VOLKSBANK AG

INTERIM MANAGEMENT STATEMENT

AS AT 31 MARCH 2014

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This interim management statement covers the period from the start of the business year on 1 January 2014 to 31 March 2014.

The accounting policies as of 31 December 2013 were applied without change, except for the newly applicable standards of IFRS 10, 11 and 12; please refer to the consolidated financial statements as of 31 December 2013 in this context. With regard to the adjustments made to comparative data as of 31 March 2013, please also refer to the relevant parts of the consolidated financial statements as of 31 December 2013.

Report on business development and the economic situation

Österreichische Volksbanken AG (VBAG) is the parent company of subsidiaries operating in Austria and abroad (particularly 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.

Economic situation

Most high-frequency indicators in the euro zone and in Austria pointed towards an economic upswing in the first quarter. Compared to the previous month and on a year-on-year basis, industrial output for example rose sharply in both of the first two months. Retail sales rose slightly on a monthly basis, coming in just over 1% higher in March than in the same month in 2013. Despite weakening slightly in March, the Austrian purchasing managers' index easily exceeded the 50-point growth threshold in every month of the quarter. Inflation remained subdued, but in Austria it has been higher than the euro zone average since the start of the year. Based on EU methodology the inflation rate totalled 1.5% in January (Austrian methodology: 1.6%), 1.5% in February (Austrian methodology: 1.5%) and 1.4% in March (Austrian methodology: 1,6%). According to the EU method the figure of 1.4% meant Austria had the highest rate of inflation in March of all countries in the euro zone, in which the average figure was just 0.5%. The unemployment rate – once more the lowest in the euro zone – was high by Austrian standards, totalling 9.8% in January (under national methodology), 10.4% in February and 9.4% in March.

The European Central Bank left its main refinancing rate unchanged in the first quarter at 0.25%. There was a modest increase in money market rates, with the 3-month rate increasing by three basis points over the quarter to 0.31%. Against the background of the crisis in Ukraine, Austrian government bonds have benefited significantly as "safe havens". Yields on 10-year bonds, which stood at 2.27% at the end of the year, fell by roughly 45 basis points to 1.81% by the end of the quarter.

The key macroeconomic figures available on the first quarter reveal the Romanian economy is in rude good health. Industrial output in January was almost 10% and in February some 9% higher than in the same months of the previous year. Retail sales development was also encouraging, with consistently positive rates of quarterly growth. In March they exceeded the previous year's figure by 13.5%. At the same time, inflation remained extremely low. Recording figures of around 1%, the inflation rates remained well below the Romanian central bank's target range of 1.5% to 3.5%.

Austrian real estate prices have continued to rise. According to the relevant index published by the Austrian National Bank, prices in the first quarter of the year were 4.1% higher than in the same quarter of the previous year. Growth in Vienna was 8.1%, while in the rest of the country it was 2.2%. By contrast, according to the house price index published by Eurostat, the annual change in residential property prices in the euro zone was still negative, at least in the fourth quarter of the previous year. After two increases in both of the previous quarters, prices declined again on a qoq basis. Residential property prices in Romania rose modestly in the fourth quarter of 2013 compared to 2012. In most other countries in Central and South-Eastern Europe, residential real estate prices were a bit lower at the end of the fourth quarter of 2013 than in the previous year, according to Eurostat. However, the decline in Croatia was very significant, exceeding 14%.

Business development

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. The contracts were signed in March 2014 for Investkredit International Bank plc, and for Volksbank Malta Ltd. in April 2014. The sales of the aforementioned companies have not yet been closed. Sales negotiations with potential buyers for subsidiaries of the VB Leasing International Group are currently underway, but the sale depends on the outcome of further negotiating rounds and on the agreement of the respective local regulatory authorities. The aim is to complete all sales procedures in 2014.

On 27 March 2014, ratings agency Moody's downgraded VBAG's issuer rating from Baa3 to Ba1. This means that VBAG's senior unsecured bonds are rated as sub-investment-grade investments, and are therefore outside the investment profile of some institutional investors. Consequently, some institutional investors sold their bond holdings. Private investors also took the rating downgrade as an opportunity to sell VBAG bonds. Overall the sales approximated the level of the repurchasing programme announced by the bank in autumn 2013 for certain bonds. Therefore, Moody's rating downgrade had no significant, negative impact on liquidity at the Group.

An investment bank was engaged in April 2014 to support the sales process of Volksbank Romania S.A. According to the restructuring agreement from 26 April 2012, the sale of Volksbank Romania S.A. should be completed by 31 December 2015.

In November 2013 Sberbank of Russia brought a lawsuit against VBAG at the International Court of Arbitration in connection with the VBI sale. Negotiations resulted in the lawsuit being withdrawn at the International Court of Arbitration in April 2014.

Group results for the first quarter of 2014

The result before taxes for the period amounted to euro –60 million, while the group result after taxes and non-controlling interests for the period totalled euro –57 million.

Net interest income for the first quarter of 2014 totalled euro 50 million (1-3/2013: euro 50 million), which is the same as in the previous period.

Risk provisions amounted to euro –11 million, improving by euro 26 million compared to the same quarter in the previous year. Risk provisions in the current business year include provisions for the sale and early redemption of loans of real estate portfolio.

Net fee and commission income in the reporting period totalled euro 5 million (1-3/2013: euro 11 million), down by roughly euro 6 million in comparison to the previous period.

Net trading income is also lower compared to the previous period, amounting to euro –12 million in the first quarter of 2014 (1-3/2013: euro –7 million) and is driven by one-off effects.

General administrative expenses rose to euro 64 million (1-3/2013: euro 61 million). The impact of the cost-cutting programme is partly offset by expenses due to the involvement of external advisers.

The headcount declined by 22 compared to the end of 2013 and now totals 1,831 employees, 739 of whom are employed outside Austria.

The other operating result for the reporting period of 2014 Q1 amounted to euro –3 million (1-3/2013: euro 64 million) and includes the banking tax. The asset guarantee provided by the Republic of Austria on 15 March 2013, up to a maximum amount of euro 100 million, was recognised in the previous year's reporting period. Together with the earn-out clause included in the asset guarantee, the other operating result amounted to euro 69 million in the first quarter of 2013.

Net income from financial investments totalled euro –24 million in the reporting period (1-3/2013: euro 9 million), and is therefore euro 33 million less than in the comparative period.

Statement of financial position

As at 31 March 2014, total assets amounted to euro 20.1 billion, a modest decrease compared with 31 December 2013 (euro 20.9 billion).

Loans and advances to credit institutions totalled euro 6.5 billion, rising by euro 0.7 billion compared to 31 December 2013 (euro 5.8 billion).

Loans and advances to customers remained roughly the same at euro 7.1 billion as at 31 March 2014 (31 December 2013: euro 7.1 billion).

Due to further sales financial investments were reduced by euro 0.1 billion to euro 3.3 billion compared to 31 December 2013 (euro 3.4 billion).

Assets held for sale include loans, shares, participations and financial investments whose sale has already been contractually agreed or was executed after the reporting date. The change compared to the end of the previous year amounting to euro 0.4 billion results from the sale and early repayment of loans in a real estate portfolio amounting to approximately euro 0.4 billion.

Amounts owed to credit institutions increased by euro 0.3 billion to euro 8 billion compared to 31 December 2013.

Amounts owed to customers stood at euro 2.0 billion compared to 31 December 2013 (euro 2.1 billion), and therefore almost unchanged.

Debts evidenced by certificates amounted to euro 6.3 billion as at 31 March 2014, a fall of euro 0.8 billion compared to 31 December 2013 (euro 7.1 billion). This reduction is largely attributable to scheduled repayments as well as early repayments.

Trade liabilities remained unchanged at euro 1.3 billion compared to 31 December 2013.
Equity barely changed compared to the end of 2013, and totals euro 1.2 billion.

Outlook

Economic environment

In its economic forecast published in March the Austrian Institute of Economic Research (WIFO) anticipates real growth in GDP of 1.7% in 2014, and is therefore slightly more optimistic than the European Commission, which expects growth of 1.5% according to its winter forecast.

The Austrian economy should benefit this year from the recovery in the main CEE export markets. This will also support private consumption, which is responsible for by far the largest part of Austria's economic output. In contrast to the previous year, this should increase again in real terms in 2014, but growth will remain sluggish (WIFO estimate: 0.8%). After the very weak previous year, however, investments should rise more strongly again given the improved outlook. Nevertheless, economic growth will barely be sufficient to lower the unemployment rate, which is already very high by historical comparison. Ongoing fiscal adjustments mean that publicsector consumption is not likely to offer much in the way of growth stimulus this year either. One-off expenses, however, could push the budget deficit much higher this year than planned, up to 3% of gross domestic product according to the WIFO forecast. Based on subdued consumer demand, stable commodity prices and European trends, inflation should remain low in 2014. That said, capital market interest rates – which have recently fallen sharply in Europe – will likely move upwards again slightly thanks to correlations with international yields.

In its winter forecast for 2014 the European Commission predicts Romanian gross domestic product will grow by 2.3%, with foreign trade likely to be gradually replaced by domestic demand as the driving force behind growth. Consumption in particular is set to grow strongly based on rising employment and real wages. On the whole, Romania seems to be set for a broadly-based upswing. Events in Ukraine mean that the risks surrounding future economic development in Austria and Romania have grown.

Business development

The VBAG Group is undergoing a massive restructuring process. According to the requirements laid down by the European Commission, business areas and holdings that are not part of core business must be wound down or sold in accordance with their repayment profile. This will continue to impact on earnings, not least because of the difficult economic climate and the resultant discounts for the Non-core portfolio. This means the Group is likely to make significant losses in 2014 as well.

Vienna, 12 May 2014

The Executive Board

Statement of comprehensive income

Income statement	1-3/2014 Euro thousand	restated 1-3/2013 Euro thousand	Changes Euro thousand	%
Interest and similar income	148,385	198,500	-50,115	-25.25 %
Interest and similar expense	-98,141	-148,456	50,315	-33.89 %
Net interest income	50,244	50,044	200	0.40 %
Risk provisions	-11,004	-37,107	26,102	-70.34 %
Fee and commission income	16,002	19,736	-3,734	-18.92 %
Fee and commission expenses	-10,897	-8,861	-2,036	22.98 %
Net fee and commission income	5,105	10,875	-5,770	-53.06 %
Net trading income	-12,019	-7,166	-4,854	67.74 %
General administrative expenses	-64,383	-61,468	-2,914	4.74 %
Other operating result	-3,422	64,005	-67,427	-105.35 %
Income from financial investments	-24,274	8,700	-32,974	< -200.00 %
Income from companies measured at equity	-71	176	-246	-140.33 %
Result for the period before taxes	**-59,824**	**28,059**	**-87,883**	**< -200.00 %**
Income taxes	2,899	-24,313	27,213	-111.92 %
Result for the period after taxes	**-56,925**	**3,746**	**-60,670**	**< -200.00 %**
Result attributable to shareholders of the parent company (Consolidated net result)	**-60,526**	**-2,166**	**-58,360**	**> 200.00 %**
thereof from continued operations	-60,526	-2,166	-58,360	> 200.00 %
thereof from discontinued operations	0	0	0	0.00 %
Result attributable to non-controlling interest	3,601	5,912	-2,311	-39.09 %
thereof from continued operations	3,601	5,912	-2,311	-39.09 %
thereof from discontinued operations	0	0	0	0.00 %

Other comprehensive income	1-3/2014 Euro thousand	restated 1-3/2013 Euro thousand	Changes Euro thousand	%
Result for the period after taxes	-56,925	3,746	-60,670	< -200.00 %
Other comprehensive income				
Items that may be reclassified to profit or loss				
Currency reserve	-351	-3,888	3,537	-90.98 %
Available for sale reserve (including deferred taxes)				
Change in fair value	16,082	40,289	-24,206	-60.08 %
Net amount transferred to profit or loss	192	-11,958	12,150	-101.61 %
Hedging reserve (including deferred taxes)				
Change in fair value (effective hedge)	-191	-2,125	1,934	-91.01 %
Net amount transferred to profit or loss	170	1,058	-887	-83.89 %
Change in deferred taxes of untaxed reserves	818	13	806	> 200.00 %
Change from companies measured at equity	0	0	0	0.00 %
Total items that may be reclassified to profit or loss	**16,722**	**23,389**	**-6,667**	**-28.51 %**
Other comprehensive income total	**16,722**	**23,389**	**-6,667**	**-28.51 %**
Comprehensive income	**-40,203**	**27,135**	**-67,338**	**< -200.00 %**
Comprehensive income attributable to shareholders of the parent company	**-43,652**	**22,884**	**-66,536**	**< -200.00 %**
thereof from continued operations	-43,652	22,884	-66,536	< -200.00 %
thereof from discontinued operations	0	0	0	0.00 %
Comprehensive income attributable to non-controlling interest	3,449	4,250	-801	-18.85 %
thereof from continued operations	3,449	4,250	-801	-18.85 %
thereof from discontinued operations	0	0	0	0.00 %

Statement of financial position as at 31 March 2014

	31 March 2014	31 Dec 2013	Changes	
	Euro thousand	Euro thousand	Euro thousand	%
Assets				
Liquid funds	824,143	1,762,453	-938,309	-53.24 %
Loans and advances to credit institutions (gross)	6,513,921	5,798,139	715,782	12.35 %
Loans and advances to customers (gross)	7,115,172	7,081,347	33,825	0.48 %
Risk provisions (-)	-708,378	-773,009	64,631	-8.36 %
Trading assets	1,554,042	1,627,392	-73,350	-4.51 %
Financial investments	3,287,929	3,422,739	-134,810	-3.94 %
Investment property	250,587	252,410	-1,823	-0.72 %
Companies measured at equity	5,555	5,626	-71	-1.26 %
Participations	368,581	359,531	9,050	2.52 %
Intangible assets	12,895	13,672	-777	-5.68 %
Tangible fixed assets	128,539	131,503	-2,964	-2.25 %
Tax assets	53,764	52,905	858	1.62 %
Current tax assets	19,826	19,974	-148	-0.74 %
Deferred tax assets	33,938	32,932	1,006	3.05 %
Other assets	591,259	614,744	-23,485	-3.82 %
Assets held for sale	134,586	554,657	-420,071	-75.74 %
TOTAL ASSETS	**20,132,596**	**20,904,109**	**-771,513**	**-3.69 %**
Liabilities and Equity				
Amounts owed to credit institutions	7,985,044	7,707,002	278,042	3.61 %
Amounts owed to customers	2,011,478	2,148,440	-136,962	-6.37 %
Debts evidenced by certificates	6,288,715	7,084,825	-796,110	-11.24 %
Trading liabilities	1,322,563	1,377,709	-55,146	-4.00 %
Provisions	165,270	188,703	-23,433	-12.42 %
Tax liabilities	63,470	66,511	-3,041	-4.57 %
Current tax liabilities	12,156	14,112	-1,956	-13.86 %
Deferred tax liabilities	51,314	52,399	-1,086	-2.07 %
Other liabilities	558,376	554,549	3,827	0.69 %
Subordinated liabilities	556,581	554,957	1,625	0.29 %
Equity	1,181,098	1,221,412	-40,314	-3.30 %
Shareholders' equity	1,023,791	1,067,553	-43,763	-4.10 %
Non-controlling interest	157,308	153,859	3,449	2.24 %
Total Liabilities and Equity	**20,132,596**	**20,904,109**	**-771,513**	**-3.69 %**