Trading assets	5,814
Deferred tax assets	34,169
Other Assets	–53,656
Total Assets	**–29,836**
Debts evidenced by certificates	22,690
Deferred tax liabilities	–56,326
Other liabilities	–107,503
Equity	111,303
Shareholders' equity	111,303
Non-controlling interest	0
Total Liabilities and Equity	**–29,836**

2) Presentation and changes in the scope of consolidation

In the Real Estate segment, two companies were newly included in the scope of consolidation, as they are no longer immaterial for the presentation of the consolidated financial statements. Results from previous years in the amount of euro 4,604 thousand were recognised directly in equity, whereby euro 2,406 thousand of this amount was recorded under retained earnings and euro 2,198 thousand in the available for sale reserve. Through the inclusion of these companies in the scope of consolidation, holdings increased by euro 5,786 thousand, which were largely refinanced with equity.

In addition, ten companies from the Real Estate segment were sold during the business year.

Calculation of deconsolidation result of Non-core Real Estate segment

Euro thousand	
Assets proportional	219,202
Liabilities proportional	206,439
Currency translation reserve proportional	53
Disposal of net assets proportional	**–12,711**
Revenues proportional	5,084
Deconsolidation result	**–7,627**

Furthermore two group companies were merged into other fully consolidated companies and two companies were liquidated during the financial year 2013. These transactions did not have any impact on the consolidated equity or on the result.

Discontinued operations

In the result of discontinued operations a purchase price adjustment which was agreed in the contract for the sale Selini Holding GmbH is recorded in the financial year 2013. This amount is included in the cash flow from operating activities.

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Profit and loss of discontinued operation Selini

Euro thousand	2013	2012
Net interest income	0	–640
Net trading income	0	782
General administrative expenses	0	–15
Other operating result	15,308	12,667
thereof deconsolidation result	15,308	12,667
Result for the period before taxes	**15,308**	**12,793**
Income taxes	0	0
Result for the period after taxes	**15,308**	**12,793**
Profit attributable to shareholders of the parent company	**15,308**	**12,793**
Profit attributable to non-controlling interest	0	0

Furthermore the result of discontinued operations of fiscal year 2012 includes the disposal of VBI to the Russian Sberbank. Detailed information and breakdowns are shown in the consolidated financial statements as at 31 December 2012.

Number of consolidated companies

	31 Dec 2013			31 Dec 2012		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	3	2	5	3	2	5
Financial institutions	21	23	44	31	27	58
Other enterprises	35	38	73	34	37	71
Total	**59**	**63**	**122**	**68**	**66**	**134**
Companies consolidated at equity						
Credit institutions	0	1	1	0	1	1
Other enterprises	2	0	2	3	0	3
Total	**2**	**1**	**3**	**3**	**1**	**4**

Number of unconsolidated companies

	31 Dec 2013			31 Dec 2012		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	20	40	60	29	48	77
Associated companies	35	15	50	37	20	57
Companies total	**55**	**55**	**110**	**66**	**68**	**134**

The unconsolidated companies in their entirety were deemed immaterial to the presentation of a true and fair view of the net assets, liabilities, financial position and profit or loss of the Group. Beside quantitative criteria like total assets and result after taxes also the effect of consolidation on specific positions as well as on the true and fair view of the consolidated financial statements is taking into account for the assessment of materiality. The calculation of the quantitative characteristics was based on the latest available financial statements of the companies and the Group's consolidated financial statements for 2013.

The complete list of companies included in the consolidated financial statements, companies measured at equity, as well as the unconsolidated companies including detailed information, can be found at the end of the notes. (see note 53, 54, 55)

3) Accounting principles

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

The VBAG Group's consolidated financial statements for 2013 and the comparative figures for 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRS; previously International Accounting Standards, IAS) and thus comply in full with the provisions set out in section 245a of the Austrian Company Code and section 59a of the Austrian Banking Act governing consolidated financial statements prepared in accordance with internationally recognised accounting principles.

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

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

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

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

a) Changes to accounting standards

In June 2011 the IASB published IAS 19 Employee Benefits. The amended IAS 19 has abolished the so/called corridor method and prescribes accounting directly for actuarial gains and losses in other comprehensive income. Furthermore, under the amended IAS 19 expected income from plan assets and the interest expense from the pension obligation are replaced by a uniform net interest component. The service cost to be calculated later will, in future, be recorded fully in the period of the related change in the plan. The revision of IAS 19 also changes the requirements for benefits from termination of the employment relationship and enhanced presentation and disclosure obligations. The new IAS 19 is applicable to all financial years beginning on or after 1 January 2013. For further details see chapter 1b).

The IASB published amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures in 2011. These amendments specify and expand the requirements and disclosures for offsetting financial instruments. It is still only possible to offset financial assets and financial liabilities if there is currently a legally enforceable right to offset the recorded amounts against each other, if there is an intention to settle the financial instruments on a net basis or to realise the financial asset and settle the financial liability simultaneously. The amendments expand and clarify the application guidance with regard to the criteria of "currently" and "simultaneously". They also prescribe additional disclosures to be made in the notes with regard to offsetting financial instruments. These amendments are applicable for business years beginning on or after 1 January 2013.

In May 2011 the IASB published IFRS 13 Fair Value Measurement. The new pronouncement does not determine to what extent certain assets and liabilities are to be measured at fair value but only determines the term fair value and standardises the disclosure requirements for measurement at fair value. The new pronouncement is applicable to financial years beginning on or after 1 January 2013.

b) New accounting standards

New accounting standards already endorsed by the European Union

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

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

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

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

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

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

IFRS 10, 11, 12 and the subsequent amendments to IAS 27 and IAS 28 apply to financial years beginning on or after 1 January 2014 and were already adopted to EU law. The new or amended pronouncements may be applied earlier, whereby in this case there is a common application date for all of the new rules. The exception to this is only IFRS 12, the disclosure requirements of which may be applied early, independent of the other pronouncements. The influence of these rules are of minor importance on the consolidated financial statements of the VBAG Group.

New accounting standards not yet adopted by the European Union

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

In addition to measurement of financial instruments, the measurement of financial liabilities in line with IFRS 9 was published in October 2010. The main changes to the former guideline in IAS 39 is the representation of changes in fair value, caused by the requirements of the own credit amounts, for financial liabilities measured at fair value through profit or loss. In future those changes in the fair value should be recognised directly in equity in other comprehensive income, except it would create an accounting mismatch. The rules for measurement at amortised costs and derivatives are unchanged. The standard is not endorsed by the European Union yet and is applicable for business years beginning on or after 1 January 2018. Based on the business activities of the Group, this standard will have a considerable impact on the consolidated financial statements.

c) Application of estimates and assumptions

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

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

- Alternative investment measurement methods are used to assess the recoverability of financial instruments for which no active market is available. Some of the parameters taken as a basis when determining fair value are based on assumptions concerning the future.
- The assessment of the recoverability of intangible assets, goodwill, investment properties and property, plant and equipment is based on assumptions concerning the future.
- The recoverability of financial instruments measured at amortised cost or assigned to the available for sale category is based on future assumptions.
- The recognition of deferred tax assets is based on the assumption that sufficient tax income will be generated in future in order to realise existing tax loss carryforwards; where required no deferred tax assets were recognised
- Assumptions regarding the interest rate, retirement age, life expectancy and future salary increases are applied when measuring existing long-term employee provisions.
- Provisions are measured on the basis of cost estimates from contractual partners, past experience and investment calculation methods.
- Assessments are regularly carried out for liabilities and impairment not recognised in the balance sheet due to guarantees and contingencies in order to determine whether on-balance sheet recognition in the financial statements is to be carried out.
- The repayment amount for loss-bearing equity instruments must be regularly adjusted in the following period according to IAS 39 AG 8. Estimated future cash flows are discounted using the original effective interest rate to determine the carrying amount of financial liabilities. The most up-to-date plans are used to calculate future cash flows.

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

d) Consolidation principles

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

The financial statements of the fully consolidated companies and the companies consolidated using the equity method were prepared on the basis of the Group's balance sheet date of 31 December 2013.

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

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

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

e) Currency translation

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

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

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

f) Net interest income

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

The unwinding effect resulting from the calculation of the risk provision is therefore shown in interest income.

Net interest income consists of:

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

Interest income and expenses from trading assets and liabilities are recognised in net trading income.

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

g) Risk provisons

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

h) Net fee and commission income

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

i) Net trading income

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

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

j) General administrative expenses

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

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

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

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

k) Other operating result

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

l) Income from financial investments

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

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

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

m) Financial assets and liabilities

Recognition

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

Derecognition

A financial asset is derecognised on the date on which the contractual rights to its cash flows expire. A financial liability is derecognised once it has been redeemed.

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

Offsetting

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

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

Amortised cost

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

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

Level 3: Measurement methods that largely use parameters which are not observable on the market. These parameters have a significant impact on the calculation of fair value. This category also contains instruments which are measured by adjusting non-observable inputs, provided such adjustment is considerable.

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

Impairment

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

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

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

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

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

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

- Historical loss experience with non-performing loans
- The estimated losses for the following period
- The estimated period between the occurrence of the loss and its identification (loss identification period 30 – 360 days)
- Management's experienced judgment as to whether the expected losses in the current period are greater or lower than suggested by historical data.

In the case of available for sale financial assets and a corresponding impairment it is recognised immediately as a write-down in the income statement. The amounts that have been recognised so far in the available for sale reserve will also be reclassified to the income statement. If the reason for impairment ceases to exist, the impairment loss is reversed through profit or loss in the case of debt instruments or recognised directly in comprehensive income taking into account deferred taxes in the case of equity instruments.

Financial instruments designated at fair value through profit or loss

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

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

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

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

Derivatives

Derivatives are always recognised in income at their fair value.

For calculation of fair value the credit value adjustments and debt value adjustments are taken into account. Counterparty risk for positive market values arising from unsecured interest rate management derivatives in the trading book is taken into account by means of credit value adjustments („CVA") – a way of approximating potential future loss in relation to counterparty risk. The CVA charge is approximated by multiplying exposure, probability of default and loss given default as well as add-on factors that depend on the duration and credit rating of the underlying derivative (interest rates, currencies, equities, commodities) and is expressed as a percentage of the nominal amount.

Changes in the market value of derivatives that are used for a fair value hedge are recognised immediately in the income statement under income from financial investments. The change in market value of the underlying transaction resulting from the hedged risk is also recognised under net income from financial instruments, irrespective of its allocation to individual categories under IAS 39. The Group uses fair value hedges to hedge against interest rate and currency risks arising from fixed-income financial investments and liabilities, foreign currency receivables and liabilities and structured issues.

In the case of cash flow hedges, the change in the fair value of the derivative is recognised in the cash flow hedge reserve in the other comprehensive income, taking into account deferred taxes. The ineffective part of the hedge is recognised in income. The valuation of the underlying transaction depends on the classification of the underlying transaction into the different categories. The Group uses cash flow hedges with a view to hedging the interest risk from variable-yield financial instruments and the currency risk from assets and liabilities denominated in foreign currencies.

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

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

Own equity and debt instruments

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

n) Loans and advances to credit institutions and customers

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

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

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

Finance lease

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

Real Estate leasing contracts have a basically maturity of 10 to 20 years, movable goods leasing for the retail section have a basically maturity of 3 to 6 years. The interest rate of the customer for the lease agreement is fixed for the whole maturity at the time the contract is closed. The effective interest rate can be adapted to changes on capital markets through an interest adjustment clause.

o) Risk provisions

Provisions for individual and portfolio-based impairment are recognised in order to cover the specific risks inherent to banking. For further details, see section 3m) Financial assets and liabilities.

p) Trading assets and liabilities

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

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

q) Financial investments

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

At fair value through profit or loss

The Group allocates some securities to this category and records changes in the fair value of such securities directly in the income statement as described in section 3m) Financial assets and liabilities.

Available for sale

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

Loans & receivables

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

Held to maturity

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

These financial instruments are recognised at amortised cost in accordance with the effective interest method. Any sale or reallocation of a substantial part of these financial instruments which does not occur on a date that is close to the redemption date or is attributable to a non-recurring isolated event that is beyond the Group's control and that could not have been reasonably anticipated, results in the reallocation of all held to maturity financial investments to the available for sale category for the two subsequent fiscal years. In 2012 and 2013, no such reallocations took place.

r) Investment property

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

Since parameters are used to measure investment property which are not based on market information, investment property is classified in Level 3 of the fair value category.

Rental income is recognised on a straight-line basis in accordance with the term of the respective lease and rental contracts and reported in interest and similar income.

s) Participations

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

Companies over which the Group exercises a significant influence are measured using the equity method. All other participations are recognised at their respective fair values. Fair values are determined by reference to quoted market prices on active markets, or by using a valuation method if there is no active market. Valuation methods include using discounted cash flow techniques and valuations using multiples. If discounted cash flow procedures are used, the discount rates applied are based on the current recommendations of the Expert Committee of the Austrian Chamber of Public Accountants and Tax Advisers and international financial information service companies. These ranged between 7.5% and 9.9% in 2013. Market risk premiums used in these calculations is 5.75% beta values between 0.97% and 1.25%, while discounts of up to 20% are applied to illiquid instruments. Additional sovereign risks were not observed. Procedures are also used where fair values are determined by adapting available market data for similar financial instruments. Participations whose fair value cannot be reliably determined are carried at cost. Impairment is recorded for losses in value. If the reason for impairment ceases to exist, the impairment loss is reversed and recognised directly in equity with due consideration of deferred taxes.

t) Intangible and tangible fixed assets

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

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

Assets used in operating lease transactions are allocated to the VBAG Group and reported in the tangible fixed assets. Tangible fixed assets are carried at cost and depreciated on a straight-line basis over their estimated life in the case of depreciable assets.

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

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

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

Leasing income from operating lease assets is recognised on a straight-line basis over the term of the contract through profit and loss and presented with depreciations in interest and similar income.

u) Tax assets and liabilities

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

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

Deferred tax assets in respect of unutilised tax loss carryforwards are recognised to the extent that it is probable that future taxable profit will be available at the same company against which the unused tax losses can be utilised or if sufficient taxable temporary differences exist. The appraisal period is up to 4 years. Deferred tax assets from tax loss carryforwards are impaired, if it is unlikely that the tax benefit can be realised. Deferred taxes are not discounted.

v) Other assets

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

w) Liabilities

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

x) Employee benefits

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

VBAG Group has made defined benefit commitments for individual staff members for the amounts of future benefits. All of these plans are partly unfunded, i.e. the funds required as cover are retained and the VBAG Group recognises the necessary provisions. In VBAG Group, staff pension entitlements were transferred to a pension fund in previous years and are shown as plan assets. There are no extraordinary risks, risks specific to the company or plans, or significant risk concentrations. Both pension funds invest almost 55% of their resources in bonds and 33% in equities. The rest is split between alternative investments, real estate and cash.

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

Actuarial gains and losses are recognised directly under other comprehensive income. Past service cost is recognised immediately through profit and loss when the plan is amended. All income and expenses connected with defined benefit plans are recognised under staff expenses.

Principal actuarial assumptions

	2013	2012	2011	2010	2009
Discount rate	3.00%	3.00%	4.50%	4.25%	5.25%
Expected return on plan assets	3.00%	3.00%	4.25%	4.25%	5.50%
Future salary increase	3.50%	3.50%	3.50%	3.50%	3.50%
Future pension increase	2.00%	2.00%	2.00%	2.00%	2.00%
Fluctuation rate	none	none	none	none	none

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

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

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

y) Other provisions

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

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

z) Other liabilities

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

aa) Subordinated Liabilities

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

In case of bankruptcy or the winding up of the enterprise, all amounts accounted for as subordinated liabilities may be satisfied after having met the demands of all other non-subordinated creditors.

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

bb) Equity

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

Capital management in VBAG Group is done on the basis of the supervisory capital. For further details see chapter ee) Own funds in accordance with the Austrian Banking Act (BWG) and chapter 52)c) Risk strategy and internal capital adequacy assessment process.

cc) Capital reserves

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

dd) Retained earnings

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

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

The Group is subject to external provisions governing its equity requirements based on the EU directives 2006/48/EC and 2006/49/EC which have been implemented in national law. The rules regarding capital ratios specified here constitute the central management variable in the VBAG Group. These ratios reflect the relationship between regulatory own funds and credit, market and operational risk. Accordingly, the risk/return management of VBAG is based on the capital allocated to one business or, ultimately, one organisational unit and the income to be generated from this, taking into account the corresponding risk considerations.
Credit risk is determined by multiplying on-balance sheet and off-balance sheet exposures on the basis of their relative risks by the risk weighting to be allocated to a counterparty. The procedure for determining risk-relevant parameters (exposure, risk weighting) is based on percentages specified by regulatory requirements (standard approach). The market risk component of the Group is calculated using the standard approach. The capital requirements for operational risk are calculated by multiplying the revenues by the respective percentages for the divisions.

Regulatory own funds can be broken down into three elements:
- Core capital or tier I capital
- Supplementary capital or tier II capital
- Short-term subordinated liabilities or tier III capital.

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

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

Tier III capital consists of current subordinated liabilities.

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

The VBAG Group's own funds are described in note 37) Own funds in accordance with the Austrian Banking Act (BWG). The VBAG Group complied with these relevant supervisory requirements in the reporting period and its own funds exceeded the minimum requirements.

CRD IV and CRR (Basel III) enter into force since 1 January 2014. This will differentiate between Common Equity Tier I (CET1) and Additional Tier I, whereby CET1 will form the main component of banks' capital in the future. According to transitional provisions, hybrid capital will be allocated as AT1 or Tier 2 and will be subject to phasing out arrangements. In future, non-controlling interest at subsidiary companies will only be allowable against the pro rata minimum own funds requirement. Existing capital components that no longer meet the criteria for CET1, AT1 or T2 will be applied at a rate reduced by 10 percentage points each year. State participation capital is eligible as CET1 until 31 December 2017.

ff) Trustee transactions

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

gg) Repurchase transactions

Under genuine repurchase agreements, the Group sells assets to a contractual partner and simultaneously undertakes to repurchase these assets at the agreed price on a predefined date. The assets remain in the consolidated balance sheet as no risk or rewards are transferred and are measured in accordance with the rules applying to the respective balance sheet items. At the same time, the received payment is recognised as a liability.

hh) Contingent liabilities

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

Obligations arising from financial guarantees are recognised as soon as the VBAG Group becomes a contracting party, i.e. when the guarantee offer is accepted. Initial measurement is performed at fair value. Generally the fair value corresponds to the value of the premium agreed.

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

ii) Cash flow statement

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

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

4) Net interest income

Euro thousand	2013	2012
Interest and similar income	713,773	1,000,383
Interest and similar income from	670,771	944,603
liquid funds	1,147	3,696
credit and money market transactions with credit institutions	59,534	100,836
credit and money market transactions with customers	357,090	465,469
debt securities	123,187	192,496
derivatives in the investment book	129,813	182,107
Current income from	23,301	26,743
equities and other variable-yield securities	2,449	5,194
other affiliates	6,409	6,501
investments in other companies	14,443	15,048
Income from operating lease and investment property	19,701	29,036
rental income investment property	13,594	17,364
income from operating lease contracts	6,107	11,672
rental income	23,657	32,744
depreciations	–17,550	–21,073
Interest and similar expenses of	–525,187	–778,233
deposits from credit institutions (including central banks)	–144,386	–224,283
deposits from customers	–75,100	–73,431
debts evidenced by certificates	–265,677	–447,387
subordinated liabilities	–34,098	–25,569
derivatives in the investment book	–5,926	–7,564
Net interest income	**188,586**	**222,149**

Net interest income according to IAS 39 categories:

Euro thousand	2013	2012
Interest and similar income	713,773	1,00,838
Interest and similar income from	670,771	944,603
financial investments at fair value through profit or loss	3,028	6,090
derivatives in the investment book	129,813	182,107
financial investments not at fair value through profit or loss	537,930	756,406
financial investments available for sale	85,733	135,273
financial investments at amortised cost	425,974	590,455
of which financial lease	160,421	184,906
of which unwinding of risk provisions	2,059	1,412
financial investments held to maturity	26,223	30,678
Current income from	23,301	26,743
financial investments at fair value through profit or loss	780	2,021
financial investments available for sale	22,521	24,722
Operating lease operations and investment property	19,701	29,036
Interest and similar expenses of	–525,187	–778,233
derivatives in the investment book	–5,926	–7,564
financial investments at amortised cost	–519,261	–770,669
Net interest income	**188,586**	**222,149**

5) Risk provisions

Euro thousand	2013	2012
Allocation to risk provisions	–184,584	–504,172
Release of risk provisions	219,087	188,995
Allocation to provisions for risks	–3,795	–4,050
Release of provisions for risks	8,676	5,239
Direct write-offs of loans and advances	–66,253	–59,874
Income from loans and receivables previously written off	3,407	6,947
Risk provisions	**–23,462**	**–366,916**

For more details concerning risk provisions and provisions for risks we refer to note 15) Risk provisions and note 30) Provisions.

6) Net fee and commission income

Euro thousand	2013	2012
Fee and commission income from	73,577	86,939
lending operations	16,932	30,589
securities businesses	44,685	43,966
payment transactions	4,830	4,252
other banking services	7,129	8,132
Fee and commission expenses from	–43,331	–28,731
lending operations	–19,978	–14,487
securities businesses	–22,147	–12,995
payment transactions	–989	–885
other banking services	–217	–364
Net fee and commission income	**30,246**	**58,208**

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

Management fees for trust agreements were recognised in fee and commission income in the amount of euro 6 thousand (2012: euro 6 thousand).

7) Net trading income

Euro thousand	2013	2012
Equity related transactions	–1,828	16,884
Exchange rate related transactions	6,461	5,736
Interest rate related transactions	3,801	9,574
Net trading income	**8,434**	**32,195**

8) General administrative expenses

Euro thousand	2013	2012
Staff expenses	–133,902	–138,500
Wages and salaries	–99,765	–103,013
Expenses for statutory social security	–23,647	–24,072
Fringe benefits	–1,718	–1,856
Expenses for retirement benefits	–6,048	–4,053
Allocation to provision for severance payments and pensions	–2,724	–5,506
Other administrative expenses	–104,544	–109,745
Depreciation of fixed tangible and intangible assets	–11,336	–13,208
Scheduled depreciation (–)	–11,336	–11,663
Impairment (–)	0	–1,545
General administrative expenses	**–249,783**	**–261,453**

Staff expenses include payments for defined contribution plans totalling euro 2,153 thousand (2012: euro 2,517 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 2,807 thousand (2012: euro 4,265 thousand).

For the business year, expenses for the auditor KPMG Austria AG Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 2,491 thousand (2012: euro 2,021 thousand). Thereof euro 2,032 thousand (2012: euro 1,734 thousand) fall upon the audit of the consolidated financial statements including financial statements fo fully consolidated companies and joint enterprises, euro 354 thousand (2012: euro 170 thousand) upon advisory services, euro 12 thousand upon tax advisory services and euro 93 (2012: euro 118 thousand) thousand upon other audit services.

Information on compensation to board members

Euro thousand	2013	2012
Total compensation		
Supervisory board	115	115
Managing board	2,085	2,132
Former board members and their surviving dependents	571	567
Expenses for severance payments and pensions		
Managing board	1,141	1,793

Members of the Managing Board do not receive performance or results-based pay. The total compensation of Managing Board members consists of a fixed basic salary and other compensation (e.g. in-kind benefits). There is no stock-option or share-transfer scheme for members of the Managing Board.

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

Principles governing pension entitlements and claims of members of the Managing Board at termination of the function:
The contracts of all members of the Managing Board are subject to the new severance payment system ("Abfertigung Neu"). There is also a D&O insurance policy (directors' and officers' insurance).

Number of staff employed, including disposal group

	Average number of staff		Number of staff at year end	
	2013	2012	31 Dec 2013	31 Dec 2012
Domestic	1,122	1,188	1,101	1,137
Abroad	755	1,294	752	775
Total number of staff	**1,877**	**2,482**	**1,853**	**1,912**

The number of staff employed in disposal group is as follows

	Average number of staff	
	2013	2012
Disposal group Banks CEE		
Domestic	0	10
Abroad	0	512
Employees Banks CEE	**0**	**522**
Total Employees disposal group	**0**	**522**

9) Other operating result

Euro thousand	2013	2012
Other operating income	313,708	913,255
Proceeds from deconsolidation of subsidiaries	–7,627	–12,431
Other operating expenses	–94,228	–74,573
Other taxes	–55,189	–70,766
Impairment of goodwill	0	–330
Other operating result	**156,665**	**755,154**

Adaptation of book value of PS 2008 and supplementary capital bond according to IAS 39 AG 8 results into income of euro 88,989 thousand (2012: euro 648,126 thousand) for the reporting period. Other operating income also includes the result of repurchase of tier II capital to the amount of euro –25,989 thousand (2012: other operating income euro 39,986 thousand) as well as repurchase of tier I capital from previous year amounted of euro 143,239 thousand which is included in the comparative period (see note 34).

In accordance with the agreement of 27 February 2012, the Republic of Austria provided VBAG with an asset guarantee on 15 March 2013 up to a maximum amount of euro 100 million. This asset guarantee is effective until 31 December 2015 at the latest. The non-interest bearing receivable arising from the assumption of bad debts is discounted to the reporting date based on its long-term nature. The earn-out clause included in this asset guarantee constitutes a liability that must also be discounted to the relevant reporting date and recognised. Amounts arising from the discounting of the receivable and the discounting of the liability from the earn-out clause were offset and recognised under the other operating result and totalled euro 69 million in the 2013 business year.

Hire purchase transactions as well as operating expenses and insurance contributions which are passed on to customers are netted (to the amount of euro 186,262 thousand (2012: euro 166,761 thousand)) and recognised in other operating income, as this procedure presents a fairer view of the economic nature of these transactions.

In 2013, the proceeds from deconsolidation of subsidiaries contain the result of the sale of ten companies of the real-estate segment. In the previous year the amount contain the deconsolidation result of two companies of the real-estate segment.

Other taxes comprise the banking levy amounting to euro 45,594 thousand (2012: 45,594 thousand). In the comparative figures a claim against an investment income tax liability amounting to euro 18,973 thousand following an audit, is included.

The impairment test for Heilbad Sauerbrunn for the business year 2013 did not lead to any impairment. In the previous year the goodwill was partly impaired by euro 330 thousand.

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

10) Income from financial investments

Euro thousand	2013	2012
Result from financial investments at fair value through profit or loss	**–12,638**	**7,264**
Result from financial investments at fair value through profit or loss	–12,638	7,264
Debt securities	3,261	12,070
Equity and other variable-yield securities	–15,899	–4,806
Result from fair value hedges	**1,213**	**4,089**
Result from revaluation of underlying instruments	69,499	–8,809
Loans and advances to credit institutions and customers	–23,374	12,570
Debt securities	–104,640	87,404
Amounts owed to credit institutions and customers	78,992	–85,917
Debts evidenced by certificates	118,522	–26,113
Subordinated liabilities	0	3,247
Result from revaluation of derivates	–68,286	12,898
Result from valuation of other derivates in the investment book	**–19,785**	**76,772**
Equity related transactions	0	1,458
Exchange rate related transactions	6,332	–17,792
Interest rate related transactions	–626	54,433
Credit related transactions	–4,550	62,641
Other transactions	–20,940	–23,968
Result from available for sale financial investments (including participations)	**14,096**	**11,101**
Realised gains / losses	33,128	34,982
Income from revaluation	156	65
Impairments	–19,189	–23,946
Result from loans & receivables financial investements	**–11,140**	**–24,219**
Realised gains / losses	–10,758	–22,550
Income from revaluation	13	3
Impairments	–395	–1,673
Result from held to maturity financial investments	**2,559**	**2,697**
Realised gains / losses	2,559	2,697
Result from assets for operating lease and investment property assets as well as other financial investments	**–23,218**	**–50,841**
Realised gains / losses	7,676	2,556
Change in value investment property	–30,894	–53,397
Income from financial investments	**–48,913**	**26,863**

In 2013, an amount of euro 11,958 thousand (2012: euro 12,148 thousand) previously recognised in the avialable for sale reserve was reclassified and shown in the income statement.

Euro thousand	2013	2012
Result from financial investments, which are measured at fair value through profit and loss	**–62,104**	**34,728**
Financial instruments at fair value through profit or loss	–12,638	7,264
Fair value hedges	1,213	4,089
Other derivatives in investment book	–19,785	76,772
Investment property assets	–30,894	–53,397
Result from financial investments, which are not measured at fair value through profit and loss	**13,191**	**–7,865**
Realised gains/losses	32,605	17,686
Available for sale financial investments	33,128	34,982
Loans & receivables financial investments	–10,758	–22,550
Held to maturity financial investments	2,559	2,697
Operating lease assets and other financial investments	7,676	2,556
Income from revaluation	169	68
Available for sale financial investments	156	65
Loans & receivables financial investments	13	3
Impairments	–19,583	–25,619
Available for sale financial investments	–19,189	–23,946
Loans & receivables financial investments	–395	–1,673
Income from financial investments	**–48,913**	**26,863**

11) Income taxes

Euro thousand	2013	2012
Current income taxes	–15,280	–16,453
Deferred income taxes	–7,778	–33,871
Income taxes discounted operation	0	–2,051
Income taxes for the current fiscal year	**–23,058**	**–52,376**
Income taxes from previous periods continued operation	–1,345	–13,858
Income taxes from previous periods	–1,345	–13,858
Income taxes	**–24,403**	**–66,234**

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

Euro thousand	2013	2012
Annual result before taxes - continued operation	–64,290	464,348
Annual result before taxes - discontinued operation	15,308	48,646
Annual result before taxes - total	**–48,982**	**512,994**
Imputed income tax 25 %	–12,245	128,249
Tax relief resulting from		
tax-exempt investment income	–7,487	–4,763
investment allowances	76	74
other tax-exempt earnings	–1,028	–170
reduction of deferred taxes § 9 Abs. 7 KStG	0	–23,827
non-tax deductible impairment of goodwill	0	83
measurement of participation	11,105	–38,907
non-taxable valuation results	–16,944	–105,408
adjustment of deferred tax assets	38,993	9,778
non-inclusion of deferred tax assets	11,267	85,121
re-inclusion of deferred tax assets	–4,175	–113
changes in tax rates	326	–1,146
different foreign tax rates	–4,483	–2,184
other differences	7,652	5,589
Reported income taxes	**23,058**	**52,376**
of which discontinued operations	0	2,051
Effective tax rate - continued operations	**–35.87 %**	**10.84 %**
Effective tax rate - including discontinued operations	–47.07 %	10.21 %

Due to high allowances of deferred taxes and the re-inclusion of deferred tax assets particularly for taxable loss carryforwards the effective tax rates differ strongly from the legal tax rate in Austria.

Deferred taxes totalling euro 18,953 thousand (2012: euro 10,319 thousand) were taken directly to other comprehensive income. In 2013, tax loss carryforwards and deferred tax assets to the amount of euro 155,972 thousand (tax base) (2012: euro 39,113 thousand) were impaired. Furthermore, no deferred taxes were recognised for taxable loss carryforwards and for deferred tax assets to the amount of euro 22,708 thousand (2012: euro 340,485 thousand) as, in the opinion of the management, the realisation of these tax loss carryforwards and deferred tax assets does not appear to be probable over an adequate period of time (up to 4 years). Therefore no deferred taxes were recognised for tax loss carryforwards to the amount of euro 2,322,267 thousand (2012: euro 2,112,298 thousand). Of these taxable loss carryforwards euro 2,309,658 thousand (2012: euro 2,094,103 thousand) are without limitation, and are mainly attributable to VBAG itself.

Notes to the consolidated statement of financial positions

12) Liquid funds

Euro thousand	31 Dec 2013	31 Dec 2012
Cash in hand	1,382	1,307
Balances with central banks	1,761,070	849,955
Liquid funds	**1,762,453**	**851,262**

13) Loans and advances to credit institutions

Loans and advances to credit institutions amounting to euro 5,798,139 thousand (2012: euro 7,270,203 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2013	31 Dec 2012
on demand	714,307	566,647
up to 3 months	1,404,874	1,075,179
up to 1 year	298,976	1,113,584
up to 5 years	3,333,550	3,938,172
more than 5 years	46,432	576,621
Loans and advances to credit institutions	**5,798,139**	**7,270,203**

14) Loans and advances to customers

Loans and advances to customers amounting to euro 7,081,347 thousand (2012: euro 10,039,571 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2013	31 Dec 2012
on demand	207,219	357,763
up to 3 months	255,837	369,384
up to 1 year	1,746,889	1,493,209
up to 5 years	3,742,008	5,159,248
more than 5 years	1,129,394	2,659,967
Loans and advances to customers	**7,081,347**	**10,039,571**

Finance lease disclosures

Euro thousand	until 1 year	until 5 years	more than 5 years	Total
2013				
Total gross investment	1,027,105	1,711,546	248,280	2,986,931
Less paid non-interest-bearing deposits	–4,064	–4,778	–3,026	–11,868
Less unearned financial income	–127,819	–168,416	–29,366	–325,601
Present value of minimum lease payments	**895,222**	**1,538,353**	**215,888**	**–2,649,463**
Total unguaranteed residual value				**13,893**
2012				
Total gross investment	999,426	1,614,617	552,111	3,166,154
Less paid non-interest-bearing deposits	–341	–2,633	–13,570	–16,545
Less unearned financial income	–123,111	–173,705	–76,559	–373,374
Present value of minimum lease payments	**875,974**	**1,438,279**	**461,982**	**2,776,235**
Total unguaranteed residual value				**14,473**

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

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

15) Risk provisions

Euro thousand	Individual impairment credit institutions	Individual impairment customers	Portfolio based allowance	Total	of which disposal group
As at 1 Jan 2012	**703**	**1,261,444**	**59,258**	**1,321,405**	**375,661**
Changes in the scope of consolidation	0	–360,812	–14,440	–375,252	–366,495
Currency translation	0	15,742	489	16,231	7,429
Reclassification	0	399	459	858	0
Unwinding	0	–2,375	0	–2,375	–963
Utilisation	0	–202,720	0	–202,720	–9,352
Release	0	–202,729	–2,990	–205,720	–16,725
Addition	0	374,001	140,616	514,617	10,445
As at 31 Dec 2012	**703**	**882,950**	**183,392**	**1,067,045**	**0**
Changes in the scope of consolidation	0	–3,790	0	–3,790	
Currency translation	0	–7,635	–161	–7,795	
Reclassification	0	–34,348	–180	–34,528	
Unwinding	0	–2,059	0	–2,059	
Utilisation	0	–211,361	0	–211,361	
Release	0	–99,172	–119,915	–219,087	
Addition	0	184,407	177	184,584	
As at 31 Dec 2013	**703**	**708,993**	**63,313**	**773,009**	

Loans and advances to customers include non-interest-bearing receivables amounting to euro 406,930 thousand (2012: euro 496,742 thousand). The additions include an amount of euro 7,708 thousand (2012: euro 11,931 thousand), which is caused by allocation due to interest past-due. The line reclassification includes beside reclassifications from provisions also a reclassification to the position assets held for sale. Portfolio based allowances related to loans and advances to customers.

16) Trading assets

Euro thousand	31 Dec 2013	31 Dec 2012
Debt securities	109,947	308,140
Equity and other variable-yield securities	26,655	30,352
Positive fair value from derivatives	1,490,790	2,235,735
equity related transactions	39,401	100,710
exchange rate related transactions	2,337	22,366
interest related transactions	1,449,052	2,112,659
Trading assets	**1,627,392**	**2,574,227**

Breakdown by residual term

Euro thousand	31 Dec 2013	31 Dec 2012
up to 3 months	7,364	1,095
up to 1 year	16,305	8,689
up to 5 years	57,123	131,989
more than 5 years	29,155	166,366
Debt securities	**109,947**	**308,140**

17) Financial investments

Euro thousand	31 Dec 2013	31 Dec 2012
Financial investments at fair value through profit or loss	51,976	189,905
Debt securities	42,897	120,042
Equity and other variable-yield securities	9,080	69,863
Financial investments available for sale	2,283,393	3,209,084
Debt securities	2,216,571	3,106,941
Equity and other variable-yield securities	66,822	102,143
Financial investments loans & receivables	255,945	1,050,051
Financial investments held to maturity	831,425	1,112,018
Financial investments	**3,422,739**	**5,561,058**

Financial investments held to maturity also include deferred interest of euro 11,459 thousand (2012: euro 19,046 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2013	31 Dec 2012
up to 3 months	250,303	356,307
up to 1 year	444,668	509,993
up to 5 years	1,137,180	2,176,881
more than 5 years	1,514,687	2,345,871
Debt securities	**3,346,838**	**5,389,052**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2013	31 Dec 2012
Listed securities	3,243,128	5,208,867
Debt securities	3,236,709	5,196,469
Equity and other variable-yield securities	6,418	12,398
Securities allocated to fixed assets	3,282,728	5,160,713
Securities eligible for rediscounting	2,669,794	3,453,937

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

Financial investments measured at fair value through profit or loss

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

Reclassification from available for sale to loans & receivables

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

Euro thousand	31 Dec 2013	31 Dec 2012	1 Jul 2008
Carrying amount	106,754	472,558	1,140,363
Fair value	108,218	465,136	1,140,363
Available for sale reserve with reclassification	–4,724	–27,673	–79,177
Available for sale reserve without reclassification	–6,009	–38,228	–79,177

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

Average effective interest rate - classified by currency

	EUR	USD	GBP	JPY	Total
Average effective interest rate 2013	2.54%	1.69%	4.17%	0.00%	2.07%
Average effective interest rate 2012	2.20%	2.28%	2.92%	2.32%	2.28%

18) Investment property

Euro thousand	Investment properties
Cost as at 1 Jan 2012	**267,549**
Changes in the scope of consolidation	95,230
Currency translation	719
Additions, including transfers	27,113
Disposals, including transfers	–12,292
Cost as at 31 Dec 2012	**378,318**
Currency translation	–1,441
Additions, including transfers	84,462
Disposals, including transfers	–98,232
Cost as at 31 Dec 2013	**363,107**

Euro thousand	Investment properties
2012	
Cost as at 31 Dec 2012	378,318
Cumulative write-downs and write-ups	–91,512
Carrying amount as at 31 Dec 2012	**286,806**
Impairments in fiscal year	–57,470
Revaluations in fiscal year	4,073
Carrying amount as at 1 Jan 2012	243,301
2013	
Cost as at 31 Dec 2013	363,107
Cumulative write-downs and write-ups	–110,697
Carrying amount as at 31 Dec 2013	**252,410**
Impairments in fiscal year	–35,205
Revaluations in fiscal year	4,310

In 2013, carrying amount of investment property assets to the amount of euro 52,119 thousand (2012: euro 12,119 thousand) was disposed of.

Investment properties contain 20 completed properties (2012: 21) as well as two property under construction with a carrying amount of euro 14,615 thousand (2012: three properties under construction with a carrying amount of euro 44,090 thousand). These properties are located in Austria as well as in countries of Central and Eastern Europe. At balance sheet date, the properties under construction are measured at fair value.

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

Beginning with business year 2013 other operating lease assets are included in the position tangible fixed assets. The comparative figures were adjusted accordingly.

19) Companies measured at equity

Additional information on companies measured at equity

Euro thousand	2013	2012
Cumulative total assets as at 31 Dec	3,115,897	3,724,780
Cumulative equity as at 31 Dec	299,122	271,029
Cumulative revenues	120,690	127,140
Cumulative net income	–102,407	–169,246

Not recognised proportional loss of companies measured at equity

Euro thousand	2013	2012
Loss of the period proportional	–49,585	–84,763
Change in other comprehensive income of the period proportional	0	–11,015
Cumulative loss	–157,140	–107,555
Cumulative other comprehensive income	–11,015	–11,015

20) Participations

Euro thousand	31 Dec 2013	31 Dec 2012
Investments in unconsolidated affiliates	27,660	11,304
Participating interests	76,276	60,544
Investments in other companies	255,596	372,714
Participations	**359,531**	**444,562**

A list of non-consolidated affiliates can be found in note 55.

Participations with a carrying amount of euro 27,207 thousand (2012: euro 46,544 thousand) were disposed of during the business year. Profit from these sales amounted to euro 18,092 thousand (2012: euro 24,488 thousand) and is shown under income from financial investments.

Participations in companies whose fair value cannot be reliably determined are carried at cost net of any impairment. Participations with a carrying amount of euro 310,322 (2012: euro 315,909 thousand) thousand were measured at market value.

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

21) Intangible assets

Euro thousand	Software	Goodwill	Other	Total
Cost as at 1 Jan 2012	112,115	249,428	28,393	389,936
Changes in the scope of consolidation	–70,481	–246,169	–3,099	–319,750
Currency translation	86	0	7	93
Additions, including transfers	3,875	0	32	3,907
Disposals, including transfers	–313	0	–25,066	–25,379
Cost as at 31 Dec 2012	**45,282**	**3,258**	**266**	**48,806**
Currency translation	–141	0	–3	–144
Additions, including transfers	3,327	0	30	3,357
Disposals, including transfers	–2,495	0	–38	–2,534
Cost as at 31 Dec 2013	**45,973**	**3,258**	**254**	**49,485**

Euro thousand	Software	Goodwill	Other	Total
2012				
Cost as at 31 Dec 2012	45,282	3,258	266	48,806
Cumulative write-downs and reversals	–31,768	–2,838	–232	–34,839
Carrying amount as at 31 Dec 2012	**13,514**	**420**	**34**	**13,967**
of which unlimited useful life	0	420	0	420
of which limited useful life	13,514	0	34	13,547
Amortisation in fiscal year	–3,256	0	–62	–3,318
Impairments in fiscal year	0	–330	0	–330
Carrying amount as at 1 Jan 2012	**37,455**	**17,720**	**310**	**55,484**
2013				
Cost as at 31 Dec 2013	45,973	3,258	254	49,485
Cumulative write-downs and reversals	–32,753	–2,838	–223	–35,814
Carrying amount as at 31 Dec 2013	**13,220**	**420**	**32**	**13,672**
of which unlimited useful life	0	420	0	420
of which limited useful life	13,220	0	32	13,252
Amortisation in fiscal year	–3,587	0	–45	–3,632

In position software no internally developed software is included.

Composition of goodwill

Euro thousand	Carrying amount 31 Dec 2013	Impairment 2013	Carrying amount 31 Dec 2012	Impairment 2012
Real Estate segment	420	0	420	–330
Total	**420**	**0**	**420**	**–330**

Remaining goodwill in the Real Estate segment in the 2013 business year relates to Heilbad Sauerbrunn and is the result of deferred tax liabilities from property valuation. The impairment test is based on the latest valuation of property. In case of a devaluation of the property goodwill is impaired in relation to the devaluation. The impairment test carried out on 31 December 2013 for the goodwill of Heilbad Sauerbrunn did not lead to any impairment.

22) Tangible fixed assets

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other operating lease assets	Other	Total
Cost as at 1 Jan 2012	247,219	46,451	87,448	151,536	20,348	553,002
Changes in the scope of consolidation	–106,243	–39,839	–45,043	73	–11,972	–203,025
Currency translation	126	82	57	664	146	1,074
Additions, including transfers	8,978	10,058	1,739	21,112	2,578	44,464
Disposals, including transfers	–13,991	–5,868	–14,481	–53,016	–2,943	–90,298
Cost as at 31 Dec 2012	136,089	10,884	29,719	120,369	8,156	305,218
Currency translation	–201	–75	–66	–967	–134	–1,442
Additions, including transfers	12	638	815	24,927	2,349	28,740
Disposals, including transfers	–72,256	–734	–6,488	–45,019	–2,732	–127,229
Cost as at 31 Dec 2013	**63,645**	**10,714**	**23,979**	**99,310**	**7,639**	**205,287**

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other operating lease assets	Other	Total
2012						
Cost as at 31 Dec 2012	136,089	10,884	29,719	120,369	8,156	305,218
Cumulative write-downs and reversals	–23,592	–8,558	–17,577	–53,037	–4,446	–107,209
Carrying amount as at 31 Dec 2012	**112,497**	**2,326**	**12,142**	**67,333**	**3,710**	**198,008**
Depreciation in fiscal year	–3,557	–1,344	–1,994	–21,073	–1,450	–29,418
Impairments in fiscal year	–1,545	0	0	0	0	–1,545
Carrying amount as at 1 Jan 2012	**178,539**	**8,445**	**22,419**	**85,245**	**7,268**	**301,916**
2013						
Cost as at 31 Dec 2013	63,645	10,714	23,979	99,310	7,639	205,287
Cumulative write-downs and reversals	–7,346	–9,077	–14,126	–39,581	–3,655	–73,784
Carrying amount as at 31 Dec 2013	**56,299**	**1,637**	**9,853**	**59,730**	**3,984**	**131,503**
Depreciation in fiscal year	–3,394	–1,173	–1,766	–17,550	–1,371	–25,254

The future minimum lease payments under non-cancellabel operating leases

Euro thousand	31 Dec 2013	31 Dec 2012
up to 3 months	6,711	7,977
up to 1 year	17,884	20,246
up to 5 years	46,618	46,680
more than 5 years	21,557	44,420
Future minimum lease payments	**92,770**	**119,323**

Beginning with business year 2013 other operating lease assets are included in the position tangible fixed assets. The comparative figures were adjusted accordingly.

23) Tax assets

Euro thousand	31 Dec 2013	31 Dec 2012
Current tax assets	19,974	11,104
Deferred tax assets	32,932	80,998
Tax assets	**52,905**	**92,103**

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

Euro thousand	31 Dec 2013	31 Dec 2012
Loans and advances to credit institutions	13,126	9
Loans and advances to customers, including risk provisions	30,730	80,871
Trading assets	3,860	2,131
Financial investments	578	752
Investment property	396	1,508
Participations	2,281	6,514
Intangible and tangible fixed assets	79	146
Amounts owed to credit institutions	19,892	27,763
Amounts owed to customers	31,199	43,976
Debts evidenced by certificates and subordinated liabilities	60,687	101,259
Provisions for pensions, severance payments and other provisions	12,482	16,216
Other assets and liabilities	112,213	148,766
Tax loss carryforwards	4,472	39,306
Deferred taxes before netting	291,994	469,215
Offset against liabilities side deferred taxes	–259,063	–388,217
Reported deferred tax assets	**32,932**	**80,998**

Deferred tax assets and deferred tax liabilities can only be offset to the extent that they relate to the same company.
For verification of the usability of tax loss carryforwards and the impairment of other deffered tax a period up to 4 years was taken as a basis according to the Group's tax planning.

24) Other assets

Euro thousand	31 Dec 2013	31 Dec 2012
Deferred items	12,110	9,557
Other receivables and assets	208,200	197,250
Positive fair value from derivatives in the investment book	394,434	1,158,408
Other assets	**614,744**	**1,365,216**

The table below shows the fair values of derivatives which are included in the position other assets which are used in hedge accounting in accordance with IFRS.

	31 Dec 2013		31 Dec 2012	
Euro thousand	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Exchange rate related transactions	0	0	548	0
Interest rate related transactions	132,956	56	731,968	1,747
Positive fair value from derivatives	**132,956**	**56**	**732,516**	**1,747**

25) Assets held for sale

This position includes assets less liabilities. The displayed amount is composed as follows.

Euro thousand	31 Dec 2013	31 Dec 2012
Loans and advances to customers (gross)	397,706	0
Risk provisions (-)	–42,732	0
Financial investments	36,442	0
Participations	31,781	0
Other assets	142,722	0
Other liabilities	–11,261	0
Assets held for sale	**554,657**	**0**

Participations are measured at fair value.

26) Amounts owed to credit institutions

Euro thousand	31 Dec 2013	31 Dec 2012
Central banks	152,100	304,231
Other credit institutions	7,554,902	9,530,287
Amounts owed to credit institutions	**7,707,002**	**9,834,518**

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2013	31 Dec 2012
on demand	4,459,195	4,009,849
up to 3 months	887,316	621,030
up to 1 year	385,863	1,657,271
up to 5 years	1,231,684	1,728,217
more than 5 years	742,945	1,818,153
Amounts owed to credit institutions	**7,707,002**	**9,834,518**

27) Amounts owed to customers

Euro thousand	31 Dec 2013	31 Dec 2012
Measured at amortised cost	2,148,440	2,542,128
Saving deposits	201	200
Other deposits	2,148,239	2,541,928
Amounts owed to customers	**2,148,440**	**2,542,128**

Breakdown by residual term

Euro thousand	31 Dec 2013	31 Dec 2012
on demand	656,733	481,396
up to 3 months	132,925	101,201
up to 1 year	36,414	101,019
up to 5 years	475,913	735,969
more than 5 years	846,455	1,122,543
Amounts owed to customers	**2,148,440**	**2,542,128**

28) Debts evidenced by certificates

Euro thousand	31 Dec 2013	31 Dec 2012
Bonds	7,084,825	9,935,036
Debts evidenced by certificates	**7,084,825**	**9,935,036**

Debts evidenced by certificates are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2013	31 Dec 2012
up to 3 months	637,599	1,584,798
up to 1 year	935,560	941,616
up to 5 years	2,802,449	4,046,822
more than 5 years	2,709,217	3,361,800
Debts evidenced by certificates	**7,084,825**	**9,935,036**

29) Trading liabilities

Euro thousand	31 Dec 2013	31 Dec 2012
Negative fair value from derivatives		
Equity related transactions	58,755	104,785
Exchange rate related transactions	13,044	19,691
Interest rate related transactions	1,305,910	1,948,642
Trading liabilities	**1,377,709**	**2,073,118**

30) Provisions

Euro thousand	Provisions for risk	Other provisions	Total	of which disposal group
As at 1 Jan 2012	28,433	99,474	127,907	9,460
Changes in the scope of consolidation	–3,038	–6,549	–9,586	–9,586
Currency translation	–42	406	364	352
Reclassification	–1,970	–201	–2,171	0
Utilisation	–874	–17,858	–18,732	–75
Release	–5,798	–23,757	–29,555	–593
Addition	4,493	22,790	27,283	443
As at 31 Dec 2012	21,205	74,305	95,509	0
Currency translation	–4	–6	-10	0
Reclassification	–4,107	1,047	–3,060	0
Utilisation	–35	–14,386	–14,421	0
Release	–8,676	–2,561	–11,237	0
Addition	3,795	35,204	38,999	0
As at 31 Dec 2013	**12,178**	**93,602**	**105,779**	**0**

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

The other provisions item provides for liabilities that are likely to lead to an outflow of funds in the future. The restructuring provision first recognised in the 2011 business year fulfils the criteria given under IAS 37.10. and totalled euro 28,841 thousand (2012: euro 32,605 thousand) as at the reporting date. As most restructuring measures are to be implemented by the end of 2016 the provision is classified as a long-term provision. Provisions in the Real Estate segment amounting to euro 33,976 thousand (2012: euro 26,701 thousand) are mainly long-term provisions. Other long-term provisions were recognised for pending litigation amounting to euro 20,302 thousand (2012: euro 6,627 thousand), as well as for probable outflows of funds due to future interest rate adjustments totalling euro 4,895 thousand (2012: euro 6,234 thousand).

31) Long-term employee provisions

Euro thousand	Provisions for pension	Provisions for severance payments	Provisions for anniversary bonuses	Total	of which disposal group
Long-term employee provisions as at 1 Jan 2012	77,289	29,861	4,655	111,805	4,174
Restatement [1)]	8,588	1,708	0	10,296	168
Long-term employee provisions as at 1 Jan 2012 restated	85,877	31,569	4,655	122,101	4,342
Changes in the scope of consolidation	0	–3,867	–524	–4,392	–4,342
Current service costs	304	1,607	391	2,302	0
Interest costs	3,878	1,319	202	5,399	0
Payments	–3,243	–3,290	–463	–6,996	0
Actuarial gains or losses	1,647	2,062	222	3,931	0
Net present value as at 31 Dec 2012	88,464	29,399	4,483	122,346	0
Changes in the scope of consolidation	0	502	52	554	0
Current service costs	862	1,680	336	2,878	0
Interest costs	2,087	932	145	3,164	0
Payments	–2,516	–2,473	–399	–5,388	0
Actuarial gains or losses	2,572	–937	–286	1,349	0
Long-term employee provisions as at 31 Dec 2013	**91,470**	**29,103**	**4,331**	**124,904**	**0**

1) The restatement was carried out in accordance to IAS 8 (see chapter 1)

Net present value of plan assets

Euro thousand	Provisions for pensions
Net present value of plan assets as at 1 Jan 2012	35,769
Return on plan assets	1,128
Contributions to plan assets	3,798
Payments	–2,282
Actuarial gains or losses	0
Net present value of plan assets as at 31 Dec 2012	38,413
Return on plan assets	1,243
Contributions to plan assets	4,696
Payments	–2,375
Actuarial gains or losses	3
Net present value of plan assets as at 31 Dec 2013	**41,980**

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

Contribution payments to plan assets are expected in the amount of euro 572 thousand in 2014.

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
31 Dec 2012				
Long-term employee provisions	88,464	29,399	4,483	122,346
Net present value of plan assets	–38,413	0	0	–38,413
Net liability recognised in balance sheet	**50,051**	**29,399**	**4,483**	**83,933**
31 Dec 2013				
Long-term employee provisions	91,470	29,103	4,331	124,904
Net present value of plan assets	–41,980	0	0	–41,980
Net liability recognised in balance sheet	**49,490**	**29,103**	**4,331**	**82,924**

Historical information

Euro thousand	2013	2012	2011	2010	2009
Net present value of obligation	124,904	122,346	122,101	119,094	103,928
Net present value of plan assets	41,980	38,413	35,769	40,611	40,067

Sensitivity analyses

With all other variables held constant, possible changes that could reasonably be expected in one of the significant actuarial assumptions as of the reporting date would have influenced the defined benefit obligation as follows.

	Change in the present value	
Euro thousand	increase of the assumption	decrease of the assumption
Discount rate (0.75 % modification)	–10,335	12,016
Future wage and salary increases (0.50 % modification)	2,638	–2,437
Future pension increase (0.25% modification)	2,649	–2,501
Future mortality (1 year modification)	3,660	–3,649

As of 31 December 2013, the weighted average term of defined-benefit obligations for pensions was 15.7 years and for severance payment 23 years.

Although the analysis does not take into account the full distribution of cash flows expected based on the plan, it does provide an approximate value for the sensitivity of the assumptions presented.

32) Tax liabilities

Euro thousand	31 Dec 2013	31 Dec 2012
Current tax liabilities	14,112	16,662
Deferred tax liabilities	52,399	89,238
Tax liabilities	**66,511**	**105,900**

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

Euro thousand	31 Dec 2013	31 Dec 2012
Loans and advances to credit institutions	140	6,363
Loans and advances to customers, including risk provisions	24,836	39,737
Financial investments	35,097	43,848
Operating lease assets and Investment property	7,912	9,607
Participations	36,333	53,444
Intangible and tangible fixed assets	142	5,323
Amounts owed to credit institutions	375	461
Amounts owed to customers	43	48
Debts evidenced by certificates and subordinated liabilities	13,370	57,393
Other liabilities	935	0
Provisions for pensions, severance payments and other provisions	1,501	509
Other assets and liabilities	176,236	245,761
Other balance sheet items	14,543	14,962
Deferred taxes before netting	311,462	477,455
Offset against asset-side deferred taxes	–259,063	–388,217
Reported deferred tax liabilities	**52,399**	**89,238**

33) Other liabilities

Euro thousand	31 Dec 2013	31 Dec 2012
Deferred items	14,113	11,716
Other liabilities	224,801	149,046
Negative fair value from derivatives in the investment book	315,635	895,911
Other liabilities	**554,549**	**1,056,694**

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

	31 Dec 2013		31 Dec 2012	
Euro thousand	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Exchange rate related transactions	32,314	0	59,229	0
Interest rate related transactions	43,381	630	464,276	1,499
Negative fair value from derivatives	**75,695**	**630**	**523,506**	**1,499**

34) Subordinated liabilities

Euro thousand	31 Dec 2013	31 Dec 2012
Subordinated liabilities	442,585	362,114
Supplementary capital	112,372	258,604
Subordinated liabilities	**554,957**	**620,718**

Subordinated liabilities are measured at amortised cost. The carrying amount of supplementary capital was re-calculated in accordance with IAS 39 AG 8. Here, the present value was determined by discounting estimated future cash flows using the original effective interest rate.

Subordinated liabilities comprise hybrid tier I capital in the amount of euro 57,698 thousand (2012: euro 57,698 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2013	31 Dec 2012
up to 3 months	0	0
up to 1 year	18,907	7,574
up to 5 years	235,093	235,054
more than 5 years	300,956	378,090
Subordinated liabilities	**554,957**	**620,718**

35) Cash flows based on maturities

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

Euro thousand	Amounts owed to credit institutions	Amounts owed to customers	Debts evidenced by certificates	Subordinated liabilities	Derivatives trading book	Derivatives investment book
31 Dec 2013						
Carrying amount	7,707,002	2,148,440	7,084,825	554,957	1,377,709	315,635
Undiscounted cash flows	**8,308,068**	**3,486,075**	**8,337,571**	**685,673**	**1,315,836**	**168,632**
up to 3 months	5,484,165	1,467,718	650,733	0	0	88
up to 1 year	403,881	92,990	1,110,997	38,340	32,342	37,069
up to 5 years	1,637,342	702,756	3,561,349	324,002	670,101	69,831
more than 5 years	782,679	1,222,611	3,014,493	323,331	613,393	61,643
31 Dec 2012						
Carrying amount	9,834,518	2,542,128	9,935,036	620,718	2,073,118	895,911
Undiscounted cash flows	**10,256,941**	**3,286,886**	**11,733,985**	**834,499**	**2,824,662**	**336,649**
up to 3 months	4,632,614	609,250	1,533,382	0	0	1,373
up to 1 year	1,714,726	157,341	1,194,213	17,384	80,254	49,585
up to 5 years	2,006,418	970,134	4,984,809	279,763	980,374	172,177
more than 5 years	1,903,184	1,550,161	4,021,580	537,351	1,764,033	113,514

Cash flows for contingent liabilities are displayed in note 45) Contingent liabilities and credit risks.

36) Equity

As at 31 December 2013, the subscribed capital of VBAG before deduction of treasury stocks amounted to euro 577,329 thousand. It consists of registered shares as follows:

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

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

In addition to its equity, VBAG reported participation capital with a nominal value of euro 310 million at 31 December 2013 (2012: euro 310 million). The participation certificates are made out to bearers and their terms of issue and the contributions paid correspond to the provisions of section 23 (4) of the Austrian Banking Act.

The Annual General Meeting held on 23 May 2013 authorised the Managing Board to raise the company's share capital up to 23 May 2018 for the purposes of withdrawing – pursuant to section 102a (7) 2 BWG – participation capital to be issued based on the resolution of the Annual General Meeting of 15 December 2008. Capital may be raised by up to euro 288,664,311.73 through the issue of new ordinary shares – in several tranches if necessary – in return for a cash payment, whereby the issue amount, issue terms and conditions and, where provided for, the exclusion of subscription rights were determined by the Managing Board with the consent of the Supervisory Board as follows: the issue amount must be based on the enterprise value of the company – to be determined based on a company valuation conducted for this purpose – at the time of the capital increase (authorised capital).

Changes in subscribed capital

	31 Dec 2013		31 Dec 2012	
Number of units	**Shares**	**Participation certificates**	**Shares**	**Participation certificates**
Shares and participation certificates outstanding as at 1 Jan	264,010,889	162,153	42,095,239	162,940
Capital increase	0	0	221,916,552	0
Disposal of treasury stocks and participation certificates	–154	0	–904	–787
Addition of treasury stocks and participation certificates	0	0	2	0
Shares and participations certificates outstanding as at 31 Dec	264,010,735	162,153	264,010,889	162,153
Treasury stocks and participation certificates	697,483	18,296	697,329	18,296
Shares and participation certificates as at 31 Dec	**264,708,218**	**180,449**	**264,708,218**	**180,449**

20,449 pieces (2012: 20,449 pieces) of circulating and of total issued participation certificates have a face value of euro 15 thousand per certificate. The remaining participation certificates have a face value of euro 21,80 per certificate.

At the extraordinary general meeting on 15 December 2008, amended by the annual general meeting on 20 March 2009 and the general meeting on 23 March 2013, a contingent capital increase of up to euro 156 million through the issue of ordinary shares was resolved. This capital increase may only be carried out to the extent that the bearers of the participation capital issued in line with the resolution of the general meeting on 15 December 2008 make use of their conversion rights (authorised capital).

Dividend payment including participation capital

Euro thousand	**2013**	**2012**
Dividend voting capital	0	0
Dividend non-voting capital	0	0
Total	**0**	**0**

In the business year 2014 there will be no dividends on shares or participation capital paid.

37) Own funds according to Austrian Banking Act

The own funds of the VBAG Group of credit institutions which were calculated pursuant to the Austrian Banking Act can be broken down as follows

Euro thousand	31 Dec 2013	31 Dec 2012
Subscribed capital (less treasury stocks)	1,035,633	1,035,633
Open reserves (including differential amounts and non-controlling interests)	1,002,026	1,049,266
Funds for general banking risks	10,315	10,376
Intangible assets	–22,887	–15,957
Net loss	–427,632	–353,076
Core capital (tier I capital) before deductions	1,597,455	1,726,242
Deductions from core capital (50% deduction pursuant to section 23 (13) Austrian Banking Act)	–11,171	–17,614
Core capital (tier I capital) after deductions	1,586,285	1,708,628
Supplementary capital	72,917	265,538
Eligible subordinated liabilities	373,609	345,090
Hidden reserves persuant to section 57 (1) Austrian Banking Act	74,080	74,144
Supplementary capital (tier II capital) before deductions	520,606	684,772
Deductions from supplementary capital (50% deduction pursuant to section 23 (13) Austrian Banking Act)	–11,171	–17,614
Supplementary capital (tier II capital) after deductions	509,436	667,158
Deductions from own funds pursuant to section 103e no. 13 Austrian Banking Act	–3,456	–3,467
Short-term subordinated liabilities (tier III capital)	63,433	95,175
Eligible qualifying capital	**2,155,697**	**2,467,494**
Capital requirement	901,506	1,257,610
Surplus capital	1,254,191	1,209,884
Core capital ratio (tier I) (in relation to the assessment base pursuant to section 22 Austrian Banking Act - credit risk)	**16.57%**	**12.71%**
Equity ratio (solvency ratio) (in relation to credit risk after deduction of capital requirements for market and operational risk)	**21.10%**	**17.00%**
Core capital ratio (in relation to the risks pursuant to section 22 (1) no. 1 - 5 Austrian Banking Act)	**14.08%**	**10.87%**
Equity ratio (in relation to the risks pursuant to section 22 (1) no. 1 - 5 Austrian Banking Act)	**19.13%**	**15.70%**

Open reserves include hybrid tier I capital totalling euro 57,698 thousand (2012: euro 57,698 thousand).

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

Euro thousand	31 Dec 2013	31 Dec 2012
Risk-weighted assessment base pursuant to section 22 Austrian Banking Act - credit risk	9,574,113	13,443,438
Of which 8% minimum capital requirement for credit risk	765,929	1,075,475
Capital requirement for position risk in debt instruments, equities, foreign exchange and commodities - market risk	63,433	95,175
Capital requirement for operational risk	72,144	86,960
Total capital requirement	**901,506**	**1,257,610**

Group issues which are included in Tier I or Tier II

Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
Tier I issues				
Participation certificate 1986	equity	perpetual	Dividends	3,488
Participation certificate 2006	equity	perpetual	Average 3m Euribor + 130 bp	6,735
Participation certificate 2008	subordinated liabilities	perpetual	10.00% p.a.; from 18 Jun 2018: 6m Euribor + 100 bp + initial spread (or remarketing)	150,000
Participation certificate 2009	equity	perpetual	Dividends: 9.30% p.a., in year 6 of duration: 9.80% p.a., in year 7 of duration: 10.30% p.a., in year 8 of duration: 11.05% p.a., from year 9 of duration: respectively interest rate of previous year + 100 bp p.a., max. 12m Euribor + 1000 bp	300,000
VBAG Fixed/Floating Rate Perpetual Preferred Securities 2004	subordinated liabilities	perpetual	6.00% p.a.; from 22 Sep 2005 10Y-Mid Swap + 100 bp p.a., Cap 9.00% p.a.	32,629
Subordinated non-cumulative Limited Recourse Note	subordinated liabilities	perpetual	3m Euribor + 165 bp p.a.	25,069
Tier II issues				
Supplementary bond capital 04/14	subordinated liabilities	22.04.2014	2005: 4.00% p.a.; 2006: 4.13% p.a.; 2007: 4.25% p.a.; 2008: 4.50% p.a.; 2009: 4.75% p.a.; 2010: 5.00% p.a.; 2011: 5.25% p.a.; 2012: 5.50% p.a.; 2013: 6.00% p.a.; 2014: 7.00% p.a.	16,249
Supplementary bond capital 04/19	subordinated liabilities	02.08.2019	5.45% p.a.	30
Supplementary bond capital 05/15	subordinated liabilities	29.07.2015	6m Euribor + 70 bp	4,100
Supplementary bond capital 05/15	subordinated liabilities	29.07.2015	4.17% p.a.	1,000
Supplementary bond capital 05/25	subordinated liabilities	29.07.2025	4.81% p.a.	1,100
Supplementary bond capital 05/18	subordinated liabilities	29.07.2018	6m Euribor + 72 bp; from 29 July 2015: 6m Euribor + 180 bp	2,900
Supplementary bond capital 05/20	subordinated liabilities	07.09.2020	2006: 3.00% p.a.; 2007: 3.125% p.a.; 2008: 3.25% p.a.; 2009: 3.375% p.a.; 2010: 3.50% p.a.; 2011: 3.625% p.a.; 2012: 3.75% p.a.; 2013: 3.875% p.a.; 2014: 4.00% p.a.; 2015: 4.25% p.a.; 2016: 4.50% p.a.; 2017: 5.00% p.a.; 2018: 6.00% p.a.; 2019: 7.00% p.a.; 2020: 8.00% p.a.	4,685
Supplementary bond capital 05/25	subordinated liabilities	18.08.2025	4.90% p.a.	500
Supplementary bond capital 01/21	subordinated liabilities	08.03.2021	7.00% p.a.	15,000
Supplementary bond capital 02/22	subordinated liabilities	20.06.2022	6.70% p.a.; from 20 Jun 2012: 7.00% p.a.	11,000
Supplementary bond capital 02/22	subordinated liabilities	24.07.2022	10Y CMS, at least 6.00% p.a.; from 24 July 2012: 7.00% p.a.	4,000
Supplementary bond capital 01-21	subordinated liabilities	06.03.2021	7.00% p.a.	30,000
ERP Fonds	subordinated liabilities	31.12.2018	1.00% p.a.	3,339
ERP Fonds	subordinated liabilities	31.12.2014	2.00% p.a.	721
Subordinated FRN dept Volksbank AG 2013 - 2018	subordinated liabilities	26.07.2018	3m Euribor + 900 bp	42,757
Subordinated FRN dept Volksbank AG 2013 - 2019	subordinated liabilities	26.07.2019	3m Euribor + 900 bp	5,138
Subordinated FRN dept Volksbank AG 2013 - 2020	subordinated liabilities	26.07.2020	3m Euribor + 900 bp	801
Subordinated FRN dept Volksbank AG 2013 - 2024	subordinated liabilities	26.07.2024	3m Euribor + 900 bp	29,633
Subordinated FRN dept Volksbank AG 2013 - 2025	subordinated liabilities	26.07.2025	3m Euribor + 900 bp	16,997
Subordinated zero bond liability 06/16	subordinated liabilities	03.10.2016	0% p.a.	20,000
Subordinated CMS Floater to Fix 07/17	subordinated liabilities	30.03.2017	10Y CMS; from 30 Mar 2012: 6.00% p.a.	3,922
Subordinated Merkur Best of Life II Garant 2008-2020	subordinated liabilities	01.12.2020	0% p.a.	3,000

Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
Subordinated bond liability 03/23	subordinated liabilities	25.09.2023	5.72% p.a.; from 25 Sep 2013: 6.00% p.a.	12,000
Subordinated bond liability 01/21	subordinated liabilities	15.03.2021	6.50% p.a.; from 15 Mar 2011: 6.75% p.a.	15,000
Subordinated Lower Tier II Notes due November 2016	subordinated liabilities	28.11.2016	3m Euribor + 35 bp; from 28 Nov 2011: 3m Euribor + 85 bp	81,900
Subordinated bond liability 02/22	subordinated liabilities	25.01.2022	6.35% p.a.; from 25 Jan 2012: 7.00% p.a.	30,000
Subordinated zero bond liability 07/17	subordinated liabilities	03.04.2017	0% p.a.	20,000
Subordinated bond liability 07/27	subordinated liabilities	08.02.2027	5.27% p.a.	14,000
Subordinated bond liability 06/26	subordinated liabilities	19.01.2026	4.05% p.a.; from 19 Jan 2016: 5.00% p.a.	25,000
Subordinated bond liability 02/22	subordinated liabilities	18.01.2022	6.35% p.a.; from 18 Jan 2012: 7.00% p.a.	3,000
Subordinated zero bond liability 06/16	subordinated liabilities	01.06.2016	0% p.a.	12,600
Promissory note bond	subordinated liabilities	18.01.2017	5.00% p.a.	3,000
Promissory note bond	subordinated liabilities	15.05.2017	4.87% p.a.	10,000
Promissory note bond	subordinated liabilities	30.05.2017	5.01% p.a.	10,000
Promissory note bond	subordinated liabilities	30.05.2017	5.01% p.a.	10,000
Subordinated Investkredit-Floater 99-14/7	subordinated liabilities	14.05.2014	93.00% from 10Y-Swapinterests, at least 4.00% p.a.	18,000
Subordinated Investkredit FRN 00/20	subordinated liabilities	14.03.2020	3m Euribor + 53 bp	5,000
Subordinated Investkredit bond 01/16	subordinated liabilities	12.02.2016	6.40% p.a.	20,000
Subordinated Euro CMS linked Floating Rate Notes 02/22	subordinated liabilities	12.04.2022	if 10Y CMS < or = 4.50%, then 10Y CMS + 300 bp; if 10Y CMS > 4.50%, then 10Y CMS; if 10Y CMS > 7.00%, then 7.00% p.a.	4,000

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

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

In 2013, no substantial, practical or legal obstacles existed which would have prevented the transfer of equity or the repayment of liabilities between the parent institution and institutions subordinated to the former.

38) Financial assets and liabilities

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

Euro thousand	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 2013							
Liquid funds	0	0	0	0	1,762,453	1,762,453	1,762,453
Loans and advances to credit institutions	0	0	0	0	5,798,139	5,798,139	
Individual impairment credit institutions	0	0	0	0	–703	–703	
Loans credit institutions less individual impairments	0	0	0	0	5,797,436	5,797,436	5,641,889
Loans and advances to customers	0	0	0	0	7,081,347	7,081,347	
Individual impairment customers	0	0	0	0	–708,993	–708,993	
Loans customers less individual impairments	0	0	0	0	6,372,354	6,372,354	6,280,427
Trading assets	1,627,392	0	0	0	0	1,627,392	1,627,392
Financial investments	0	51,976	831,425	2,283,393	255,945	3,422,739	3,426,480
Participations	0	0	0	359,531	0	359,531	359,531
Derivatives – investment book	394,434	0	0	0	0	394,434	394,434
Assets disposal group	0	34,850	0	33,373	354,974	423,196	419,181
Financial assets total	**2,021,826**	**86,826**	**831,425**	**2,676,297**	**14,543,161**	**20,159,535**	**19,911,787**
Amounts owed to credit institutions	0	0	0	0	7,707,002	7,707,002	7,613,995
Amounts owed to customers	0	0	0	0	2,148,440	2,148,440	2,043,646
Debts evidenced by certificates	0	0	0	0	7,084,825	7,084,825	7,172,449
Trading liabilities	1,377,709	0	0	0	0	1,377,709	1,377,709
Derivatives – investment book	315,635	0	0	0	0	315,635	315,635
Subordinated liabilities	0	0	0	0	554,957	554,957	483,160
Financial liabilities total	**1,693,344**	**0**	**0**	**0**	**17,495,224**	**19,188,568**	**19,006,594**

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 2012							
Liquid funds	0	0	0	0	851,262	851,262	851,262
Loans and advances to credit institutions	0	0	0	0	7,270,203	7,270,203	
Individual impairment credit institutions	0	0	0	0	–703	–703	
Loans credit institutions less individual impairments	0	0	0	0	7,269,500	7,269,500	7,269,500
Loans and advances to customers	0	0	0	0	10,039,571	10,039,571	
Individual impairment customers	0	0	0	0	–882,950	–882,950	
Loans customers less individual impairments	0	0	0	0	9,156,621	9,156,621	9,156,621
Trading assets	2,574,227	0	0	0	0	2,574,227	2,574,227
Financial investments	0	189,905	1,112,018	3,209,084	1,050,051	5,561,058	5,505,106
Participations	0	0	0	444,562	0	444,562	444,562
Derivatives – investment book	1,158,408	0	0	0	0	1,158,408	1,158,408
Financial assets total	**3,732,635**	**189,905**	**1,112,018**	**3,653,646**	**18,327,434**	**27,015,638**	**26,959,686**
Amounts owed to credit institutions	0	0	0	0	9,834,518	9,834,518	9,834,518
Amounts owed to customers	0	0	0	0	2,542,128	2,542,128	2,542,128
Debts evidenced by certificates	0	0	0	0	9,935,036	9,935,036	9,785,059
Trading liabilities	2,073,118	0	0	0	0	2,073,118	2,073,118
Derivatives – investment book	895,911	0	0	0	0	895,911	895,911
Subordinated liabilities	0	0	0	0	620,718	620,718	436,727
Financial liabilities total	**2,969,029**	**0**	**0**	**0**	**22,932,400**	**25,901,429**	**25,567,460**

Financial investments contain securities classified as held to maturity and loans & receivables with a carrying amount of euro 498,842 thousand (2012: euro 1,126,750 thousand), a total of euro 26,881 thousand (2012: euro 101,945 thousand) above their fair value, as there is no objective evidence of impairment.

Financial investments available for sale in the amount of euro 20,021 thousand (2012: euro 18,632 thousand) and participations in the amount of euro 42,209 thousand (2012: euro 122,393 thousand) are measured at cost as their fair value cannot be reliably determined.

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

Carrying amounts of underlyings of fair value hedges

	Interest rate risk		Foreign currency risk	
Euro thousand	Available for sale	Amortised cost	Available for sale	Amortised cost
31 Dec 2013				
Loans and advances to credit institutions	0	351,334	0	0
Loans and advances to customers	0	493,068	0	71,731
Financial investments	1,678,588	48,820	96,319	0
Financial assets	**1,678,588**	**893,222**	**96,319**	**71,731**
Amounts owed to credit institutions	0	672,851	0	0
Amounts owed to customers	0	877,578	0	0
Debts evidenced by certificates	0	3,834,462	0	20,241
Financial liabilities	**0**	**5,384,891**	**0**	**20,241**
31 Dec 2012				
Loans and advances to credit institutions	0	580,684	0	0
Loans and advances to customers	0	668,594	0	76,354
Financial investments	1,965,613	115,040	113,521	0
Financial assets	**1,965,613**	**1,364,318**	**113,521**	**76,354**
Amounts owed to credit institutions	0	893,869	0	0
Amounts owed to customers	0	999,453	0	0
Debts evidenced by certificates	0	5,702,033	0	34,512
Financial liabilities	**0**	**7,595,354**	**0**	**34,512**

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

Euro thousand	Level 1	Level 2	Level 3	Total
31 Dec 2013				
Trading assets	41,507	1,585,885	0	1,627,392
Financial investments	1,921,850	393,366	132	2,315,348
at fair value through profit or loss	8,253	43,591	132	51,976
available for sale	1,913,596	349,775	0	2,263,372
Participations	0	0	310,322	310,322
Derivatives – investment book	0	394,434	0	394,434
Assets held for sale	0	0	68,222	68,222
Total	**1,963,357**	**2,373,685**	**378,677**	**4,715,719**
Trading liabilities	0	1,377,709	0	1,377,709
Derivatives – investment book	0	315,635	0	315,635
Total	**0**	**1,693,344**	**0**	**1,693,344**
31 Dec 2012				
Trading assets	88,378	2,485,849	0	2,574,227
Financial investments	2,761,008	552,623	66,725	3,380,356
at fair value through profit or loss	48,815	74,365	66,725	189,905
available for sale	2,712,193	478,258	0	3,190,451
Participations	6,260	3,500	312,409	322,169
Derivatives – investment book	0	1,158,408	0	1,158,408
Total	**2,855,646**	**4,200,380**	**379,134**	**7,435,160**
Trading liabilities	0	2,073,118	0	2,073,118
Derivatives – investment book	0	895,911	0	895,911
Total	**0**	**2,969,029**	**0**	**2,969,029**

Available for sale financial investments totalling euro 20,021 thousand (2012: euro 18,632 thousand) and participations totalling euro 49,209 thousand (2012: euro 122,393 thousand) are measured at amortised cost because their fair value cannot be reliably determined.

Financial investments carried at fair value through profit and loss include some illiquid fund holdings in private equity companies amounting to euro 132 thousand (2012: euro 66,725 thousand). In addition holdings in private equity companies are included in the position held for sale in the amount of euro 34,850 thousand. External fund managers determine market prices based on industry-standard EVCA valuation criteria for these financial instruments. These are made available regularly. Asset Management performs internal price monitoring. No significant deviations in value were noted in the past which would suggest major uncertainties in determining fair values.

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

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

In 2013, financial instruments with a carrying amount of euro 67,083 thousand, which were still measured at Level 2 market value as at 31 December 2012, were reclassified as Level 1 financial instruments due to an increase in trading activity. On the other hand, Level 1 financial instruments in the amount of euro 75,135 thousand were reclassified into Level 2 due to a decrease in market trading activity.

Development of Level 3 fair values

Euro thousand	Financial investments at fair value through profit and loss	Participations	Available for sale	Assets held for sale	Total
As at 1 Jan 2012	0	0	0	0	0
Changes in the scope of consolidation	0	392,168	0	0	392,168
Currency translation	703	0	0	0	703
Reallocation in Level 3	66,720	124	0	0	66,844
Additions	2,403	0	0	0	2,403
Disposals	–3,197	0	0	0	–3,197
Valuation					
through profit or loss	96	0	0	0	96
through other comprehensive income	0	–79,883	0	0	–79,883
As at 31 Dec 2012	66,725	312,409	0	0	379,134
Changes in the scope of consolidation	0	5,561	0	0	5,561
Reallocation in Level 3	2,645	67,651	1,592	0	71,887
Additions	1,408	9,100	0	0	10,509
Disposals	–20,115	–17,946	0	0	–38,061
Valuation					
through profit or loss	–15,682	–12,549	0	0	–28,230
through other comprehensive income	0	–22,123	0	0	–22,123
Reclassification	–34,850	–31,781	–1,592	68,222	0
As at 31 Dec 2013	**132**	**310,322**	**0**	**68,222**	**378,677**

The valuations shown in the table above are included in the item income from financial investments (income statement) or available for sale reserve (other comprehensive íncome).

In terms of sensitivity analyses for level 3 market values under participations, factors that increase or decrease value are determined in alternative valuation scenarios by varying income estimates and income-based parameters within a range of 10% to 20%. In the event of a beneficial movement, market value changes by euro 34,961 thousand (2012: euro 31,346 thousand), while a detrimental movement leads to a change of euro –34,990 thousand (2012: euro –31,341 thousand).

For financial instruments not measured at fair value, the fair value is only calculated for disclosure purposes in the Notes and has no influence on the consolidated statement of financial position or the consolidated statement of comprehensive income. The following table assigns all financial assets and liabilities not measured at fair value to various fair value hierarchies:

Euro thousand	Level 1	Level 2	Level 3	Fair value Total	Carrying amount 31 Dec 2013
31 Dec 2013					
Liquid funds	0	1,762,453	0	1,762,453	1,762,453
Loans and advances to credit institutions (gross)					5,798,139
Individual impairment credit institutions					–703
Loans credit institutions less individual impairments	0	3,634	5,638,254	5,641,889	5,797,436
Loans and advances to customers (gross)					7,081,347
Individual impairment customers					–708,993
Loans customers less individual impairments	0	0	6,280,427	6,280,427	6,372,354
Debt investments loans & receivable	0	241,582	0	241,582	255,945
Debt investments held to maturity	368,873	480,656	0	849,529	831,425
Financial investments	368,873	722,238	0	1,091,111	1,087,370
Financial assets held for sale	0	0	350,959	350,959	354,974
Financial assets total	**368,873**	**2,488,325**	**12,269,640**	**15,126,838**	**15,374,593**
Amounts owed to credit institutions	0	0	7,613,995	7,613,995	7,707,002
Amounts owed to customers	0	0	2,043,646	2,043,646	2,148,440
Debts evidenced by certificates	0	7,172,449	0	7,172,449	7,084,825
Subordinated liabilities	0	483,160	0	483,160	554,957
Financial liabilities total	**0**	**7,655,609**	**9,657,641**	**17,313,250**	**17,495,224**

For financial instruments that are largely short-term in nature, the carrying amount is an adequate estimate of fair value.

For long-term financial instruments, fair value is calculated by discounting contractual cash flows. In the case of assets, interest rates are used that could have been obtained for assets with similar residual durations and default risks (especially estimated defaults for lending receivables). For liabilities, the interest rates used are those with which corresponding liabilities with similar residual durations could have been assumed or issued as at the reporting date.

Fair value hierarchy

Financial instruments recognised at fair value are assigned to the three IFRS fair value hierarchy categories.

Level 1 – Financial instruments measured at quoted prices in active markets, whose fair value can be derived directly from prices on active, liquid markets and where the financial instrument observed on the market is representative of the financial instrument owned by the Group that requires measurement.

Level 2 – Financial instruments measured using procedures based on observable market data, whose fair value can be determined using similar financial instruments traded on active markets or using procedures whose inputs are observable.

Level 3 – Financial instruments measured using procedures based on unobservable parameters, whose fair value cannot be determined using data observable on the market. Financial instruments in this category have a value component that is not observable and which has a significant influence on fair value.

39) Cash flow hedges

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

Periods in which cash flows can be expected to occur

	Interest related transactions	
Euro thousand	**31 Dec 2013**	**31 Dec 2012**
up to 3 months	–529	128
up to 1 year	–1,408	414
up to 5 years	–1,667	5,702
more than 5 years	–1	552
Total	**–3,605**	**6,796**

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

	Interest related transactions	
Euro thousand	**31 Dec 2013**	**31 Dec 2012**
up to 3 months	–529	67
up to 1 year	-1,408	509
up to 5 years	–1,667	4,390
more than 5 years	–1	536
Total	**–3,605**	**5,502**

Changes in value in the cash flow hedge reserve in the amount of euro –1,058 thousand (2012: euro –1,468 thousand) were recognised in income during the reporting period.

40) Derivatives

Derivative financial instruments

2013 Euro thousand	Nominal value up to 1 year	 1 to 5 years	 more than 5 years	 Total	Fair value 31 Dec 2013
Interest related transactions	3,819,088	20,885,626	12,284,437	36,989,151	314,908
Caps & Floors	495,242	2,300,213	1,084,164	3,879,619	14,013
Futures	89,200	0	0	89,200	0
Interest rate swaps	3,013,728	18,293,013	11,042,273	32,349,015	307,418
Swaptions	220,918	292,400	158,000	671,318	–6,523
Currency related transactions	3,083,676	1,696,190	516,807	5,296,673	–85,378
Cross currency swaps	380,177	1,646,647	516,249	2,543,073	–94,928
Foreign exchange options	37,000	42,604	558	80,162	1,221
FX Swaps	2,619,326	94	0	2,619,420	8,755
Forward exchange transactions	47,173	6,844	0	54,017	–426
Credit related transactions	457,004	1,212,529	0	1,669,533	1,076
Other transactions	656,496	1,092,969	171,067	1,920,533	–38,726
Futures – index related	17,652	0	0	17,652	0
Options	638,844	1,092,969	171,067	1,902,881	–38,726
Total	**8,016,264**	**24,887,314**	**12,972,311**	**45,875,890**	**191,880**

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

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

41) Assets and liabilities denominated in foreign currencies

On the balance sheet date, assets denominated in foreign currencies totalled euro 4,453,621 thousand (2012: euro 6,123,661 thousand), whereas liabilities denominated in foreign currencies stood at euro 1,160,603 thousand (2012: euro 1,863,765 thousand).

42) Trust transactions

Euro thousand	31 Dec 2013	31 Dec 2012
Assets from trust transactions		
Loans and advances to credit institutions	0	4
Loans and advances to customers	239,039	504,494
Financial investments	1,031	1,409
Mutual funds	2,591,550	2,671,542
Liabilities arising from trust transactions		
Amounts owed to credit institutions	4	4
Amounts owed to customers	239,039	504,494
Debts evidenced by certificates	727	727
Other liabilities	300	682
Mutual funds	2,591,550	2,671,542

43) Subordinated assets

Euro thousand	31 Dec 2013	31 Dec 2012
Loans and advances to credit institutions	83,110	83,110
Loans and advances to customers	86,447	0
Financial investments	55,858	76,315

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

Euro thousand	31 Dec 2013	31 Dec 2012
Assets pledged as collateral		
Loans and advances to credit institutions	0	48
Loans and advances to customers	425,187	875,075
Financial investments	71,350	99,696
Liabilities for which assets have been pledged as collateral		
Amounts owed to credit institutions	496,537	974,772

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and advances to customers in the amount of euro 156 million (2012: euro 352 million) have been provided as collateral. These loans and advances are guaranteed by means of Austrian government default guarantees, private insurance policies and draft guarantees. OeKB may not repledge or sell these loans and advances to customers if the Group performs in accordance with the contract.

Furthermore, financial investments in the amount of euro 71 million (2012: euro 60 million) have been assigned as collateral for global loans from the European Investment Bank (EIB). The EIB also does not have the option to sell or repledge this collateral if the Group performs in accordance with the contract.

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

45) Contingent liabilities and credit risks

Euro thousand	31 Dec 2013	31 Dec 2012
Contingent liabilities		
Liabilities arising from guarantees	738,512	1,343,320
Others (amount guaranteed)	36,694	26,206
Commitments		
Unutilised loan commitments	4,535,675	3,828,228
Others	3,703	0

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

Euro thousand	Loan commitments	Guarantees as contracted	Guarantees expected
31 Dec 2013			
Carrying amount	4,535,675	738,512	
Undiscounted cash flows	**4,535,675**	**738,512**	**12,070**
up to 3 months	1,384,908	738,512	0
up to 1 year	3,150,767	0	0
up to 5 years	0	0	12,070
more than 5 years	0	0	0
31 Dec 2012			
Carrying amount	3,828,228	1,343,320	
Undiscounted cash flows	**3,828,228**	**1,343,320**	**20,928**
up to 3 months	1,192,787	1,343,320	0
up to 1 year	2,634,428	0	0
up to 5 years	1,014	0	20,928
more than 5 years	0	0	0

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

If the management estimates a cash out flow for financial guarantees, a provision was built for off-balance risks to the amount of the probable cash out flow under consideration of possible available collaterals. Therefore the provision amounts to euro 12,070 thousand (2012: euro 20,928 thousand).

46) Repurchase transactions and other transferred assets

As at 31 December 2013, VBAG as pledgor had none buy-back commitments under genuine repurchase agreements (2012: euro 695,607 thousand).

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

47) Related party disclosures

Euro thousand	Unconsolidated affiliates	Companies in which the Group has a participating interest	Associated companies	Companies which exercise a significant influence on the parent as shareholders
31 Dec 2013				
Loans and advances to credit institutions	0	660,669	827,161	0
Loans and advances to customers	43,872	164,904	0	0
Risk provisions (–)	–3,878	–44,275	0	0
Debt securities	0	69,104	0	778,595
Amounts owed to credit institutions	0	1,009,141	13,829	0
Amounts owed to customers	5,727	29,664	2,318	209
Liabilities arising from guarantees	0	2,088	0	0
31 Dec 2012				
Loans and advances to credit institutions	0	1,138,256	1,390,082	52
Loans and advances to customers	78,967	186,923	2,799	0
Risk provisions (–)	–13,400	–48,934	0	0
Debt securities	0	214,217	0	959,990
Amounts owed to credit institutions	0	1,108,374	59,687	0
Amounts owed to customers	9,812	29,152	2,316	131
Liabilities arising from guarantees	2,542	0	0	0

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

The shareholders Volksbanken Holding eGen and the Republic of Austria exercise a significant influence on Österreichische Volksbanken-AG.

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

Euro thousand	31 Dec 2013	31 Dec 2012
Outstanding loans and advances	26	14
Redemptions	19	27
Interest payments	0	0

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

As at 31 December 2013, loans and advances to credit institutions contained transactions with the Volksbank-Sector amounting to euro 4,064,671 thousand (2012: euro 4,933,668 thousand) and amounts owed to credit institutions included transactions with the Volksbank-Sector amounting to euro 5,359,206 thousand (2012: euro 5,337,289 thousand).

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

Euro thousand	Covering loans	Coverage requirements debts evidenced by certificates	Surplus cover
31 Dec 2013			
Covered Bonds	1,476,644	1,221,450	255,194
Total	**1,476,644**	**1,221,450**	**255,194**
31 Dec 2012			
Covered Bonds	840,334	744,092	96,243
Total	**840,334**	**744,092**	**96,243**

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

49) Branches

	31 Dec 2013	31 Dec 2012
Domestic	1	1
Abroad	1	1
Total number of branches	**2**	**2**

50) Events after the balance sheet date

Downsizing as part of restructuring process

At the start of 2014, loans in a real estate portfolio totalling around euro 400 million were sold and repaid early as part of the restructuring process.

The sales of Investkredit International Bank plc, the VB Leasing International group and Volksbank Malta Ltd. were commenced in the 2013 business year. Sale negotiations with potential buyers are currently underway. The aim is to complete all sales procedures in 2014, but this is dependent on the outcome of further negotiating rounds and on the agreement of the respective local regulatory authorities. Due to existing uncertainties no reclassification according to IFRS 5 was carried out.

With regard to the sale of Volksbank Romania S.A., negotiations are currently taking place on granting a mandate to an investment bank to support the sales process. Under the restructuring agreement of 26 April 2012, the sale of Volksbank Romania S.A. is to be completed by 31 December 2015.

Joint risk assessment and decision (JRAD) and Internal Capital Adequacy Assessment Process (ICAAP)

In the second quarter of 2013, the Austrian National Bank carried out a comprehensive review under section 70 of the Austrian Banking Act regarding the implementation status of the Internal Capital Adequacy Assessment Process (ICAAP) at the level of the banking association as per section 30a of the Austrian Banking Act. This on-site review also included a regulatory assessment of capital adequacy in the banking association as part of the joint risk assessment and decision (JRAD) process.

The review report by the Austrian National Bank revealed that the standardisation of the various ICAAP systems is still incomplete, while the risk management culture in the banking association is still weak and not yet sufficiently unified and centralised. The results of the review were used as an opportunity to launch an extensive project to process these findings. This will last the whole of 2014.

As part of the JRAD process that took place at the same time, the Austrian Financial Market Authority issued a draft decision on 19 December 2013 that provides for an own funds ratio of 13.6% for the banking association in accordance with section 30a of the Austrian Banking Act. There has so far been no final decision from the Financial Market Authority specifying the exact own funds ratio or the effective date.

Asset quality review (AQR) and 2014 banking stress test

Since the European Central Bank (ECB) will also be taking on supervision responsibilities for the Association of Volksbanks as part of the Single Supervisory Mechanism (SSM) as per section 30a of the Austrian Banking Act, a "Comprehensive Assessment" is being conducted at 128 institutions throughout Europe in preparation for SSM and to increase transparency regarding the recoverability of assets.

The asset quality review forms part of this assessment. By examining the quality of assets, this provides an estimate regarding the recoverability of risk provisions recognised by the Association of Volksbanks as of 31 December 2013 – potentially requiring an increase in the equity ratio. Institutions must allow inspection of risky positions in accordance with standardised data definitions.

A team of representatives from the ECB, the Austrian National Bank and external experts will examine processes, procedures and accounting practices at the Association of Volksbanks, analyse credit exposures and risk provisions, and measure collateral and real estate assets. These will be accompanied by checks of data consistency, comparative portfolio analyses and an in-depth inspection of data and assumptions entered into models.The on-site audit which will be executed from March to July 2014 includes, among other things, a detailed credit evaluation on a basis of a sample given by the Austrian FMA.

In this context, the association structure represents a significant challenge that sets the Association of Volksbanks apart from other banks being inspected as part of the AQR. Based on the risky portfolios still to be determined, the test sample could cover all institutions in the association: primary Austrian banks, Volksbank Romania, VBAG itself and VBAG subsidiary companies.

In preparation for this, VBAG, as the central organisation of the Association of Volksbanks, launched an association-wide project in the fourth quarter of 2013, which will be taken forward in 2014 with the following key objectives in particular:

- Transforming ECB data definitions into internal banking association data requirements;
- Preparing and producing a solution for adequate AQR data storage. This includes, inter alia, setting up a data room, checking data availability and data quality, preparing and supplying the portfolio indicators defined by the Austrian FMA in accordance with the portfolio template and preparing the supply of transactions identified as "risky portfolios" at individual transaction level as per the ECB „loan tape“ data definition;
- Preparation for credit evaluation by external advisors.

As the central organisation, VBAG's aim with this project is to prepare the Association of Volksbanks for the forthcoming supervisory process in the most efficient manner possible.

The results of the AQR and subsequent banking stress tests will be used within the Association of Volksbanks to increase the understanding of existing risks and their impact. We also aim to create as solid a foundation as possible for the 2014 banking stress test which will follow on from the AQR.

Further relevant events after the balance sheet date

In November 2013, Sberbank of Russia filed a lawsuit against VBAG at the International Court of Arbitration. No indemnifiable losses can be identified at present based on the claims set forth in the lawsuit and following an in-depth analysis of the accusations made. Talks are currently in progress with Sberbank of Russia concerning this lawsuit.

With regard to the outstanding Alpine Group financing, we would point out that the Republic of Austria is contesting among other things the proper fulfilment of the information obligations required of the finance provider, as set out in Austrian company liquidity law (ULSG), and that so far guarantee payments totaling euro 15 million for the ULSG financing facility provided by VBAG have not been made.

51) Segment reporting

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

A report is submitted to the Managing Board and management for each business segment at least once a quarter. These reports are based on the subsidiaries' separate IFRS financial statements and attributable results based on the market interest method. Settlement prices for assessments, refinancing or services performed between entities within the Group are in line with standard market conditions. Group overheads are divided between business segments based on the solvency assessment calculation and cost ratios. The cost of Group projects is also allocated to business segments.

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

Financing

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

Financial Markets

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

Other Operations

All other activities which cannot be clearly allocated to any of the other business segments are included here. This also includes the results of VB Services für Banken GmbH and holding companies which hold shares in the core business.

Non-core Corporates

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

Non-core Real Estate

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

Non-core Retail

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

Non-core Investment Book/Other Operations

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

Consolidation

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

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

a) Segment reporting by business segments

Euro thousand	Financing	Financial Markets	Other Operations	Non-core Corporates	Non-core Real Estate	Non-core Retail	Non-core Investment Book/Other Operations	Consolidation	Total
Net interest income									
2013	**44,266**	**–83,750**	**7,222**	**23,682**	**58,612**	**89,140**	**54,580**	**–5,165**	**188,586**
2012	44,158	–96,355	14,055	51,165	72,614	92,746	51,256	–7,490	222,149
Risk provisions									
2013	**–9,709**	**–7,151**	**8,846**	**21,495**	**–26,359**	**–5,161**	**–5,424**	**0**	**–23,462**
2012	–1,993	–25	–8,652	–65,777	–265,337	–15,133	–10,000	0	–366,916
Net fee and commission income									
2013	**6,198**	**20,529**	**6,541**	**–80**	**242**	**5,292**	**–10,256**	**1,780**	**30,246**
2012	7,325	30,952	2,949	2,955	607	5,362	5,808	2,250	58,208
Net trading income									
2013	**198**	**6,055**	**0**	**50**	**–21**	**2,197**	**–46**	**0**	**8,434**
2012	110	28,065	2,495	–79	206	1,434	–37	0	32,195
General administrative income									
2013	**–37,938**	**–58,442**	**–40,419**	**–22,411**	**–41,067**	**–47,669**	**–12,394**	**10,558**	**–249,783**
2012	–35,129	–60,150	–29,560	–34,736	–45,537	–47,436	–18,469	9,564	–261,453
Other operating result									
2013	**4,572**	**80,965**	**10,753**	**–4,051**	**15,371**	**16,983**	**39,245**	**–7,172**	**156,665**
2012	5,661	815,002	–47,672	–12,231	285	7,451	–6,814	–6,527	755,154
of which impairment of goodwill and brand									
2013	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2012	0	0	0	0	–330	0	0	0	–330
Income from financial investments									
2013	**366**	**–1,382**	**7,439**	**–2,355**	**–35,505**	**1,294**	**–18,770**	**0**	**–48,913**
2012	–165	40,655	3,847	11,770	–69,980	3,048	37,689	0	26,863
Income from companies measured at equity									
2013	**0**	**0**	**539**	**0**	**0**	**–126,601**	**0**	**0**	**–126,062**
2012	0	0	–335	0	0	–1,517	0	0	–1,852
Income from discounted operation									
2013	**0**	**0**	**0**	**0**	**15,308**	**0**	**0**	**0**	**15,308**
2012	0	0	0	0	12,793	33,650	0	2,203	48,646
Annual result before taxes									
2013	**7,953**	**–43,176**	**921**	**16,330**	**–13,419**	**–64,525**	**46,934**	**0**	**–48,982**
2012	**19,966**	**758,143**	**–62,872**	**–46,933**	**–294,348**	**79,604**	**59,434**	**0**	**512,994**
Income taxes including taxes from discontinued operation									
2013	**–117**	**10,798**	**6,545**	**–5,362**	**–4,600**	**–12,588**	**–19,079**	**0**	**–24,403**
2012	–2,696	–48,540	–61,297	14,981	56,417	–11,503	–13,595	0	–66,234
Annual result after taxes									
2013	**7,835**	**–32,378**	**7,466**	**10,969**	**–18,018**	**–77,113**	**27,855**	**0**	**–73,385**
2012	**17,270**	**709,603**	**–124,170**	**–31,953**	**–237,931**	**68,101**	**45,839**	**0**	**446,760**
Total assets									
2013	**2,535,110**	**16,595,061**	**912,994**	**621,779**	**2,057,020**	**2,028,063**	**2,379,189**	**–6,225,109**	**20,904,109**
2012	2,703,069	19,135,082	1,126,284	1.803,690	3,140,751	1,811,729	4,011,209	–6,091,582	27,640,232
Loans and advances to customers									
2013	**2,543,842**	**1,672,728**	**11**	**712,958**	**1,585,566**	**1,818,242**	**176,947**	**–1,428,948**	**7,081,347**
2012	2,647,729	1,433,996	11	1.917,531	3,091,380	1,819,179	547,395	–1,417,649	10,039,571
Companies measured at equity									
2013	**0**	**0**	**5,626**	**0**	**0**	**0**	**0**	**0**	**5,626**
2012	0	0	10,293	0	0	0	0	0	10,293
Amounts owed to customers									
2013	**45,592**	**2,413,756**	**13**	**46,304**	**59,262**	**4,068**	**10,590**	**–431,146**	**2,148,440**
2012	118,556	2,513,331	20	58,385	135,968	8,976	18,602	–311,711	2,542,128
Debts evidenced by certificates, including subordinated liabilities									
2013	**356,969**	**7,003,748**	**0**	**114,503**	**367,618**	**0**	**605,457**	**–808,515**	**7,639,781**
2012	398,951	8,788,457	0	351,333	586,088	0	986,982	–556,056	10,555,754

b) Segment reporting by regional markets

Euro thousand	Austria	Central and Eastern Europe	Other Markets	Total
Net interest income				
2013	**55,653**	**94,317**	**38,616**	**188,586**
2012	49,574	111,074	61,501	222,149
Risk provisions				
2013	**–20,728**	**–7,402**	**4,667**	**–23,462**
2012	–304,101	–24,286	–38,528	–366,916
Net fee and commission income				
2013	**26,332**	**4,179**	**–266**	**30,246**
2012	47,578	4,242	6,388	58,208
Net trading income				
2013	**6,543**	**1,901**	**–10**	**8,434**
2012	31,063	894	237	32,195
General administrative expenses				
2013	**–184,646**	**–51,684**	**–13,453**	**–249,783**
2012	–179,163	–53,360	–28,931	–261,453
Other operating result				
2013	**139,594**	**16,835**	**236**	**156,665**
2012	748,073	3,777	3,304	755,154
Income from financial investments				
2013	**–2,985**	**–23,499**	**–22,430**	**–48,913**
2012	54,442	–34,138	6,559	26,863
Income from companies measured at equity				
2013	**539**	**–126,601**	**0**	**–126,062**
2012	–335	–1,517	0	–1,852
Income from discontinued operation				
2013	**0**	**15,308**	**0**	**15,308**
2012	0	48,646	0	48,646
Annual result before taxes				
2013	**20,302**	**–76,644**	**7,361**	**–48,982**
2012	447,132	55,332	10,531	512,994

All significant long-term assets are located in Austria.

52) Risk report

General

Assuming and professionally managing the risks connected with business activities is a core function of every bank. VBAG performs the key tasks of implementing and supporting processes and methods for identifying, managing, measuring and monitoring all risks related to banking operations, both at VBAG Group level and as the central organisation of the banking association (Kreditinstitute-Verbund) pursuant to section 30a of the Austrian Banking Act of Österreichische Volksbanken-AG and primary banks of the Volksbank sector.

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

- Credit risks (default, credit-rating, concentration, counterparty default and transfer risk, risk arising from foreign currency loans and loans with repayment vehicles and macroeconomic risk)
- Market risk (trading book market risk, foreign exchange risk of open currency positions, interest-rate risk and credit spread risk)
- Investment risk (default, impairment and foreign exchange risk)
- Operational risk
- Structural liquidity risk
- Other risks (strategic risk, reputational risk, equity risk and business risk)

Current developments

Risk management activities in 2013 were again shaped by VBAG's new role as the central organisation of the association of Volksbanks.

As the central organisation, VBAG must ensure that the banking association has administration, accounting and control procedures in place to record, assess, manage and monitor business and operational banking risks as well as compensation policies and practices (section 39 (2) of the Austrian Banking Act). The central organisation's rights to issue instructions for this purpose took effect at the end of 2012. Harmonising and refocusing the risk management methods, processes and systems previously employed by VBAG and the Volksbanks represented the start of a new chapter in 2012 based on the motto of "One association – one system" and important milestones were reached during 2013.

In the second and third quarters of 2013, the Austrian National Bank carried out an audit of the association's ICAAP (Internal Capital Adequacy Assessment Process – see also point c)) pursuant to Section 70 of the Austrian Banking Act. The resulting comments were taken into account in the refocusing of risk management, also at VBAG Group level. The main changes are described below.
Another focal point for risk management concerned preparations for new supervisory requirements under Basel III, which came into effect on 1 January 2014.

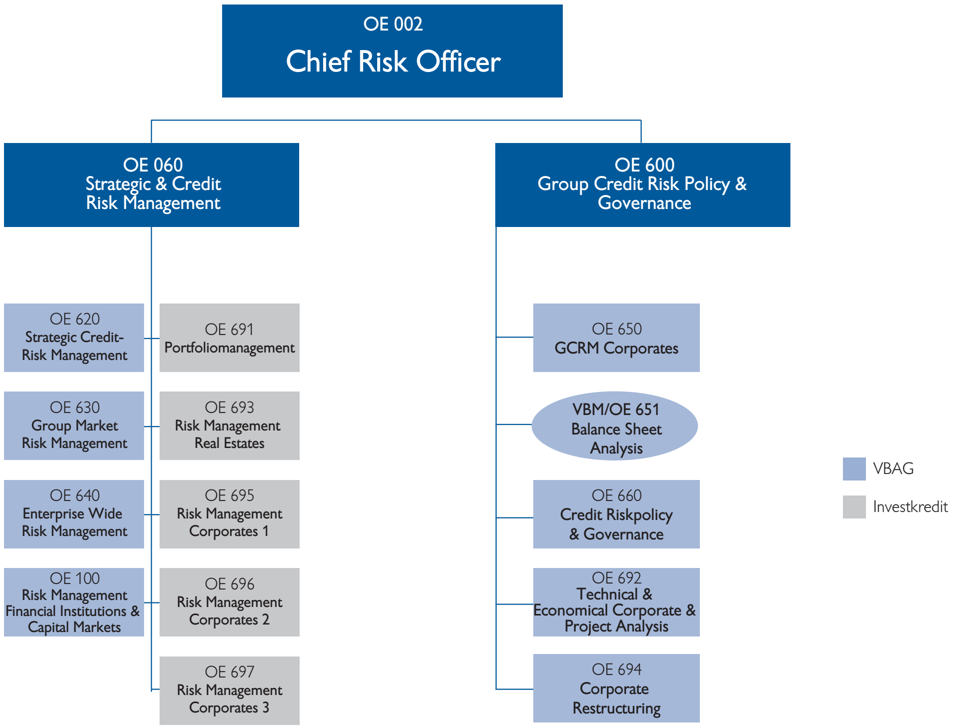
a) Risk management structure and basic principles of risk policy

Risk management structure

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

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

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



Basic principles of risk policy

The basic risk policy principles encompass the standards applicable within the VBAG Group as part of the association of Volksbanks for dealing with risks and are determined by the central organisation's Managing Board together with risk appetite. A broadly shared understanding of risk management throughout the association and throughout the Group is the foundation for developing risk awareness and a risk culture within the company.

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

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

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

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

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

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

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

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

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

While risk type-specific stress tests and sensitivity analyses have been regularly performed for some time now, stress tests are also regularly carried out across multiple risk types. This process initially involves defining economic crisis scenarios (mild and severe recession scenarios) and deriving the changed risk parameters for the individual risk categories and segments from this. In addition to the risk side, the effects of crisis scenarios on the risk-covering equity are identified. Finally, the various effects of the crisis scenarios on the risk-bearing ability of the VBAG Group as part of the association are compiled and analysed in a stressed risk sustainability account. Moreover, following the refocusing of risk management as of 31 December 2013, the stress testing activities have been extended to include sensitivity analyses, reverse stress tests and portfolio-specific stress tests.

b) Regulatory requirements

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

Pillar 1 minimum capital requirements in the VBAG Group

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

- Credit risk: standard approach. The VBAG Group reverted from the IRB approach to the standard approach as of 30 September 2012 in connection with the formation of the banking association pursuant to section 30a of the Austrian Banking Act. When approving this reversion, the FMA stipulated that all risk management systems had to remain "IRB compliant". A detailed description of the approaches approved by regulators and transitional arrangements is given in a separate document as part of the regulatory disclosures (see pillar 3 Disclosure in the VBAG Group).
- Market risk: standard approach
- Operational risk: standard approach

Pillar 2 internal capital adequacy assessment process

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

Pillar 3 disclosure in the VBAG Group

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

c) Risk strategy and internal capital adequacy assessment process

As part of the association of Volksbanks pursuant to section 30a of the Austrian Banking Act, the VBAG Group is subject to the association's risk strategy. This is re-evaluated and redefined annually by the Managing Board, taking into account results from the internal capital adequacy assessment process (ICAAP). It forms the basis for a uniform approach to dealing with risks throughout the association and hence throughout the Group. The risk strategy sets out and documents the general framework and principles for risk management to be applied consistently across the Group and the design of appropriate processes and organisational structures in a clear and comprehensible manner. Enhancements of the methods applied for measuring and managing risks are integrated into the risk strategy via the annual update process.

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

In line with this principle and based on the risk inventory conducted across the association as a whole, the VBAG Group regularly ascertains what risks are present in ongoing banking operations within the Group as well as their significance and the danger they potentially pose for the Group. This process involves both a quantitative assessment of individual types of risk and an assessment of the existing methods and systems for monitoring and managing risks (qualitative assessment). Following the association's risk management project, the 2013 risk inventory was redesigned and rolled out across the association and the Group in the 4th quarter of 2013.

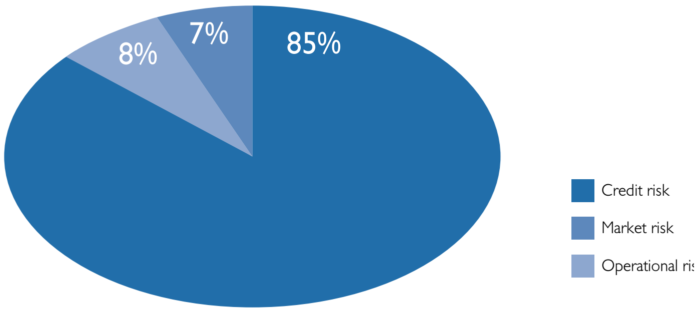
The results of the risk inventory are compiled and analysed for the association, each assigned institution and the VBAG Group. The results of the risk inventory also flow into the risk strategy.

The basis for the quantitative implementation of the ICAAP in the Group is the risk sustainability account, which demonstrates that adequate risk-covering capital is in place at all times to provide sufficient cover for risks that have been entered into and which also ensures such cover is available for the future. For this purpose, firstly all relevant individual risks are aggregated. The existing, previously defined risk-covering capital is then compared with this total bank risk, and observance of the total bank risk limit decided by the central organisation's Managing Board for the whole association and the whole Group is monitored on a monthly basis and a Group risk report is prepared.

When determining the risk-bearing ability, different objectives may be pursued, which are reflected in three different views.
Regulatory view (observance of regulatory capital ratios)
Economic liquidation view
Economic going concern view

The regulatory view compares the sum of all risks required by the regulator to be covered by capital according to specified risk measurement methods and the defined risk-covering capital (based on CRR/CRD IV, SolvaV and the Austrian Banking Act). Assurance of regulatory risk-bearing ability is a minimum requirement, since it is stipulated by law.

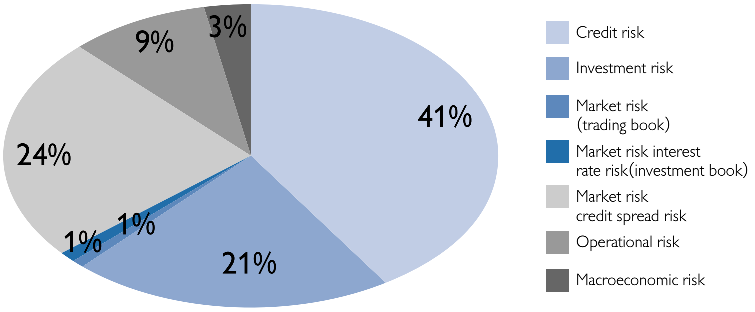
As at 31 December 2013, the regulatory overall risk position is composed as follows:



In the economic liquidation view, the focus is on the meeting of creditors' claims in the event of liquidation. With this view, the risk-covering capital is defined on the basis of the "internal" capital. This is based on the regulatory definition, but also includes further components such as unaudited interim net income. Moreover, "internal" – usually value-at-risk – methods are employed to determine the total risk position. This concerns not only the risks which the regulator requires to be covered by equity but also the analysis of all quantifiable risks regarded as significant in the context of the risk inventory.

Following the above-mentioned refocusing of risk management, the economic risk-bearing ability has been revised and the 99.9% confidence level used to quantify risk in the liquidation view converted to a confidence level of 99.95% derived from the Bank's target rating. The one-year holding period has been retained. The quantification of credit risks has been extended to include sub-risk types as described in section d). The measurement of interest-rate risk and market risk from the trading book has been modified as explained in section e). Additional risk types not previously taken into account, such as structural liquidity risk and macroeconomic risk, have been implemented.

As at 31 December 2013, the total risk position for the VBAG Group in the economic liquidity view was composed as follows:



The going-concern view seeks to ensure the continuation of normal business operations. The going-concern view is based on coverage of risks through capital available in the short term in day-to-day business. Minor, highly probable risks can be accommodated without jeopardising ongoing business operations. Therefore, the risk-covering capital essentially comprises only hidden reserves, the net profit achieved in the current financial year and the target profit/loss for the next 12 months. The risk quantification is based on a moderate confidence level of 95% and a holding period of one year.

The economic risk sustainability account is regarded as an important view from a management perspective, as the combination of risk measurement and income accounting allows risk-adjusted income management. Standard performance measurement methods such as return on equity (ROE) are supplemented by the meaningful return on economic capital (ROEC) measurement, which takes adequate account of risks and facilitates comparison of segment performance, thus laying the foundation for value-oriented bank management.

d) Credit risk

In the VBAG Group, the following risk sub-types are grouped under the heading of credit risk.

- General default risk
- Counterparty risk in derivative transactions
- Repayment vehicle risk
- Foreign exchange risk of foreign currency loans
- Transfer risk of cross-border financing
- Macroeconomic risk
- Rating migration risk
- Concentration risk

General default risk denotes potential losses that may arise from the default of business partners who constitute borrowers at the VBAG Group.

The VBAG Group defines counterparty risk as the risk that a business partner in an over-the-counter (OTC) derivative transaction will not meet its contractual obligations or will not fully meet them, thus causing VBAG Group an actual loss resulting from the positive fair value of the derivative transaction (replacement risk).

Repayment vehicle risk is the risk that a repayment vehicle that has been saved into in order to repay a debt does not achieve the desired performance and is finally insufficient to cover the relevant financing. This shortfall between expected savings volume and outstanding amount at maturity serves as a guide to the potential loss.

The foreign exchange risk of foreign currency loans arises due to a mis-match between the currency of the debtor's income and the financing currency. If the exchange rate changes to the customer's disadvantage, the monthly cost to the customer increases, resulting in additional defaults.

Transfer risk occurs in the case of receivables that cross national borders. In the case of a moratorium, cash flows out of a country are prohibited, even if the borrower is willing and able to pay. The probability of this happening is modelled as a surcharge on the probability of insolvency.

Macroeconomic risk quantifies the risk arising from an economic downturn. Rating migration risk (or credit-rating risk or just migration risk) is responsible for losses resulting from downgrades of credit ratings of receivables affected by default. In this case, losses are not yet critical but have increased significantly, potentially leading to defaults.

Concentration risk denotes the risk that a default by a customer will lead to defaults across the whole group of its business relations, even though this relationship would not necessarily entail a group default.

Organisation and risk strategy

Strict separation of sales and risk management units is in place in all VBAG Group units that generate credit risk. All case-by-case decisions are made under strict observance of the principle of dual control, which led to stipulation of clear processes for the collaboration between the risk management units in the subsidiaries and risk management at Group level. For large-volume transactions, processes have been created to ensure the involvement of operational Group risk management and the Group Managing Board in risk analyses and credit decisions. Limit systems that combine the decision-making competences of the individual corporate units in a single framework play a key role in this process.

Measuring and controlling the credit risk also necessitates the development of sophisticated models, systems and processes tailored to the bank's own portfolio. The aim is firstly to structure and improve credit decision making and secondly to use such instruments and their findings as a basis for portfolio management. When implementing these systems, the VBAG Group paid particular attention to ensuring that all rating systems used in the Group show a comparable probability of default (PD) and are connected with the VB master scale, which comprises a total of 25 rating categories. The PD band used enables both comparison of internal ratings with the classifications of external rating agencies and, most importantly, comparison of credit ratings across countries and customer segments.

Group credit risk manual

The Group credit risk manual (GCRM) regulates credit risk management throughout the VBAG Group in a binding fashion. It encompasses the existing processes and methods for managing, measuring and monitoring credit risks within the Group.

The aim of the GCRM is to stipulate and document the general framework and principles for measuring and managing credit risks to be applied consistently across the Group and the design of appropriate processes and organisational structures in a clear and comprehensible manner. The manual lays the foundation for implementing the risk strategy in operations as regards credit risk components, setting the basic risk targets and limits that are to guide business decisions in line with the main areas of business focus.

The GCRM applies in principle to all fully consolidated entities, as well as VB Romania. This also applies to new fully consolidated entities provided that the entity is part of the scope of full consolidation of the VBAG Group with legally binding effect.

Without exception or limitation, as part of their general duty of care in the interest of the entities, the Managing Boards and managing directors of all Group entities must ensure that the GCRM finds application in their respective entities on both a formal and a de facto basis. The GCRM finds application either through being put into force in its entirety at the entity or through the content of the GCRM being integrated into the entity's own credit risk manual. General deviations from Group standards on account of specialised business activity or specific local conditions are possible in principle but require the approval of the Group Managing Board.

The GCRM is a living document that is regularly expanded and adapted to current developments and changes within the VBAG Group. The development and presentation of rating procedures as well as the estimation and validation of risk parameters are not the purpose and object of the manual. These items and their implementation within the organisation are explained in separate documentation.

Loan portfolio and credit value at risk

The term economic capital describes the minimum economic capital necessary from an economic perspective based on the result of a risk measurement. Along with regulatory capital, it is held for the purpose of covering unexpected losses exceeding expected losses. The calculation of the economic capital requirements needed for the credit risk is based on the credit value at risk (CVaR) method. For this purpose, the VBAG Group has selected an analytical calculation method based on an actuarial approach. In particular, a CreditRisk+ model adapted in line with internal requirements will be used for modelling credit risks in the loan portfolio.

Starting with the first quarter of 2010, the CVaR method is used at Group level as a basis for the following tasks:

- Breaking down the CVaR into individual segments and customers
- Identifying portfolio concentrations
- Analysing the development of the CVaR in portfolio and new business
- Analysis of individual customers' marginal contributions
- Identifying the major drivers behind CVaR changes (new business, EAD, collateral, loss and default rate, risk factor, etc.)

The CVaR for the credit risk is also used for the following purposes as part of general bank management:

- Calculating economic capital
- Ensuring comparability of the risk situation for different types of risk (e.g. credit risk and market risk)
- Basis for calculating risk-adjusted performance ratios (e.g. ROEC)
- Basis for allocating capital

The CVaR results also serve as a means of obtaining additional information for portfolio analysis and management. A corresponding report is compiled every month.

The most important aim of using credit risk methods and instruments is preventing loss through identifying risks at an early stage. In this process, the VBAG Group pays particular attention to ensuring that the systems primarily serve to support the persons performing the tasks. Thus, in addition to the quality of the methods, great importance is attached to the training, qualifications and experience of the employees.

Risk management and controlling

Limits

Limits exist within VBAG aimed at monitoring, controlling and restricting the risk of individual exposures and risk clusters.

- Credit limits for individual customers
- Credit limits for groups of affiliated customers
- Portfolio limits

When limits are defined, with regard to individual customers and groups of affiliated customers a distinction is made between governments, banks and others, with the latter category subsuming both corporate and retail customers. The limits are set depending on the rating category and the counterparty's own funds, the maximum remaining term of the transaction and the Group member's own funds and earnings power. In the Corporates and Retail segments, the limits generally relate to the credit scope granted after deducting collateral (unsecured risk). The setting of limits is monitored at individual transaction level on a continual basis as part of the operational risk management of the sub-institutions and is supported by centrally produced analyses.

At present, when setting limits for portfolios, the VBAG Group primarily uses country risk limits with the aim of limiting the transfer risk. The countries are divided into risk groups and markets based on external ratings and business strategy.

Concentrations

Concentrations are quantified and assessed on a Group-wide basis in two ways: in the CVaR calculation produced each month, and on a quarterly basis when preparing the Group risk report and the association risk report. This includes, for example, concentrations at individual customer level as regards corporates, banks and the public sector. In addition, the concentration risk shows the effects of a Group view rather than the individual customer view.

Rating systems

Standardised models are applied across the Group to determine credit ratings (the VB rating family) and to determine the loss amount in the event of default. The expected likelihood of each customer defaulting is estimated across the VB rating family and expressed via the VB master scale. The concept behind the VB master scale allows for the comparison of borrower credit ratings across regions and customer groups.

The rating classes in rating category 5 cover the reasons for defaulting on a loan applied across the Group and are also used for reporting non-performing loans (NPL). Loans from parts of rating category 4 and loans past due more than 60 days are defined as problem loans. An in-depth description of rating methods can be found in the regulatory disclosure on the VBAG website.

Counterparty default risk

Counterparty risk for market values arising from unsecured derivatives is accounted for by means of credit value adjustments (CVA) or debit value adjustments (DVA), as an approximation function for the potential future exposure in relation to counterparty default risk. The CVA/DVA charge is approximated by multipliers of exposure, probability of default and loss given default, as well as add-on factors that are dependent on the term and type of the underlying derivative transaction (interest rates, currencies, shares, and commodities) and expressed as a percentage of the face value.

Legally enforceable netting agreements are in place with key counterparties of VBAG, which have been taken into consideration since the end of 2009 for internal risk management and determining capital requirements. VBAG does not use an internal model to calculate counterparty default risk.

The amount of the counterparty limits (off-balance limits) for derivative transactions with banks and financial institutions depends on the following criteria:

- Amount of the counterparty's own funds
- Amount of the VBAG Group member's own funds
- Intensity of the business relationship with the counterparty (strategically important, small number of transactions, sporadic)
- Legally enforceable netting agreements in place

The terms of the off-balance limits set are determined taking counterparty default risks into consideration.

The Group market risk management department is responsible for monitoring the counterparty limits for trading that are set in line with various maturity bands. As mentioned above, the inclusion of derivative transactions in the off-balance lines is based on the principle of positive fair value plus a term-dependent add-on for counterparties without legally enforceable netting agreements. If valid netting agreements are in place, positive and negative fair values are netted and any cash collateral is taken into account.

For institutional counterparties without netting, the amount of the add-ons is based on section 234 (2) Austrian Solvency Regulation / Article 274 CRR. The add-on calculation is carried out in accordance with section 259 Austrian Solvency Regulation / Article 298 CRR, applying the off-balance netting. More conservative markups are used for internal risk management for non-credit institutions.

The inclusion of concluded transactions in the limits naturally takes place in real time. Utilisation reports and any overdraft reports are made available to the credit and trading departments concerned on a daily basis.

Collateral management in derivative trading

As part of internal risk management in the VBAG Group, a daily comparison of the fair value of derivative transactions is currently performed with 86 partners for transactions concluded on the basis of framework contracts (ISDA – International Swaps and Derivatives Association, Austrian or German framework contract) or credit support annex (CSA) contracts. If the fair values exceed certain contractually defined thresholds, these surpluses must be covered by collateral. The repo transactions with 86 contractual partners are also examined with regard to the amount of collateral. In line with agreed margin calls, collateral is mostly transferred in the form of cash or government bonds in euro. Of the current number of 86 CSA contracts in existence, three would be affected by a rating downgrade by VBAG. In the event of the VBAG rating being downgraded by two rating categories, in the worst case an additional cash collateral requirement in the amount of euro 5 million would arise as a result of reduction of the threshold.

Credit risk reporting

VBAG performs credit risk reporting on a monthly basis and provides a detailed presentation of prevailing credit risk within the VBAG Group as at the reporting date, and within the banking association in accordance with section 30a of the Austrian Banking Act. Corresponding reports are produced for the Group, major Group units and key business areas. This information is also included in the credit risk sections of the Group risk report and the association risk report.

The reports contain a quantitative presentation of management-related information on the credit risk, which is supplemented by a brief assessment of the situation and further qualitative information where appropriate. The following analyses form part of the report:

- Portfolio distributions – monthly
- Development of new business – monthly
- Credit rating distributions – monthly
- Non-performing loans – monthly
- Credit risk concentrations – quarterly
- Country group analyses – quarterly
- Customer segments (customer segment split) – quarterly
- Sector distributions (commerce) – quarterly
- Significant CVaR information – quarterly

These analyses are presented according to different sizes and ratios: unsecured exposure, total exposure, expected loss, existing risk provisions, standard risk costs, non-performing loans, CVaR, etc. A CVaR report is also produced every month detailing the amount of unexpected loss at Group level and why this changed between reporting dates. It also breaks this information down into business segments and individual commitments.

The key ratios used to describe credit risks for the various business segments as at the balance sheet date and in comparison to the previous year are shown in the following tables and are excerpts taken from the Group risk report.

Presentation of receivables from banks and customers broken down by credit quality and allocation to individual risk categories.

Euro thousand	Loans and receivables to credit institutions and customers 31 Dec 2013	Loans and receivables to credit institutions and customers 31 Dec 2012
Gross carrying amount	13,277,192	17,309,775
Risk provision	815,741	1,067,045
Net carrying amount	12,461,451	16,242,729
Receivables impaired		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	774	3,099
Risk category 3 (3A - 3E)	149,135	58,358
Risk category 4 (4A - 4E)	20,041	42,395
Risk category 5 (5A - 5E)	1,022,926	1,354,520
Risk category 6 (NR)	3	4,656
Gross carrying amount	1,192,879	1,463,028
Risk provision	752,428	883,653
Net carrying amount	440,451	579,375
Receivables not impaired 90 - 180 days		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	0
Risk category 3 (3A - 3E)	0	0
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	29,442	39,500
Risk category 6 (NR)	0	0
Gross carrying amount	29,442	39,500
Receivables not impaired 180 - 365 days		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	0
Risk category 3 (3A - 3E)	0	0
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	1,332	52,057
Risk category 6 (NR)	0	0
Gross carrying amount	1,332	52,057
Receivables not impaired but past due 365 days		
Risk category 1 (1A - 1E)	0	0
Risk category 2 (2A - 2E)	0	0
Risk category 3 (3A - 3E)	0	0
Risk category 4 (4A - 4E)	0	0
Risk category 5 (5A - 5E)	54,587	22,837
Risk category 6 (NR)	0	0
Gross carrying amount	54,587	22,837
Receivables neither impaired nor past due		
Risk category 1 (1A - 1E)	4,463,744	5,578,105
Risk category 2 (2A - 2E)	1,426,567	2,869,980
Risk category 3 (3A - 3E)	5,160,545	5,623,089
Risk category 4 (4A - 4E)	798,383	1,350,553
Risk category 5 (5A - 5E)	118,704	225,732
Risk category 6 (NR)	31,008	84,894
Gross carrying amount	11,998,951	15,732,353
Portfolio based allowance	63,313	183,392
Total net carrying amount	**12,461,451**	**16,242,729**

Classification to the individual risk categories is carried out according to internal rating categories at VBAG. Receivables in risk category 1 have the highest rating (lowest expected default rate), while receivables in risk category 4 have the lowest rating and receivables in risk category 5 constitute defaulted receivables (= non-performing loans, NPLs). Risk category 6 (NR) comprises almost all non-defaulted exposures that cannot be assigned to any of the other risk categories 1 - 4. These are mainly small exposures that fall below the rating obligation. This category includes customers with a wide variety of live ratings and, unlike the other risk categories, is not assigned to any particular risk. The distribution of risk provisions is also clarified accordingly. It must be noted that the gross carrying amount of the individual impaired loans and receivables does not correspond to the total of the NPLs. If the rating of a defaulting customer improves, the customer is assigned to a better (performing) rating category, impairment is reduced accordingly and the customer is no longer designated as an NPL.

The defaulted loans or NPLs are assigned to risk category 5 at VBAG and allocated to the individual rating categories based on the reason for the default. This means, for example, that rating category 5A denotes those borrowers that are past due by more than 90 days.

The following table shows the distribution of non-performing loans across the default rating categories.

	Loans and receivables to credit institutions and customers 31 Dec 2013		Loans and receivables to credit institutions and customers 31 Dec 2012	
Euro thousand	Gross	Net	Gross	Net
Receivables impaired				
Rating 5A	389	98	12,586	10,886
Rating 5B	483,924	248,035	684,783	308,897
Rating 5C	276,663	118,258	441,478	199,013
Rating 5D	260,818	54,401	215,562	24,190
Rating 5E	1,132	121	111	8
Total	1,022,926	420,913	1,354,520	542,994
Receivables not impaired but past due 90 days				
Rating 5A	33,857	33,857	50,130	50,130
Rating 5B	1,344	1,344	7,170	7,170
Rating 5C	41,264	41,264	50,648	50,648
Rating 5D	8,896	8,896	6,445	6,445
Rating 5E	1	1	0	0
Total	85,361	85,361	114,394	114,394
Receivables neither impaired nor past due				
Rating 5A	9,599	9,599	30,064	30,064
Rating 5B	73,288	73,288	107,579	107,579
Rating 5C	30,617	30,617	76,460	76,460
Rating 5D	5,171	5,171	11,620	11,620
Rating 5E	30	30	9	9
Total	118,704	118,704	225,732	225,732
Total carrying amount	**1,226,991**	**624,979**	**1,694,646**	**883,119**

[1] To a very small extent it also concerns non-issued ratings

The following table shows the gross and net carrying amounts of the receivables according to their respective risk categories.

	Loans and receivables to credit institutions and customers	
Euro thousand	Gross	Net[1]
31 Dec 2013		
Risk category 1 (1A - 1E)	4,463,744	4,463,744
Risk category 2 (2A - 2E)	1,427,341	1,427,168
Risk category 3 (3A - 3E)	5,309,680	5,253,853
Risk category 4 (4A - 4E)	818,424	811,273
Risk category 5 (5A - 5E)	1,226,991	537,788
Risk category 6 (NR)	31,011	30,938
Total	**13,277,192**	**12,524,764**
31 Dec 2012		
Risk category 1 (1A - 1E)	5,578,105	5,578,105
Risk category 2 (2A - 2E)	2,873,079	2,871,993
Risk category 3 (3A - 3E)	5,681,446	5,674,801
Risk category 4 (4A - 4E)	1,392,948	1,385,847
Risk category 5 (5A - 5E)	1,694,646	826,291
Risk category 6 (NR)	89,550	89,084
Total	**17,309,775**	**16,426,121**

[1] The net carrying amounts are shown without deduction of the portfolio impairment.

Individual impairment in risk category 5 generally does not cover the entire gross value of outstanding receivables, as collateral is taken into account but other provisions (portfolio provisions) are not, and this does not always need to result in complete impairment of the defaulted receivable in cases of restructuring (going concern consideration when recognising risk provisions).

The following table shows defaulted and non-defaulted exposures as a percentage of total receivables.

	Receivables total		Receivables in loss		Receivables alive	
Euro thousand	Exposure	Unsecured	Unsecured	Risk provision	Unsecured	Expected Loss
31 Dec 2013						
C - Financing	2,570,794	965,608	53,505	47,791	912,103	20,521
C - Financial Markets	5,535,970	5,185,002	3,495	3,937	5,181,507	6,416
C - Investment Nook	66,432	66,432	0	0	66,432	361
C - Other Operations	21	21	0	0	21	0
NC - Corporates	693,745	403,371	182,176	172,243	221,194	5,248
NC - Real Estate	2,113,733	961,481	351,329	270,140	610,152	17,017
NC - Leasing CEE	1,856,389	485,796	100,758	96,695	385,038	12,570
NC - Investment Book	318,216	318,216	10,703	4,240	307,513	2,801
NC - Other Operations	121,891	28,333	5,164	6,967	23,169	494
Total	**13,277,192**	**8,414,260**	**707,131**	**602,012**	**7,707,130**	**65,428**
31 Dec 2012						
C - Financing	2,652,606	1,114,101	47,977	43,510	1,066,124	14,381
C - Financial Markets	4,346,737	3,957,097	0	0	3,957,097	311
C - Investment Book	2,571,115	2,569,660	9,468	9,915	2,560,192	3,394
C - Other Operations	22	22	0	0	22	0
NC - Corporates	1,861,751	1,100,688	287,496	231,190	813,192	6,750
NC - Real Estate	3,236,860	1,240,238	424,069	380,535	816,169	11,753
NC - Leasing CEE	1,865,862	477,975	134,044	135,377	343,931	8,149
NC - Investment book	473,058	473,058	23,389	9,076	449,669	2,001
NC - Other operations	301,763	157,615	17,941	1,924	139,674	909
Total	**17,309,775**	**11,090,453**	**944,385**	**811,526**	**10,146,069**	**47,648**

Across the Group, default follows the definition given by the Austrian Solvency Regulation for banks which employ an approach based on internal ratings when calculating own funds. Defaulted receivables are compared with the amount of individual impairments recognized and performing receivables are compared with the loss expected for the following year. The expected loss is based on internal credit ratings, the economic collateral situation and the loss amount expected in the event of default derived from this. Defaulted receivables generally result in risk provisions which are less than the unsecured exposure, as in addition to provisions based on individual impairments, there are also group based impairments and portfolio provisions that are not included in the above table.

The table below shows the overall framework of secured receivables by individual collateral categories.

Euro thousand	Receivables to credit institutions and customers 31 Dec 2013	Receivables to credit institutions and customers 31 Dec 2012
Collateral for individual impairment loans and receivables		
Liquid funds	9,475	11,900
Securities	3,024	0
Mortgages	280,414	426,200
Guarantees	65,068	97,328
Movable Goods	69,917	84,024
Others	5,603	7,050
Collaterals for loans and receivables not impaired but past due 90 days		
Liquid funds	6	896
Securities	0	0
Mortgages	39,143	46,914
Guarantees	17,606	5,234
Movable Goods	25	86
Others	29	29
Collaterals for loans and receivables which are neither impaired nor past due		
Liquid funds	62,004	143,184
Securities	40,587	0
Mortgages	1,712,901	2,914,172
Guarantees	381,115	466,269
Movable Goods	1,744,247	1,567,306
Others	431,767	448,730
Total value of collaterals	**4,862,931**	**6,219,321**

The key form of collateral in the lending business is mortgages. Movable property collateral derives from the leasing units of the Group and mainly constitutes private passenger cars.

The following table shows the regional distribution of utilisation across strategic sectors.

Euro thousand	Austria	EFA incl. Switzerland	EU Central- and Eastern Europe	Non EU Europe	USA and Canada	Others	Total
31 Dec 2013							
C - Financing	2,262,330	192,300	48,430	10,531	0	57,203	2,570,795
C - Financial Markets	4,319,666	253,750	939,984	873	10,765	10,932	5,535,970
C - Investment Book	0	66,432	0	0	0	0	66,432
C - Other Operations	21	0	0	0	0	0	21
NC - Corporates	274,153	214,015	161,942	21,667	18,748	3,220	693,745
NC - Real Estate	346,972	221,113	1,440,548	97,562	0	7,538	2,113,733
NC - Leasing CEE	84	4	1,606,210	248,550	0	1,540	1,856,389
NC - Investment Book	0	57,952	725	255,561	864	3,114	318,216
NC - Other Operations	156	120,253	214	196	1,072	0	121,891
Total	**7,203,381**	**1,125,820**	**4,198,054**	**634,940**	**31,449**	**83,547**	**13,277,192**
31 Dec 2012							
C - Financing	2,329,374	247,585	65,928	9,695	0	24	2,652,606
C - Financial Markets	4,067,490	239,562	26,444	0	13,241	0	4,346,737
C - Investment Book	1,069,045	68,096	1,428,665	845	1,086	3,378	2,571,115
C - Other Operations	22	0	0	0	0	0	22
NC - Corporates	797,729	499,102	382,281	66,419	29,326	86,895	1,861,751
NC - Real Estate	790,878	273,657	2,015,969	152,654	0	3,702	3,236,860
NC - Leasing CEE	63	27	1,605,423	256,658	0	3,690	1,865,862
NC - Investment Book	0	185,576	1,454	257,295	20,822	7,911	473,058
NC - Other Operations	32,078	113,346	156,222	118	0	0	301,763
Total	**9,086,678**	**1,626,951**	**5,682,386**	**743,684**	**64,475**	**105,600**	**17,309,775**

The distribution of the receivables portfolio across the main regions that are used within the Group for controlling purposes shows a considerable shift in regional distribution. In 2012, the majority of the volume is located in Austria. The CEE countries have lost a great deal of significance with the sale of VBI. Changes occurred in the segments year-on-year due to internal management deliberations and as a result of the disposal of investments, otherwise there were barely any noteworthy shifts.

The table below shows the portfolio sub-divided by sector and by customer segments

Euro thousand	Public sector	Banks	Corporates	Retail SME	Retail private	Special finance	not attributable	Total
31 Dec 2013								
C - Financing	30,140	110,443	1,433,008	393,849	434,728	166,072	2,555	2,570,795
C - Financial Markets	20,144	5,373,548	136,286	2,416	3,576	0	0	5,535,970
C - Investment book	66,432	0	0	0	0	0	0	66,432
C - Other operations	21	0	0	0	0	0	0	21
NC - Corporates	8,860	0	469,896	11,602	1,175	202,210	0	693,745
NC - Real Estate	3,522	22,322	980,951	4,166	959	1,094,798	7,015	2,113,733
NC - Leasing CEE	5,840	27,217	135,726	1,529,944	157,654	9	0	1,856,389
NC - Investment book	1,428	255,561	61,227	0	0	0	0	318,216
NC - Other operations	1	9,048	90,310	0	21,693	840	0	121,891
Total	**136,388**	**5,798,139**	**3,307,404**	**1,941,977**	**619,785**	**1,463,929**	**9,570**	**13,277,192**
31 Dec 2012								
C - Financing	18,388	108,747	1,618,573	305,118	459,443	142,313	24	2,652,606
C - Financial Markets	0	4,330,171	16,567	0	0	0	0	4,346,737
C - Investment book	1,154	2,461,708	102,951	1,128	4,174	0	0	2,571,115
C - Other operations	0	22	0	0	0	0	0	22
NC - Corporates	31,037	56,948	1,338,109	12,527	10,577	387,479	25,073	1,861,751
NC - Real Estate	5,747	23,112	1,440,070	7,470	2,856	1,753,905	3,702	3,236,860
NC - Leasing CEE	6,303	33,030	140,354	1,526,910	155,503	86	3,676	1,865,862
NC - Investment book	70,823	255,552	146,683	0	0	0	0	473,058
NC - Other operations	152	913	269,630	0	24,518	6,549	0	301,763
Total	**133,603**	**7,270,203**	**5,072,936**	**1,853,153**	**657,072**	**2,290,333**	**32,475**	**17,309,775**

The sectors represent the way in which the receivables portfolio is broken down within the Group for controlling purposes, while the breakdown according to customer segment conforms to the customer groups as defined by the Austrian Banking Act.

Loan collateral

Use of loan collateral

The use and management of loan collateral are regarded as important components of credit risk management in the VBAG Group. Alongside borrowers' creditworthiness, they are a decisive factor in determining the credit risk of an exposure. The primary significance of loan collateral is in making provision for unforeseeable future risks from loan exposures, thus limiting the risk of loss arising from a loan exposure in the event of insolvency or restructuring.

The types of collateral used within the VBAG Group and the way in which these are handled are presented in detail in two documents: the economic collateral catalogue and the Basel II collateral handbook.

These categorise collateral according to both legal hedging transactions and by the type of goods on which they are based. In this process, information is provided for each type of collateral as to whether it is economically suitable collateral or collateral recognised by regulatory requirements and can thus be used to reduce economic risk and/or regulatory minimum equity requirements.

In the VBAG Group, a key requirement when selecting a type of collateral is its congruence with the loan to be secured. If collateral is created for a loan exposure, it must be objectively valued in accordance with binding Group-wide valuation rules. Furthermore, there are clearly defined guidelines and processes for creating, managing and realising loan collateral. The soundness of all loan collateral is examined regularly. Periodicity largely depends on the type of collateral and is regulated on a standard basis throughout the Group.

Valuation of loan collateral

In each case, the starting point for considering collateral in terms of the lending process is the current fair value, market value, nominal value or repurchase value. The corresponding deductions are subsequently applied to this value in each case for the purposes of credit risk mitigation. The different types of collateral are valued based on the following initial values:

Collateral	Initial value
Financial collateral	Fair value / nominal value
Real estate collateral	Fair value / market value
Other tangible collateral	Fair value
Accounts receivable	Nominal value
Life insurance	Surrender value
Guarantees	Nominal value
Credit derivatives	Nominal value

The initial valuation method used for loan collateral is appropriately documented together with the valuation results for ongoing examination.

The most important types of collateral

Loan collateral should correspond with the type of loan to be secured. As such, capital investment loans should be secured by the assets to be financed, provided these are sound and at the guarantor's disposal for the term of the loan. In the selection of loan collateral, the cost/benefit ratio is taken into consideration so that sound loan collateral that requires low levels of processing and costs as well as loan collateral that is actually realisable are selected first. For this reason, tangible collateral, such as real estate collateral, and financial collateral, such as cash or securities collateral, are given priority.

Distribution of commercial loan collateral within the VBAG portfolio

Collaterals	Allowable amount	
Euro thousand	31 Dec 2013	31 Dec 2012
Financial collateral	397,448	492,620
Real estate collateral	2,032,458	3,387,287
Other tangible collateral	1,823,730	1,651,432
Accounts receivable	66,291	60,931
Life insurance	79,215	58,221
Guarantees	463,789	568,830
Credit derivatives	0	0
Total	**4,862,931**	**6,219,321**

Real estate collateral is by far the most important type of collateral in the VBAG Group. Other tangible collateral constitutes moveable property in the leasing business. The values shown represent the recognised value of the collateral (after measurement and capping by the amount of the secured receivable).

Whether or not personal collateral is recognised depends largely on the quality of the guarantor and its close association with the borrower.

According to the right granted by means of personal collateral, the following liability instruments are recognised in the VBAG Group:

Personal Collaterals
Abstract guarantees
Guarantee and payer liability (persuant to section 1357 Austrian Civil Code)
Deficiency guarantee (persuant to section 1356 Austrian Civil Code)
Draft guarantee
Strict letter of comfort

Distribution of personal collateral within the VBAG portfolio

Personal guarantees Euro thousand	Allowable amount 31 Dec 2013	 31 Dec 2012
Abstract guarantee	356,732	407,987
Guarantee	33,386	23,534
Joint security / Guarantee and payer liability (persuant to section 1357 Austrian Civil Code)	27,505	104,778
Second degree security / Deficiency guarantee (persuant to section 1356 Austrian Civil Code)*	34,098	8,464
Second degree security / Ordinary guarantee (persuant to section 1346 Austrian Civil Code)*	0	280
Guarantee of a bill of exchanges acc. Bill of Exchange Act (Joint security)	8,848	18,217
Strict letter of comfort	3,219	5,571
Total	**463,789**	**568,830**

*only granted by or with counter-liability of government bodies

Abstract guarantees are the most important type of personal collateral. Personal collateral in accordance with section 1356 and section 1346 of the Austrian Civil Code is only recognised if this is granted by government bodies or is provided with counter-liability on the part of government bodies. The values shown represent the recognised value of the collateral (after measurement and capping by the amount of the secured receivable).

e) Market risk

Definition

Market risk is the risk that the value of an asset item will change as a result of changes to the price of value-determinant market risk factors. VBAG draws a distinction between the following market risk sub-groups:

- Market risk in the trading book
- Interest rate risk in the investment book
- General credit spread risk
- Foreign currency risk
- Option risks

Organisation and risk strategy

Market risk in the trading book

Market risks in trading in the VBAG Group are managed and monitored by the independent Group market risk management department, which is based in strategic risk management. Besides producing a risk and income presentation on a daily basis, specifying the limit structure based on the economic capital made available by the Managing Board, the department's main tasks include administration of front-office systems, collateral management, enhancement of risk measurement systems and monitoring the market risk and counterparty limits.

Interest rate risks in the investment book

Entering into interest rate risks is a normal part of banking business and a key source of income. However, excessive interest rate risks represent a significant threat to the earnings and capital situation. Accordingly, an effective risk management system that monitors and limits the interest rate risk in line with the scope of business is vital for maintaining the bank's ability to bear risk.

Functional separation of the units that enter into interest rate risks and those that monitor such risks is in place.

The asset liability committee (ALCO) is the coordination body for managing the ALM processes and is convened quarterly in line with the rules of procedure or at short notice if required.

Asset liability management (ALM) is responsible for ensuring the ALM organisation is adequate, chairs the meetings of the ALCO and devises the bases and analyses relevant for decision-making.

The Group Market Risk investment book is responsible for specifying risk measurement methods and enhancing them on an ongoing basis. Preparing evaluations and analyses, setting parameters and monitoring limits also fall within its remit. The reports it produces serve as a decision-making tool for the ALCO in performance of its management tasks.

The interest rate sensitivities of the VBAG Group (the impact of the shift of the yield curve by one basis point) were distributed as follows across the major currency areas:

Euro thousand

Currency	31 Dec 2013	31 Dec 2012
EUR	388	–254
USD	–1	–69
CHF	–83	–105
JPY	–3	2
GBP	–2	–12
Others	–49	–52
Total	**527**	**494**

Here, netting takes place within the currencies (positive and negative) but added across the currencies (irrespective of being plus and minus).

The declared aim of interest rate risk management is to identify all material interest rate risks from assets, liabilities and off-balance positions in the investment book. This requires analysis of both the income effect and the present value effect of interest rate changes using simulation scenarios in the form of statistical and dynamic reports that also incorporate new business.

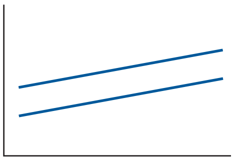
The following interest rate risks are relevant to the VBAG Group:

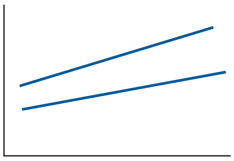
Repricing risk

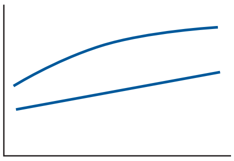
Repricing risk arises due to time differences in the remaining maturity (fixed-interest instruments) or in the period until the interest rate is next fixed (variable-interest instruments) for receivables, liabilities and off-balance positions. It manifests itself in changes in the present value and future earnings of the banks brought about by changes in interest rates.

Yield curve risk

Yield curve risk results from disadvantageous changes in an interest rate curve, for example:


Parallel shift


Change in gradient


Change in curve

Basis risk

In this context, basis risk results from imperfect correlations between the interest rates levied and paid on various financial instruments with otherwise similar characteristics, such as the same maturities.

Options risk (Explicit/implicit risk from options)

An option is the right, but not the obligation, of an option holder to buy, sell or otherwise change the cash flow of a financial contract. Options may stand alone or be embedded in other financial instruments.

Here, the implicit risk of options denotes the risk from options embedded in receivables, liabilities and off-balance positions.

Examples of implicit options are

- Bonds with call options – the right to repurchase the bonds prior to maturity
- Bonds with put options – the right to return the bonds prior to maturity
- Deposits with the right to terminate – e.g. non-maturity deposit instruments

Here, the explicit risk of options denotes the risk from standalone, interest rate-related options (asymmetrical interest rate derivatives).

Examples of explicit options are

- Cap & floor
- Options on a bond
- Swaptions

Foreign currency risk

Foreign currency risk is the risk that the values of outstanding receivables/liabilities in a foreign currency will change unfavourably due to exchange-rate fluctuations

Credit spread risk

Particular attention is paid to credit spread risk in the strategic banking book (strategic banking book positions - SBBP). This essentially includes all bonds, credit default swaps and securitisations. It also contains credit linked notes, funds, borrower's note loans, syndicated loans, investment and hedge funds as well as nostro shares in the VBAG Group, but these are of secondary importance. The Managing Board is notified of SBBP positions as part of the Group risk reporting process. The SBBP report is split into a portfolio section and a risk section.

The SBBP portfolio report describes assets with regard to their fair values and carrying amounts and presents them in structural analyses according to various characteristics, such as asset class, IFRS and local GAAP treatment, credit rating, sector or duration. All portfolios are presented on the basis of the end of the respective quarter and their quarterly performance. Changes in portfolio quality compared to the previous quarter are outlined using migration matrices and the migration drift for asset classes of bonds, credit default swaps and securitisations.

Portfolio structure according to IAS 39 categories

Euro thousand	Bond	Securisation	Syndicated loans & SSD	Fund & Equity	CLN, LPN & CL-SSD	Total
31 Dec 2013						
At fair value through profit or loss	34,315	13,777	0	2,532	0	50,623
Available for sale	2,164,695	2,680	0	4,943	0	2,172,318
Held to maturity and loans & receivables	809,662	261,843	384,364	0	195	1,456,064
Total	**3,008,671**	**278,300**	**384,364**	**7,475**	**195**	**3,679,005**
31 Dec 2012						
At fair value through profit or loss	77,013	13,567	0	3,859	0	94,439
Available for sale	2,961,958	18,497	0	24,705	5,927	3,011,088
Held to maturity and loans & receivables	1,164,906	985,697	474,455	2,114	3,464	2,630,636
Total	**4,203,877**	**1,017,761**	**474,455**	**30,678**	**9,392**	**5,736,163**

The on-balance-sheet portion of the strategic investment book corresponds to the portion of the financial investments eligible for the capital market. As well as the off-balance-sheet portion of the strategic investment book positions, only some of the figures in the SBBP report include deferred interest. Participation capital, bonds not eligible for the capital market and short-term government securities are not recorded in the strategic investment book, as these are excluded due to technical or regulatory requirements rather than for strategic reasons.

Exposure financial investments European peripheral countries as at 31 December 2013

	Available for sale		Held to maturity		Total	
Euro thousand	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Italy	126,508	126,508	20,000	20,431	146,508	146,939
Hungary	42,340	42,340	0	0	42,340	42,340
Portugal	31,246	31,246	0	0	31,246	31,246
Spain	29,892	29,892	0	0	29,892	29,892
Total	**229,985**	**229,985**	**20,000**	**20,431**	**249,985**	**250,416**

Exposure CDS in European peripheral countries as at 31 December 2012

	Protection sell		Protection buy		Total net	
Euro thousand	**Face value**	**Fair value**	**Face value**	**Fair value**	**Face value**	**Fair value**
Hungary	36,877	–1,358	–64,128	2,438	–27,251	1,080
Portugal	38,000	–1,948	–38,000	1,979	0	31
Italy	48,000	–628	–48,000	613	0	–16
Total	**122,877**	**–3,934**	**–150,128**	**5,029**	**–27,251**	**1,095**

Exposure with regard to European peripheral countries (Portugal, Italy, Ireland, Greece and Spain) and Hungary is in a single-digit percentage of the total exposure of the strategic investment book positions. VBAG's greatest exposure here is to Italy, followed by Hungary, Portugal and Spain. The strategic banking book positions contain no exposure in Greece or Ireland.

Portfolio distribution by credit rating

Euro thousand	31 Dec 2013	31 Dec 2012
1A	1,314,363	1,935,554
1B - 1C	386,051	633,838
1D - 2 A	506,422	1,384,725
2B - 3A	1,156,529	1,205,176
3B - 4E (NIG)	301,684	546,433
5A - 5E (Default)	11,423	26,578
No rating	2,532	3,860
Total	**3,679,005**	**5,736,163**

Since no ratings are provided by the established rating agencies for fund & equity, a rating is not specified for this class in the relevant row.

Portfolio distribution by sector

Euro thousand	31 Dec 2013	31 Dec 2012
Financial sector	1,438,979	2,236,664
Public sector	1,484,515	1,715,797
Corporates	469,736	735,264
No classification	285,775	1,048,439
Total	**3,679,005**	**5,736,163**

Securitisations and (in part) fund & equity are not assigned to a sector since their individual components may belong to different sectors.

Since 2009, risk is calculated for the asset classes of bonds and credit default swaps. Since 2013, the risk calculation also include the asset classes of securitisations, funds, loans, borrower's note loans and credit linked notes. Moreover, the computational logic of the CS VaR has been further developed and a volatility-dependent weighting of the observed historical scenarios has been adapted with a view to a more a risk-appropriate calculation. In addition, the scope of the underlying market indices has been extended. The credit spread value at risk is used in the risk reporting and risk limitation of the SBBP and also, in the context of total bank risk management, in the risk sustainability account and the total bank risk stress test.

To calculate credit spread risk in the strategic investment book, the portfolio is broken down into 31 risk clusters based on the criteria of currency, credit rating and sector, every risk cluster being further differentiated according to seniority. Republic of Austria exposure is presented separately in an additional risk cluster. The systemic credit spread is measured for each cluster on the basis of corresponding market indexes and a risk-free interest rate curve. This data is presented with daily-basis historical data going back to 1999. Monthly changes to the credit spread are determined on the basis of this and then used to calculate the credit spread value at risk on the basis of a volatility-dependent model.

To present the credit spread risk in the Group risk report, the value at risk is reported with a 99% confidence level for each of the risk clusters described above (holding period of one month). Taking into account diversification effects between individual risk factors, the report also presents credit spread risk on a value-at-risk basis for the IFRS category "at fair value through profit or loss" and for the overall portfolio. A sensitivity evaluation based on a 10 bp shift has been implemented along the same lines as a second risk concept for the risk clusters and factors described above, and is presented in the SBBP risk report.

Risk key figures as at 31 December 2013 for VBAG Group

Euro thousand 31 Dec 2013	Credit Spread Value at Risk	10 basis point-Shift
VBAG-Group	96,596	17,421

A risk limit has been introduced for the asset classes of bonds, credit default swaps, securitisations and CLN based on the risk measurement described, which will trigger pre-defined escalation procedures in the event of a limit being exceeded.

As well as the portfolio and risk report, carrying out various stress tests is also an important aspect of risk management for the SBBP. Uniform association-wide standards based on economic Group research are vital for risk management here. The implications of the macroeconomic environment for credit spreads is assessed on the basis of historical data using a multivariate factor model. Using this estimated correlation, the stressed characteristics are determined for credit spreads based on the macroeconomic specifications. In this way, stress test results can be provided on an economic basis, which are then included in the economic total bank risk stress test. These stress tests take place every six months.

All of the models described here are subject to regular backtesting in strategic risk management and are further developed on an ongoing basis in collaboration with other key departments.

Risk management and controlling

Market risk in the trading book

The key task in risk monitoring is estimating the possible loss that could arise from unfavourable market developments on a daily basis. These value-at-risk calculations are performed using the KVaR+ and MUREX risk management systems based on the historical simulation method, and mainly comprise the following calculation steps: following identification and definition of the market risk factors to be included in the modelling process, historical changes are identified from the time series of the market risk factors. The historic simulation method is based on the assumption that future changes can be forecast from these historically observed changes.

To identify the future (hypothetical) development of market risk factors required for the VaR calculation, in each case the historically observed changes are added as an alternative to the current development of a risk factor, thus producing a hypothetical distribution for the future development of individual market risk factors. In the next step, hypothetical portfolio values are defined for the scenarios generated in this way that are then used to calculate the profit and loss distribution by mapping the differences between the hypothetical future and currently observed portfolio value. The VaR is obtained by applying the relevant quantile to the empirically calculated profit and loss distribution. The time series length used at VBAG corresponds with the minimum legal requirement of one year.

The amount of VaR is ascertained from the 1% quantile of the hypothetical profit and loss distribution.

The following table shows VaR in the trading book broken down into risk types and how it developed over the year.

The VaR in the trading book according to risk type and development during the year is as follows.

Euro	31 Dec 2013	Average	Maximum	Minimum
Interests	186,466	729,417	1,451,612	166,931
Currencies	7,927	15,898	59,855	7,927
Asset Value	155,453	147,221	231,387	68,729
Commodity	53,489	55,770	89,684	33,312
Volatility (option risk)	102,746	175,968	435,507	82,395
Total	**239,459**	**787,195**	**1,463,928**	**224,064**

VaR calculations based on historical simulation, confidence level 99%, holding period one day.

VaR total does not correspond to the addition of the separate VaRs due to portfolio effects.

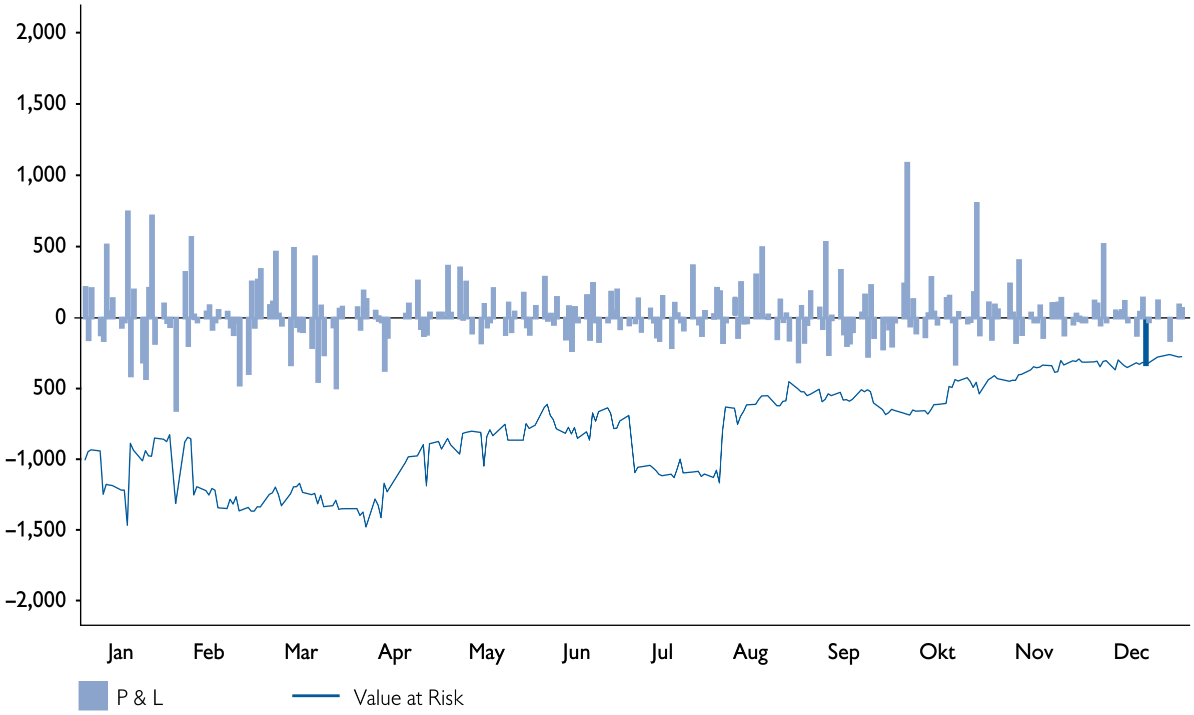
The plausibility and reliability of the risk ratios is reviewed daily by backtesting. In this process, the potential risk amounts calculated by the model on a daily basis are compared ex post with the trading results. An exception (outlier) is deemed to exist if a negative trading result exceeds the potential risk amount calculated by the model.

Backtesting at VBAG is based on hypothetical trading results and assumes that the portfolio is maintained at a constant level. The portfolio used as the basis for the VaR calculation is then revalued the following day with the current prices/results of the valuation models.

If the VaR calculated on an ex ante basis is exceeded during backtesting, the causes of this are analysed and documented.

In 2013 there was one backtesting outlier.

Backtesting results for the 2013 trading book
Euro thousand



A hierarchical limit system approved by the Managing Board is a key element of market risk management. The desired higher degree of diversification in the portfolios and the trading strategy are key factors in the development of this limit structure. In addition to VaR, a further series of risk ratios are calculated up to department level. These chiefly include interest rate sensitivities and option risk ratios (delta, gamma, vega, rho).

Volume limits for all currencies and product groups limit the liquidity risk. Management action triggers and stop loss limits are also in place. The Kondor+, KVAR+, Murex and Bloomberg Toms front office and risk management systems are available for daily risk controlling purposes. The external pricing software UnRisk is also used to support the valuation of structured products. Comprehensive position data management and daily market data checks ensure optimal data quality.

As the effects of extreme situations on earnings cannot be covered by VaR, stress tests using around 80 historical and portfolio-specific worst case scenarios are performed monthly or as required.

The crisis tests are of both a quantitative and a qualitative nature. The quantitative criteria determine plausible crisis scenarios with which the banks could be confronted. Qualitative criteria ensure that two important objectives of the crisis tests are brought to the fore: assessing whether the bank's own funds can absorb potential major losses and identifying measures with which the bank can reduce its risk and retain its equity.

The VBAG risk monitoring office performs extensive crisis tests on a monthly basis. For VBAG, extensive means that crisis tests are performed across all trading book portfolios. Once a month and at least once a quarter, an expert committee analyses the results, which are also subject to limits, and documents them in detail.

Quantitative standards, which VBAG meets by conducting crisis tests, concern the plausibility of the selected scenarios. Plausible scenarios to which the bank may be exposed in the course of critical market events are determined. For selecting scenarios, VBAG has chosen to apply four methods which are in turn divided into two categories, namely non-portfolio-specific and portfolio-specific methods:

- Non-portfolio-specific methods:
- Historical crises
- Standardised scenarios
- Historical simulation

Portfolio-specific methods:
- Scenario building by expert committees

Historical crises

Here, crises that have occurred in the past, for example 11 September 2001, are implemented as scenarios and applied to the current portfolio, with the largest one-day return implemented as a crisis over the observed time interval.

Standardised scenarios

When implementing these scenarios, VBAG mostly uses the scenario suggestions of the Austrian National Bank in Volume 5 of the guide series on conducting crisis tests. The following standard scenarios are among those implemented:

- Parallel shifts in interest rate curves
- Tilts in interest rate curves
- Changes in exchange rates
- Significant changes in share indexes
- Changes in volatilities

The scope of the changes made is also based on the suggestions of the Austrian National Bank guide series.

Historical simulation

With this method, the portfolio is valued using the VaR approach of historical simulation. The simulated changes in value are sorted in ascending order and the largest loss incurred is used as the stress test result. To investigate extremely negative scenarios, the largest losses incurred are added at sub-portfolio level independently of the days on which they occurred, thus deliberately negating portfolio effects

Scenario building by expert committees (worst case scenarios)

These scenarios stress all relevant risk types and attempt to find the most unfavourable possible impact for the VBAG treasury portfolio. At VBAG, such scenarios are sought subjectively and empirically. VBAG has established an expert committee comprising representatives from trading and market risk management that constructs and discusses various scenarios that would have a decisive influence on trading positions which, although generally unlikely, are still possible.

Extreme developments on the market are discussed and analysed in detail in the expert committee of VBAG with a view to identifying any potential need to adjust the expert scenarios. With the exception of the FSAP bottom-up scenarios in 2008, extreme scenarios have been implemented.

The quarterly expert committee discussed and implemented further portfolio-based expert scenarios.

Valuations

All trading book positions are managed using the Kondor+ or MUREX front office and risk management systems. These are linked to real-time market data, which means positions are valued at market prices. Products that are not referenced to direct prices are valued using various pricing models based on current market parameters.

Structured or complex products whose model prices cannot be calculated in the standard software are valued using an external price calculator whose model results are compared with tradable prices on the market as part of a test phase during model testing.

The systems described above ensure a daily, independent valuation of trading book positions.

Well-organised, efficient processes and procedures are an important component of risk management. The process for launching new treasury products, which falls under the remit of the Group market risk management department, also plays an important role in this context.

All the rules and organisational processes connected with measuring and monitoring market risks are compiled in the VBAG market risk manual. The manual also stipulates the limit structure and escalation procedures in the event of limits being exceeded.

Interest rate risks in the investment book

The risk measurement system records all the main forms of interest rate risk, such as basis and option risks. All Group positions sensitive to interest rate movements are included. Risk reporting takes place on a monthly or an ad hoc basis whenever necessary. The objective of risk management is to keep the bank's interest rate risks within specific parameters defined by the bank itself.

Positions with no specific lock-in period, which are primarily core deposit products such as savings deposits, current account deposits and loans with no fixed maturity are incorporated in the risk measurement using fictions. The assumptions were made based on statistical analyses or experience values or using expert opinions. The assumptions made were documented, are adhered to at all times and regularly reviewed with regard to their validity. Any deviations are also documented and displayed, provided that they are justified by facts. To approximate the basis risk within the gap process report, products (interest rate swaps, bonds, loans) whose lock-in period is not equal to the interest rate adjustment and is greater than or equal to one year are placed in maturity bands by replicating fixed-interest portfolios. This relates to those positions for which interest rates are fixed in line with secondary market rates of return (SMR) or a constant maturity swap (CMS).

Risk reports

A building block of reporting is the gap report, which also forms the basis for interest rate risk statistics in line with the gap analysis method. To determine the gaps, products sensitive to interest rate movements are allocated to the appropriate maturity band according to their remaining maturity or the points at which interest rates are to be fixed. Initial risk ratios are obtained from calculating the net positions and weighting them using the associated weighting factors. A further risk ratio is obtained by then correlating the present value risk calculated in this way with the own funds.

As an additional step, a gap report is produced that approximates the basis risk, e.g. of positions that are linked to secondary market rates of return, by replicating fixed-interest portfolios.

Additional present value reports are produced to obtain further ratios. Besides parallel shifts, tilts in interest rate curves are used. These scenarios and stress tests are regularly examined as to their validity and may be added to or replaced.

Currently, the following scenarios are implemented:
- Parallel shift of +1 bp, +10 bp, +25 bp and +50 bp
- Parallel shift of –1 bp, –10 bp, –25 bp and –50 bp

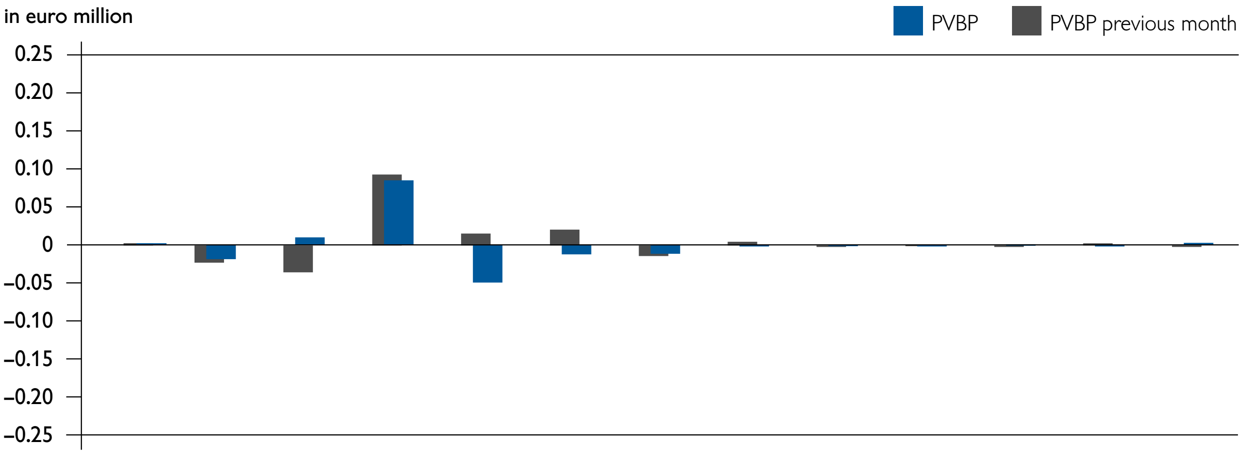
Stress testing refers to the development of scenarios for extreme market conditions. Interest rate shocks that can lead to extraordinary losses for the bank are a fixed component of stress tests in risk management.

Currently, the following stress tests are performed:
- Parallel shift of +100 bp and +200 bp
- Parallel shift of –100 bp and –200 bp
- Tilt/money market +100 bp, capital market –100 bp
- Risk stress tests are conducted half-yearly as part of the ICAAP. The scenarios used (mild and severe recession) are determined and examined in advance.

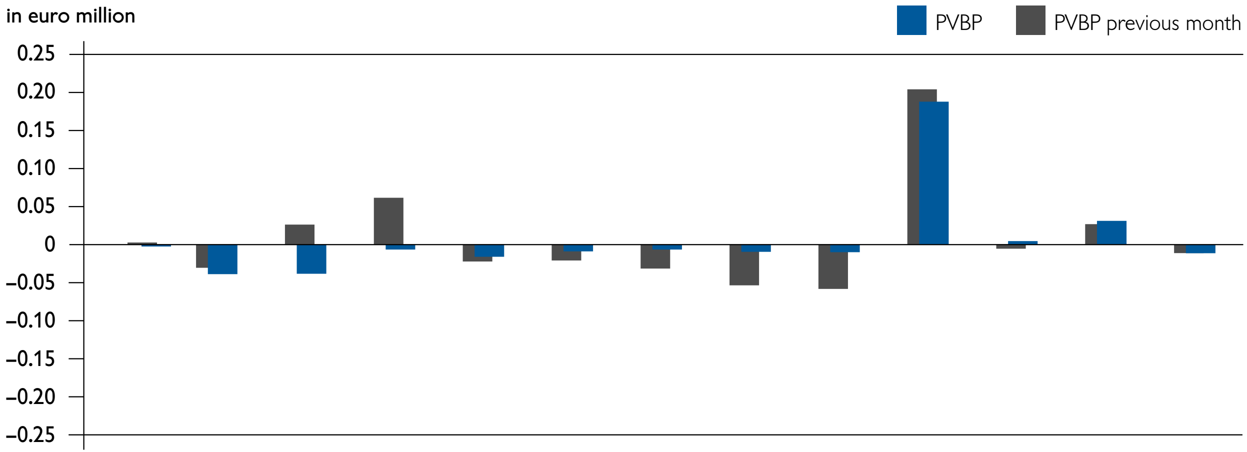
As well as the maximum limit defined by the Supervisory Authority of 20% of eligible qualifying capital with a standardised interest rate curve shift of 200 bp based on interest rate risk statistics, further, and in many cases considerably lower, limits are defined and monitored for the purpose of limiting internal risk across the Group.

At VBAG, limits are set using the interest rate sensitivity limit (PVBPs) and gap volume limits for the main currencies (EUR, USD, CHF, JPY).

Furthermore, PVBP (Present Value of a Basis Point) values are calculated in the respective time buckets and several scenarios are developed on that basis. The following graph shows PVBP risk divided into maturities below one year and above one year.



ON	1 months	2 months	3 months	4 months	5 months	6 months	7 months	8 months	9 months	10 months	11 months	12 months
171	–22,609	–35,325	93,205	15,640	20,802	–13,898	4,863	–154	1,042	–1,743	2,797	33
146	–18,651	9,988	84,937	–49,377	–12,335	–11,577	–14	393	–1,604	934	–1,950	2,796



2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years	12 years	15 years	20 years	>20 years
3,139	–30,399	26,316	61,553	–22,141	–20,799	–31,418	–53,438	–58,133	203,980	–5,345	26,915	–11,123
–714	–38,759	–38,251	–6,453	–15,929	–8,846	–6,444	–9,434	–9,916	187,747	4,656	31,221	–11,260

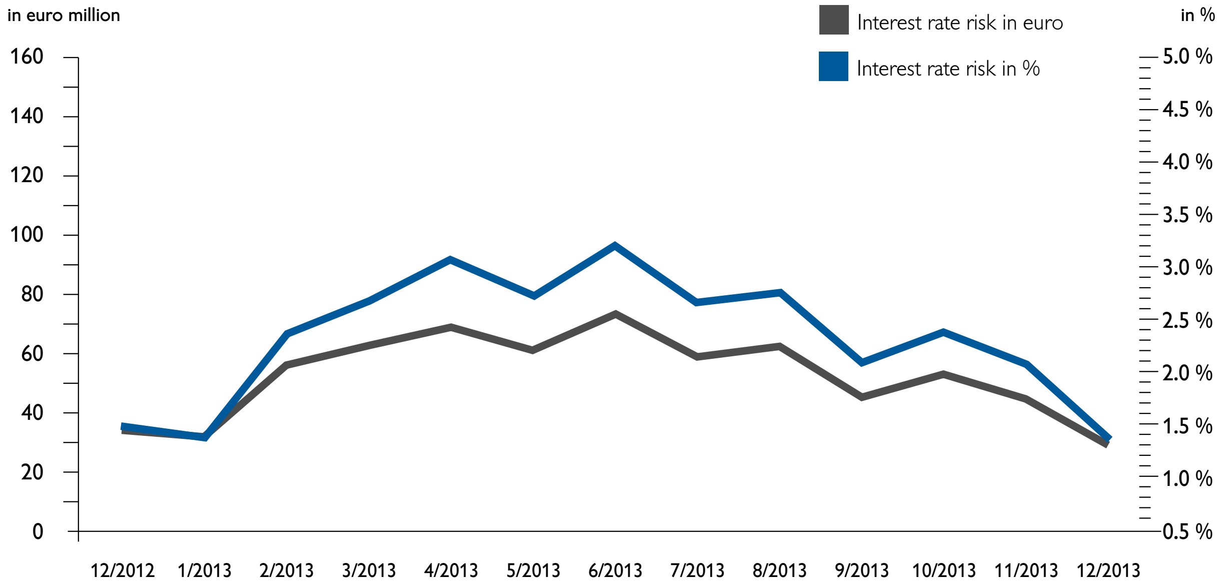
Group gap report

Absolute interest rate risk has decreased year-on-year from euro 34.1 million (1.48% of own funds) to euro 29.9 million (1.35% of own funds).

In comparison to the comparative period, these changes totalled euro 4.2 million on an absolute basis or a decrease of 0.13 percentage points in relation to own funds. The graph shows how interest rate risk is distributed among the four main

Interest rate risk development

This graph shows the net present value interest rate risk in millions of euro (left axis) and in relation to eligible qualifying capital (right axis) over time. In the 2013 business year, a stable interest rate risk was apparent which was low in relation to own funds. Maximum utilisation in the 2013 business year was 3.19% (June 2013), and the smallest utilisation was 1.35% (December 2013).



Effect of a change of interest rate on interest income

Euro thousand	Shift +100 Bp	Shift –100 Bp
31 Dec 2013		
Fiscal year 2013	57	–57
Average of the period	–2,797	2,797
Maximum of the period	57	4,962
Minimum of the period	–4,962	–57
31 Dec 2012		
Fiscal year 2012	–3,190	3,190
Average of the period	30,414	–30,414
Maximum of the period	43,071	3,190
Minimum of the period	–3,190	–43,071

f) Operational risk

Definition

The VBAG Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. Beyond the stipulations of banking law provisions, VBAG also takes legal risks into account in the risk assessment.

Organisation and risk strategy

Both quantitative and qualitative methods are used in the measurement of operational risks. The line management responsible for managing operational risks receives support from the OpRisk control function based in strategic risk management. Local business line operational risk managers in the business units, risk committees based in some Group member units and close collaboration with other Group functions such as audit, compliance, legal as well as security, safety and insurance management ensure optimum and comprehensive management of operational risks.

Risk management and controlling

Capital requirement is calculated using the standard approach.

The following policies and principles derived from the risk strategy apply to OpRisk management at VBAG:

- The foremost aim of the entire OpRisk management process is to optimise processes to decrease the likelihood of events occurring and/or the impact of operational losses.
- Events must be documented fully and in a sufficiently comprehensible manner to enable third-party experts to make use of the documentation. Since 2004, operational events throughout the Group have been recorded in a standardised fashion. The resulting transparency with regard to the events that have occurred makes it possible to produce a risk assessment derived from historical data.
- The methods, systems and processes in OpRisk management must be adapted to the respective institution in observance of Group requirements in line with the proportionality principle.
- The adequacy of management and monitoring measures and other measures aimed at minimising risk must be reassessed taking the risk potential into consideration on a continual basis and at least once a year. Risk maps are produced and risk and control assessments are performed during workshops and consultations with experts and the results reported to line management and risk management as well as to management/the Managing Board. Management measures relevant in this context include awareness-raising initiatives/training, ensuring confidentiality, availability and integrity of customer and company data and operational contingency planning, as well as, in particular, adequate separation of responsibilities and application of the principle of dual control. These internal control and management measures (ICS) integrated in business processes provide for an appropriate and acceptable level of risk within the organisation and ensure sustainable business performance.
- (Remaining) operational risks that cannot be prevented, reduced or transferred must be formally and verifiably accepted by the risk owner.
- Implementation of additional management and monitoring measures and further measures aimed at minimising risk must be monitored and the effectiveness of the measures assessed as part of periodic audits. The effectiveness of operational risk management is also confirmed by way of periodic independent audits.

VBAG systematically evaluates general and specific (e.g. compliance with the Securities Supervision Act) operational risks on a regular basis as part of risk testing and analyses corresponding control mechanisms (ICS).

In addition to Group activities, a focal point in 2013 was the designing and implementation of the OpRisk concept within the association of Volksbanks pursuant to section 30a of the Austrian Banking Act. Jointly with primary bank representatives, a review was carried out of the methods, systems (e.g. a standardised platform for event data gathering, reports on the standardised allocation of operating income to sectors under the Basel framework, etc.) and guidelines for achieving the goal of calculating own funds for the whole association of Volksbanks from 1.4.2014 onwards using the standard approach.

At the same time, as part of quality management projects, advisory and support services were offered at some primary banks in the form of quality management projects involving joint risk testing and business continuity planning, as well as training and awareness-raising initiatives through the Volksbank Academy.

g) Liquidity risk

Definition

Liquidity risk is defined as the risk of not being able to meet payment obligations on their due date or not being able to raise the liquidity required at the conditions expected as and when necessary. Liquidity risk is controlled by means of monitoring surpluses from the allocation of cash flows of all asset and liability items to defined maturity bands.

Organisation and strategy

In accordance with the legal requirement to ensure segregation of front and back office functions, liquidity management and control is carried out based on a holistic ALM approach in Financial Markets & Group Treasury. Monitoring and limitation of liquidity risk and the methodological principles of risk measurement are the responsibility of Risk Management.

ALM Liquidity management

ALM Liquidity Management comprises the sub-areas of operational liquidity management, liquidity control and liquidity strategy and is responsible for operational liquidity management, short-term reporting and long-term, strategic liquidity management. Liquidity Management is the central department for liquidity issues in the Group and the association of Volksbanks. These include in particular liquidity pricing (transfer pricing), Group-wide, central management of collateral, establishing the funding structure, managing available liquid assets and ensuring compliance with the refinancing strategy.

In addition, liquidity management is documented via the liquidity and funding strategy, the liquidity manual and the liquidity emergency manual.

Operational risk management and controlling

Operational liquidity management

The operational liquidity management unit uses various instruments and tools to ensure adherence to risk management policies and legal regulations, for daily reporting, as well as for the supply of short-term liquidity in the Group and association.

Operational liquidity management comprises the following key tasks:

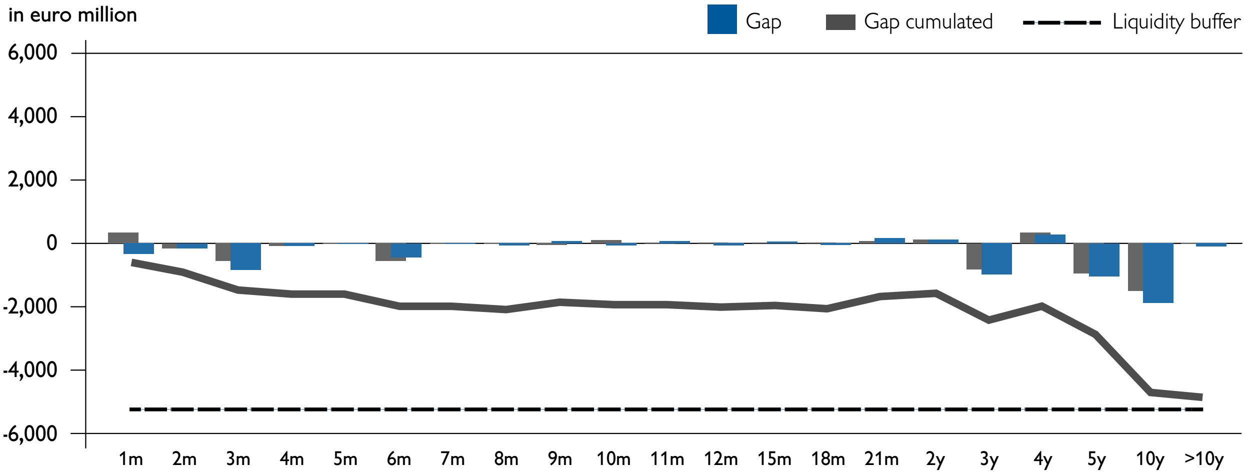
1. Cash management, supported by a real-time cash management system, provides for settlement of all the association's transactions and management of the nostro accounts maintained by VBAG in all currencies. An intraday comparison of data from cash management with the cash flows from day-to-day liquidity planning is performed. Further cash management tasks include monitoring of various payment transaction platforms including the TARGET II platform.
2. Collateral management: ECB-eligible collateral (eligible bonds and credit claims) of VBAG and the association, as well as the initiation/use of ECB refinancing, facilitates optimal use of the collateral portfolio, with due consideration of planning data, cash management requirements and regulatory requirements under section 25 of the Austrian Banking Act.
3. A planning tool enables daily liquidity planning for the next 31 days, and weekly planning for the next 12 months for all relevant currencies. This tool also allows for a liquidity outlook covering the association of Volksbanks, based on net cash flow up to product level. Cash flows are modelled at product level on a daily basis, including market, institutional and product-specific data as well as a daily valuation of all positions presented in foreign currencies, in order to model liquidity requirements arising from currency fluctuations.
4. Compliance with the legal provisions of section 25 of the Austrian Banking Act and CEBS guidelines by VBAG and the association in connection with managing ECB collateral and monitoring liquid assets is another key part of operational liquidity management.
5. Monitoring the association's refinancing positions in all currencies and the "liquidity control system" for association banks implemented by VBAG in accordance with section 30a – including liquidity notifications, refinancing management, use of collateral and an early warning system – constitute a further element of operational liquidity management.
6. Planning and complying with the minimum reserve provisions (compliance) for VBAG and the association of Volksbanks while taking liquidity planning into account and regularly reporting to the Managing Board are also part of the task area.

Liquidity risk management

Risk reports

To present the structural liquidity risk management in the bank, the Market Risk Investment Book department creates a liquidity gap report that takes into account both deterministic and stochastic capital cash flows and interest rate cash flows of on- and off-balance sheet products. The cash flows are calculated and modelled in their original currency first of all and are then aggregated and translated into euro. Surplus cover and deficits from the cumulative cash flows are identified and analysed using the GAP method. The report visualises the net cash flows for each maturity band, the cumulative cash flow and the liquidity buffer. The liquidity buffer corresponds to the lending value of the unencumbered assets/collaterals deposited and accepted at the central banks.

Liquidity gap report for VBAG Group as at 31 December 2013



The most important key rate indicator, the structural survival period, is determined from the point at which the cumulative cash flow and liquidity buffer lines intersect. The structural survival period is greater than 10 years.

In addition to the real case scenario, stress scenarios are also calculated. As determined by CEBS, this involves a bank, market and combined stress scenario. In these cases, the liquidity buffer is stressed with regard to sufficient cover.

Limits for the structural liquidity risk are set in the real case scenario and in the stress scenarios using the structural survival period and the net concentration ratio. The structural survival period is the period up to which the institution is able to make its due payments with deposits and the liquidity buffer. Additional funding measures are not taken into account here and would extend the structural survival period. The net concentration ratio is the net of cash inflows and cash outflows for a certain maturity band in relation to the liquidity buffer.

h) Investment risk

The VBAG Group defines investment risk as the risk that a held investment will default or lose value. Since this risk is material for the Group, it is quantified and taken into account when determining risk-bearing capacity. Investment risk is divided into the following characteristics:
Default risk of investments
Impairment risk of investments
Foreign exchange risk of investments

The default risk of investments is calculated using the credit value at risk model, with not only traditional investments but also loans to these investments, which are subject to the Austrian Act on Equity Substitution (Eigenkapitalersatzgesetz), being included in this risk category.

The impairment risk of investments is taken into account by means of discounts on the carrying amounts of the investments in the risk sustainability account.
The foreign exchange risk of investments refers to the risk of a change in the value of consolidated core capital components in non-euro currencies due to exchange rate fluctuations and is calculated based on value at risk via the internal market risk model.

VBAG has a consolidated interest of 51% in Volksbank Romania S.A. The book value of VB Romania has already been fully written off in the past. Based on a revaluation of real estate collateral carried out in the first half of 2013 and due to the threat of litigation risks, VB Romania S.A. has had to recognise significant risk provisions in the current year. Combined with own funds planning in accordance with Basel III, this points to a significantly higher own funds requirement.

To stabilize the capital ratios of VB Romania S.A., in October 2013 the owner carried out a capital increase totalling euro 120 million. The share indirectly attributable to VBAG via VBI Holding amounted to euro 61 million and was paid in the form of a shareholder contribution, which has been fully written off in these financial statements. Furthermore, during the financial year, in order to ease VB Romania's liquidity situation, VBAG modified existing refinancing lines with regard to their duration and maturity profile by agreeing follow-on financing. This measure is intended, in particular, to cushion the large refinancing volumes maturing in 2017 and 2018 and adjust them to the planned build-up of primary funds of VB Romania.

As at 31 December 2013, VBAG's outstanding refinancing operations in relation to VB Romania amount to euro 0.9 billion (31.12.2012: euro 1.4 billion). Based on the documentation presented by VB Romania and following the adjustment of maturities of the refinancing lines to the liquidity requirement and the expected primary deposit build-up of VB Romania, VBAG currently assumes that repayments will be made according to the targeted maturities, though it is not possible to estimate whether – in view of the difficult and volatile macroeconomic environment – stress scenarios are conceivable that, although not currently foreseeable, could threaten the valuation approach for VBAG's exposure to Volksbank Romania S.A. Nor is it possible to assess whether, in the context of the sales process, it will be necessary to take measures with a negative impact on earnings or whether other concessions will be required.

A provision of euro 62.0 million was created in 2013 for anticipated losses on the sale currently in preparation of Volksbank Romania S.A.

The risk situation will become clearer once VB Romania's detailed medium-term plan becomes available, together with a better estimate of the market environment at the beginning of the sales process, which should be completed by 31 December 2015 at the latest.

i) Other risks

In terms of other risks, the VBAG Group is confronted with strategic risk, reputational risk, equity risk and business risk.

Strategic risk is the risk of a negative impact on capital and income due to business-policy decisions or failure to adapt to changes in the economic environment.

Reputational risk is the risk of adverse effects on the Bank's result due to a loss of reputation and associated negative effects on stakeholders (regulator, owners, creditors, employees, customers).

The VBAG Group defines equity risk as the risk of an unbalanced composition of internal equity in relation to the type and size of the Bank or difficulties in absorbing additional risk-covering capital quickly in case of need.

Business risk is the risk arising from earnings volatility and hence the risk of being unable to (fully) cover unavoidable fixed costs.

Although other risks are not of key significance to the VBAG Group, they are intrinsic to its operations. Mainly organisational measures are implemented for the management of other risks.

Therefore, to protect against other risks, a capital buffer is defined on the basis of the economic total bank risk limit.

53) Fully consolidated companies 1)

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
"VBL POSREDNIK" d.o.o.; Sarajevo	SO	50.00 %	50.00 %	1
"VBV iota" - IEB Holding GmbH; Wien	SO	100.00 %	100.00 %	36
3V-Immobilien Errichtungs-GmbH; Wien	HD	100.00 %	100.00 %	35
ACP IT-Finanzierungs GmbH; Wien	FI	75.00 %	75.00 %	113
Argentinská 38, s.r.o. v likvidaci; Praha 8	SO	100.00 %	100.00 %	4
ARIANA TURIST VILE d.o.o.; Zagreb	SO	100.00 %	100.00 %	1,118
ATIUMCO LIMITED; Limassol	SO	100.00 %	100.00 %	1
AWP Liegenschaftsverwaltung GmbH; Wien	HD	100.00 %	100.00 %	145
Dexagon Ingatlanfejlesztö Kft.; Budapest	SO	100.00 %	100.00 %	2
Edesiana Ltd.; Limassol	SO	100.00 %	100.00 %	1
Gefinag-Holding AG; Wien	HD	100.00 %	100.00 %	436
Grieshofgasse 11 Liegenschaftsverwaltungs GmbH; Wien	SO	100.00 %	100.00 %	35
Heilbad Sauerbrunn Betriebsgesellschaft m.b.H. & Co.KG.; Bad Sauerbrunn	SO	100.00 %	100.00 %	3,511
Hemera Development Sp. Z o.o.; Warszawa	SO	100.00 %	100.00 %	25
IC Beta d.o.o.; Krapina	FI	100.00 %	100.00 %	3
IC Investment Corporation Limited; Msida, Malta	HD	100.00 %	100.00 %	7
IKIB alpha Beteiligungsholding GmbH; Wien	SO	100.00 %	100.00 %	35
IKIB beta Beteiligungsholding GmbH; Wien	SO	100.00 %	100.00 %	35
IKIB Mittelstandsfinanzierungs GmbH; Wien	SO	100.00 %	100.00 %	35
Immo Kapitalanlage AG; Wien	KI	100.00 %	100.00 %	5,000
IMMOINVEST, s.r.o.; Bratislava	SO	100.00 %	100.00 %	33
Immopol Logis Sp.z.o.o.; Warszawa	FI	100.00 %	100.00 %	12
Immopol Omega Sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	24
IMMOROM BETA SRL; Bukarest, Sector 1	SO	100.00 %	100.00 %	2,751
Immorom Sigma S.R.L.; Bukarest	FI	100.00 %	100.00 %	161
Imobilia Kik s.r.o.; Praha 8	FI	100.00 %	100.00 %	8
Imobilia Omikron s.r.o.; Praha 8	FI	100.00 %	100.00 %	7
INPROX Karlovac d.o.o.; Krapina	FI	100.00 %	100.00 %	13
INPROX Ústí nad Labem, s.r.o.; Praha 8	FI	100.00 %	100.00 %	4
Investkredit Funding Ltd.; St. Helier - JERSEY	HD	100.00 %	100.00 %	10
Investkredit International Bank p.l.c.; Sliema	KI	100.00 %	100.00 %	65,000
Investkredit-IC Holding alpha GmbH; Wien	SO	100.00 %	100.00 %	35
Investkredit-IC Holding beta GmbH; Wien	SO	100.00 %	100.00 %	35
Kalvin-Center Kft.; Budapest	SO	100.00 %	100.00 %	12
LAND SIBIU TWO s.r.l.; Bukarest Sector 1	SO	100.00 %	100.00 %	2
Leasing - west Gesellschaft m.b.H. & Co. Kommanditgesellschaft; Kufstein	FI	100.00 %	100.00 %	1,124
Leasing-west Gesellschaft m.b.H.; Kufstein	FI	100.00 %	100.00 %	36
Leasing-west GmbH, BRD; Kiefersfelden	FI	100.00 %	100.00 %	51
Markovo Tepe Mall EOOD; Sofia	SO	100.00 %	100.00 %	150
Mithra Holding Gesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	18
Mithra Unternehmensverwaltung Gesellschaft m.b.H.; Wien	HD	100.00 %	100.00 %	18
Olmedo s.r.o.; Praha 8	FI	100.00 %	100.00 %	73
ÖVAG FINANCE (JERSEY) LIMITED; St. Helier - JERSEY	HD	100.00 %	100.00 %	0
Piaggio Investments Limited; Limassol	SO	100.00 %	100.00 %	7
PPI ONE Ltd.; Limassol	SO	100.00 %	100.00 %	117
Premium Office One Sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	3,219
PRI FIVE Limited; Limassol	SO	100.00 %	100.00 %	2
PRI ONE Limited; Limassol	SO	100.00 %	100.00 %	4
PRI TWO Ltd.; Limassol	SO	100.00 %	100.00 %	7
Protea Létesítményszervezö Kft.; Budapest	SO	100.00 %	100.00 %	2
R 6 Offices sp.z.o.o.; Warzawa	SO	100.00 %	100.00 %	25
REWO 10 Limited; Limassol	SO	100.00 %	100.00 %	3
REWO 90 Limited; Limassol	SO	100.00 %	100.00 %	3
REWO Unternehmensverwaltung GmbH; Wien	SO	100.00 %	100.00 %	18
RO REWO 90 Limited; Limassol	SO	100.00 %	100.00 %	2
ROGER jedna s.r.o.; Bratislava	SO	100.00 %	100.00 %	913

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
S.C. IMMOROM ALPHA SRL; Bukarest	SO	100,00 %	100.00 %	9
S.C. IMMOROM DELTA SRL; Bukarest, Sector 1	SO	100,00 %	100.00 %	3,251
Selene Development Sp. z o.o.; Warszawa	SO	100,00 %	100.00 %	25
Themis Development Sp. z o.o.; Warszawa	SO	100,00 %	100.00 %	25
UBG-Bankenbeteiligungs Gesellschaft m.b.H.; Wien	SO	100,00 %	100.00 %	18
Unternehmensbeteiligungs Gesellschaft mit beschränkter Haftung; Wien	SO	100,00 %	100.00 %	73
UVB-Holding GmbH; Wien	SO	100,00 %	100.00 %	35
VB Factoring Bank Aktiengesellschaft; Salzburg	KI	100,00 %	100.00 %	2,907
VB GFI AG; Wien	HD	100,00 %	100.00 %	1,000
VB Leasing CZ, spol.s.r.o.; Brno	FI	50,00 %	50.00 %	43,529
VB LEASING d.o.o.; Zagreb	FI	50,00 %	50.00 %	10,286
VB Leasing doo Beograd; Novi Beograd	FI	50,00 %	50.00 %	5,343
VB Leasing Finanzierungsgesellschaft m.b.H.; Wien	FI	100,00 %	100.00 %	18
VB LEASING POLSKA S.A.; Wroclaw	FI	50,00 %	50.00 %	2,165
VB LEASING ROMANIA IFN S.A.; Bukarest, Sector 1	FI	50,00 %	100.00 %	555
VB Leasing Services, spol. s r.o.; Brno	FI	50,00 %	50.00 %	331
VB LEASING SK, spol. s.r.o.; Bratislava 1	FI	50,00 %	50.00 %	4,149
VB LEASING Sprostredkovatelská s.r.o.; Bratislava	SO	50,00 %	50.00 %	5
VB Real Estate Development Baross Ingatlan Kft.; Budapest	SO	100,00 %	100.00 %	11
VB Real Estate Hermes GmbH; Wien	SO	100,00 %	100.00 %	18
VB Real Estate Holding eins GmbH; Wien	SO	100,00 %	100.00 %	18
VB Real Estate Holding Zeta GmbH; Wien	SO	100,00 %	100.00 %	18
VB Real Estate Holding zwei GmbH; Wien	SO	100,00 %	100.00 %	18
VB Real Estate Leasing Alpha GmbH; Wien	FI	100,00 %	100.00 %	18
VB Real Estate Leasing Delta GmbH; Wien	FI	100,00 %	100.00 %	36
VB Real Estate Leasing Dike GmbH; Wien	FI	100,00 %	100.00 %	18
VB Real Estate Leasing eins GmbH; Wien	FI	100,00 %	100.00 %	18
VB Real Estate Leasing Gamma GmbH; Wien	FI	100,00 %	100.00 %	36
VB Real Estate Leasing Ismene GmbH; Wien	FI	100,00 %	100.00 %	18
VB Real Estate Leasing Penta GmbH; Wien	FI	100,00 %	100.00 %	35
VB Real Estate Leasing Psi GmbH; Wien	FI	100,00 %	100.00 %	18
VB Real Estate Leasing RAI GmbH; Wien	FI	100,00 %	100.00 %	18
VB Real Estate Leasing Rho GmbH; Wien	FI	100,00 %	100.00 %	18
VB Real Estate Leasing sechs GmbH; Wien	FI	100,00 %	100.00 %	18
VB Real Estate Leasing Uriah GmbH; Wien	SO	100,00 %	100.00 %	18
VB Real Estate Leasing vier GmbH; Wien	FI	100,00 %	100.00 %	18
VB Real Estate Leasing Viribus GmbH; Wien	FI	100,00 %	100.00 %	36
VB Real Estate Leasing VOGEVA GmbH; Wien	FI	100,00 %	100.00 %	36
VB Real Estate Leasing Ziel GmbH; Wien	FI	100,00 %	100.00 %	18
VB Real Estate Services Czechia s.r.o.; Praha 8	FI	100,00 %	100.00 %	4
VB Real Estate Services GmbH; Wien	FI	100,00 %	100.00 %	3,270
VB Real Estate Services Polska Spólka z.o.o.; Warszawa	FI	100,00 %	100.00 %	96
VB Real Estate Zeta Ingatlankezelö Bt.; Budapest	FI	100,00 %	100.00 %	0
VB Services für Banken Ges.m.b.H.; Wien	HD	98,89 %	98.89 %	323
VB Technologie Finanzierungs GmbH; Wien	FI	100,00 %	100.00 %	100
VB Vermögensanlage Gesellschaft m.b.H.; Wien	SO	100,00 %	100.00 %	73
VB-Holding Aktiengesellschaft; Wien	SO	100,00 %	100.00 %	73
VBI Holding GmbH; Wien	SO	100,00 %	100.00 %	36
VBKA-Holding GmbH; Wien	SO	100,00 %	100.00 %	35
VBL BROKER DE ASIGURARE SRL; Bukarest	SO	50,00 %	100.00 %	7
VBL SERVICES DOO BEOGRAD; Beograd	FI	50,00 %	50.00 %	81
VB-Leasing International Holding GmbH; Wien	SO	50,00 %	50.00 %	5,603
VB-NEPREMICNINE podjetje za promet z nepremicninami, d.o.o.; Ljubljana	SO	60.00 %	60.00 %	573
VBS HISA d.o.o.; Ljubljana	FI	50,00 %	50.00 %	626
VBS Leasing d.o.o.; Ljubljana	FI	50,00 %	50.00 %	28,973
VBV Anlagenvermietungs- und Beteiligungs-GmbH; Wien	SO	100,00 %	100.00 %	35
VBV Holding GmbH; Wien	SO	100,00 %	100.00 %	36

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VBV zwölf Anlagen Vermietung Gesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	18
VBZ Váci u. 37 Irodaközpont Kft; Budapest	SO	100.00 %	100.00 %	11
Verwaltungsgenossenschaft der IMMO-BANK eG; Wien	SO	88.85 %	88.85 %	3,478
VIBE-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
Volksbank Invest Kapitalanlagegesellschaft m.b.H.; Wien	KI	100.00 %	100.00 %	2,500
Volksbank Leasing BH d.o.o.; Sarajevo	FI	50.00 %	50.00 %	2,124
Volksbank Malta Limited; Sliema	KI	100.00 %	100.00 %	167,820
VOME Holding GmbH; Wien	SO	100.00 %	100.00 %	35
Wroclaw Office Park One Sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	25

[1] all fully consolidated companies are under direct or indirect control of VBAG

54) Companies measured at equity

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VBI Beteiligungs GmbH; Wien	SO	51.00 %	51.00 %	0
VBV delta Anlagen Vermietung Gesellschaft m.b.H.; Wien	SO	40.00 %	40.00 %	36
Volksbank Romania S.A.; Bukarest	KI	51.00 %	51.00 %	328,012

55) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
Espalier Holdings Ltd., Zypern; Nicosia	SO	100.00%	100.00%	2
ETECH Management Consulting GmbH in Liqu.; Wien	SO	100.00%	100.00%	36
EURINCASSO Gesellschaft m.b.H.; Salzburg	HD	100.00%	100.00%	36
Heli Dunakeszi Kft.; Budapest	SO	100.00%	100.00%	2
IC Malta A.M. Company Limited; Malta	SO	100.00%	100.00%	7
ICL Alpha Vagyonkezelo Kft; Budapest	SO	100.00%	100.00%	10
IMMO - MANAGEMENT ADRIANA S.R.L.; Bukarest	SO	100.00%	100.00%	2,825
Immoconsult Ares Leasinggesellschaft m.b.H.; Wien	SO	100.00%	100.00%	35
Immoconsult SENAP Leasinggesellschaft m.b.H.; Wien	SO	100.00%	100.00%	36
Immopol Alpha Sp.z.o.o.; Warschau	FI	100.00%	100.00%	12
IMMOPOL EPSYLON Sp. z o.o.; Warschau	SO	100.00%	100.00%	1
Immopol Sigma spzoo; Warschau	SO	100.00%	100.00%	66
Immorent-VBV Grundverwertungsgesellschaft m.b.H.; Wien	FI	100.00%	100.00%	36
Immoslov plus s.r.o.; Bratislava	SO	100.00%	100.00%	17
Imobilia Kappa s.r.o.; Prag	FI	100.00%	100.00%	4
Imobilia Zeta spol. s.r.o.; Prag	FI	100.00%	100.00%	4
Infrastruktur Heilbad Sauerbrunn GmbH; Wien	SO	100.00%	100.00%	35
INPROX Martin, spol. s.r.o.; Bratislava	FI	100.00%	100.00%	7
INPROX Zilina, spol. s r.o.; Bratislava	FI	100.00%	100.00%	7
Invest Equity International Holding Limited; Sliema	SO	100.00%	100.00%	150
Invest Mezzanine Capital Management GmbH; Wien	SO	100.00%	100.00%	35
Kastanjer d.o.o.; Zagreb	SO	100.00%	100.00%	3
LAND BUCURESTI ONE s.r.l.; Bukarest	SO	100.00%	100.00%	7,679
Land Eudoxos S.R.L.; Bukarest	SO	100.00%	100.00%	0
Land Herodot S.R.L.; Bukarest	SO	100.00%	100.00%	1,987
LAND ORADEA TWO s.r.l.; Bukarest	SO	100.00%	100.00%	1,196
LAND SATU MARE ONE s.r.l.; Bukarest	SO	100.00%	100.00%	486
LAND SATU MARE TWO s.r.l.; Bukarest	SO	100.00%	100.00%	1,324
LAND SIBIU ONE s.r.l.; Bukarest	SO	100.00%	100.00%	3,815
LAND SUCEAVA ONE s.r.l.; Bukarest	SO	100.00%	100.00%	6,271
LAND TARGU MURES TWO s.r.l.; Bukarest	SO	100.00%	100.00%	1,556
Land Thales S.R.L.; Bukarest	SO	100.00%	100.00%	0
Levade S.A.; Luxemburg	HD	100.00%	100.00%	70
OBI Eger Ingatlankezelö Kft.; Budapest	FI	80.00%	80.00%	10
OBI Miskolc Ingatlankezelö Kft.; Budapest	FI	80.00%	80.00%	10
OBI Veszprém Ingatlankezelo Korlátolt Felelosségu Társaság; Budapest	FI	80.00%	80.00%	10
PLUYETTE INVESTMENTS LIMITED; Limassol	SO	100.00%	100.00%	2
Premium Office Two Sp.z.o.o.; Warschau	SO	100.00%	100.00%	53
PREMIUMRED REAL ESTATE MANAGEMENT LIMITED; Limassol	SO	100.00%	100.00%	1
PUI One Limited; Limassol	SO	100.00%	100.00%	20
Roggia Ltd.; Limassol	SO	100.00%	100.00%	10
SHELF INVESTMENT Kft.; Budapest	FI	100.00%	100.00%	10
Silverock Commerce Ltd.; Limassol	SO	100.00%	100.00%	55
Skalea Investments Limited; Limassol	SO	100.00%	100.00%	2
VB Invest d.o.o.; Zagreb	SO	75.00%	75.00%	1,023
VB IT-Services GmbH; Wien	HD	100.00%	100.00%	36
VB ManagementBeratung GmbH; Wien	SO	100.00%	100.00%	36
VB Real Estate Leasing Beta GmbH; Wien	FI	100.00%	100.00%	36
VB Real Estate Leasing BWG GmbH in Liqu.; Wien	SO	100.00%	100.00%	36
VB Real Estate Leasing FMZ eins GmbH; Wien	FI	100.00%	100.00%	35
VB Real Estate Leasing Indigo GmbH; Wien	FI	100.00%	100.00%	36
VB Real Estate Leasing Kommunal GmbH; Wien	FI	100.00%	100.00%	35
VB Real Estate Leasing Zeta GmbH in Liqu.; Wien	SO	100.00%	100.00%	36
VB Real Estate Services Hungária Ingatlankezelö Kft. "v.a."; Budapest	SO	100.00%	100.00%	10
VB Real Estate Services Slovakia, s.r.o.; Bratislava	FI	100.00%	100.00%	266
VB Real Estate Smilax GmbH; Wien	SO	100.00%	100.00%	35
VBCS Beteiligungsverwaltung Ges.m.b.H.; Wien	SO	100.00%	100.00%	35

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VBV eins Anlagen Vermietung GmbH; Wien	FI	100.00%	100.00%	35
VBV gamma Anlagen Vermietung Gesellschaft m.b.H. in Liqu.; Wien	SO	100.00%	100.00%	36
VBV zeta Beteiligungen Anlagen Vermietung GmbH; Wien	SO	100.00%	100.00%	35

Abbreviations Type

KI	credit institution
FI	financial institution
HD	ancillary banking service
SO	other enterprises

STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial positions and profit or loss of the group as required by the applicabel accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.

Vienna, 24 March 2014

Stephan Koren
Chairman of the Managing Board
Corporate planning & Finance, Human Resources,
Legal & Compliance, Marketing & Communication

Michael Mendel
Deputy Chairman of the Managing Board
Risk management

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

Christoph Raninger
Member of the Managing Board
Market

AUDITOR'S REPORT

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of

Österreichische Volksbanken-Aktiengesellschaft,
Vienna, Austria,

for the year from 1 January 2013 to 31 December 2013. These consolidated financial statements comprise the consolidated statement of financial position as of 31 December 2013, the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year 2013 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2013 and of its financial performance and its cash flows for the year from 1 January to 31 December 2013 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Without qualifying our opinion, we refer to the disclosures made by the Management in the notes relating to the Company's ability to continue as a going concern, in particular to the notes relating to meet the regulatory capital requirements as well as to the assessment of the existing refinancing facilities for Volksbank Romania S.A. amounting to EUR 825.5 millions.

Report on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements.

In our opinion, the management report for the Group is consistent with the consolidated financial statements.

Vienna, 24 March 2014

KPMG Austria AG
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Martin Wagner
Certified Public Accountant

Walter Reiffenstuhl
Certified Public Accountant

(Austrian Chartered Accountants)

This report is a translation of the original report in German, which is solely valid.

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TERMINOLOGY

Österreichische Volksbanken-AG (in german language for short: ÖVAG)

Central Organisation of the Association of Volksbanks § 30a BWG
Brand and international name: Volksbank AG (for short: VBAG)

Association of Volksbanks/Volksbank Group § 30a BWG

Volksbank primary banks, VBAG Group, Schulze-Delitzsch-Haftungsgenossenschaft reg.Gen.mbH.
„Association“ describes the entity of members of the a banking association under section 30a of the Austrian Banking Act (Bankwesengesetz)

VBAG Group

Österreichische Volksbanken-AG with its subsidiaries in Austria and abroad: VB-Factoring Bank AG, Volksbank Malta Ltd., VB Real Estate Services GmbH, VB-Leasing International Holding GmbH, VB Leasing Finanzierungsgesellschaft m.b.H.

Volksbank primary banks

48 Local Volksbanks including 6 banks with specialised professional expertise (Österreichische Apothekerbank eG, Gärtnerbank, registrierte Genossenschaft mit beschränkter Haftung, IMMO-BANK Aktiengesellschaft, SPARDA-BANK LINZ, registrierte Genossenschaft mit beschränkter Haftung, SPARDA-BANK VILLACH/INNSBRUCK registrierte Genossenschaft mit beschränkter Haftung, Bank für Ärzte und Freie Berufe Aktiengesellschaft), 4 credit co-operative banks and the Bausparkasse ABV

Volksbank-Sector

Volksbank primary banks, VBAG in Individual Financial Statements, VB Factoring AG, Volksbank Quadratbank AG

Austrian Cooperative Association

Revision and early detection within the banking association under section 30a of the Austrian Banking Act is carried out by the Österreichischen Genossenschaftsverband (Schulze-Delitzsch) – for short: ÖGV. The primary banks and the Schulze-Delitzsch-Haftungsgenossenschaft reg.Gen.mbH are ordinary members of the ÖGV.

IMPRINT

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