VOLKSBANK AG

INTERIM MANAGEMENT STATEMENT

AS OF 30 SEPTEMBER 2014

Interim statement as of 30 September 2014

This interim statement covers the period from the start of the business year on 1 January 2014 to 30 September 2014.

The accounting and valuation methods from 31 December 2013 have been applied unchanged with the exception of the standards IFRS 10, 11 and 12, which are to be newly applied; information on this is provided in the consolidated financial statements as of 31 December 2013.

Report on business development and the economic situation

Österreichische Volksbanken-Aktiengesellschaft (VBAG) is the parent company of subsidiaries operating in Austria and abroad. Since its partial nationalisation in April 2012, VBAG has been undergoing a transformation process that is based on a restructuring plan and consequently the requirements of the EU Commission and the Republic of Austria. VBAG is a winding-down bank that is required to discontinue or sell almost its entire proprietary business both in Austria and abroad.

In 2012, it was also decided to restructure the Volksbank sector into a banking association in accordance with section 30a of the Austrian Banking Act (BWG) (joint liability and liquidity association): since 18 September 2012, the primary banks and VBAG have constituted the Association of Volksbanks, with VBAG as the central organisation. The responsibilities of VBAG are clearly defined within this association: as the central organisation, it undertakes far-reaching management and steering functions, including being responsible for risk and liquidity management across the association. Its business activities are now restricted to the provision and brokering of products and services for Volksbanks and their customers.

Economic environment

According to an initial estimate by the Austrian Institute of Economic Research (WIFO), Austria's gross domestic product stagnated between the second and third quarters. This was due to foreign trade eroding growth and a fall in investment. In growth terms, exports significantly outperformed imports at 1.3% and 0.4% respectively quarter on quarter. Gross capital formation fell by 1.1% on the previous quarter. At -1.7%, investment in construction was particularly weak, although investment in equipment also declined (-0.7% quarter on quarter). The other elements of the domestic economy enjoyed a moderately positive trend. Private and public consumption both grew by 0.2% on the previous quarter after adjusting for seasonal effects. Gross domestic product rose by 0.2% before adjustments against the third quarter of 2013. There is currently no data available for third-quarter gross domestic product for the euro zone as a whole. Overall, however, the leading and high-frequency indicators are suggesting the economy is in a poor state.

Based on the European calculation method, Austrian unemployment rose in the third quarter from 4.9% in July and August to 5.1% in September (national method: July 7.3%, August and September 7.6%). In a historical comparison, this thus marks a significant rise in the unemployment rate. Compared to other European countries, however, it is on the low side. Nevertheless, as of September, it is no longer the lowest in the euro zone for the first time in a long while.

Although inflation in Austria remained subdued in the third quarter, it is still above the euro zone average. According to the EU's calculation method, inflation stood at 1.7% in July (national method: 1.8%), 1.5% in August (national method: 1.7%) and 1.4% in September (national method: 1.6%). Even this was enough to crown Austria the country with the highest rate of inflation in the euro zone in July and August. Average inflation across the euro zone stood at 0.4% (July and August) and 0.3% (September).

With euro zone inflation too low, the European Central Bank cut its main refinancing rate by 10 basis points in September, bringing it to a new record low of 0.05%. At the same time, interest rates for the deposit and marginal lending facilities were reduced to -0.20% and 0.30% respectively. September also saw the first of the ECB's ring-fenced bank refinancing transactions carried out, one of eight to take place between now and September 2018, while the date for the planned buying-up of covered bonds was set for October. The return to an expansive monetary policy caused a further fall in money-market interest rates, with the three-month rate falling by 13 basis points to 0.08% over the course of the quarter. This led to a fall in secondary-market yields on Austrian government bonds. At the end of the quarter, the yield on a ten-year bond stood at 1.14%, 31 basis points lower than at the start.

Whilst euro zone inflation remained at a historic low in the third quarter, the monetary situation showed signs of a slight upturn. The annual rate of growth in the broad monetary aggregate (M3) amounted to 2.5% in September (August: 2.1%, July: 1.8%). Data on the lending market also points to something of a recovery. Although annual growth rates were still clearly negative in September both for loans to private households (-0.5%) and non-financial companies (-2.0%), loans to private households have, for the past few months, been on the increase again in absolute terms.

The data from Romania shows that, there too, growth slowed over the first two months of the quarter. Although industrial output was higher than in the corresponding months of the previous year, at around 6% in July and around 5% in August, a month-on-month comparison reveals a fall in both months. In the construction industry, output in August 2014 remained 15.6% lower than in August 2013 despite an improvement on the previous month. Retail sales exceeded 2013's levels in July and August but fell slightly month on month. The current account deficit increased once again over the first eight months of the year. By contrast, data from the labour market was positive: calculated using the Eurostat method, unemployment fell below 7% in September for the first time since May. Inflation remained extremely low, enabling the ECB to cut its key interest rate twice in the third quarter to its current level of 3%. Having stood at 1.0% and 0.9% in July and August, inflation rose to 1.5% in September, returning to within the target range set by the Romanian Central Bank (1.5% to 3.5%).

Business development

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

The sale of a portfolio of private equity fund investments and direct investments in German-speaking and Eastern Europe was completed in late July.

Procedures for the sale of Investkredit International Bank plc, VB Leasing International Group and Volksbank Malta Ltd. were commenced in the 2013 business year. The contracts for Investkredit International Bank plc were signed in March 2014. However, it was not possible to complete the sales process as the deal could not be closed out. With 13 October 2014, the company's banking licence was surrendered and its liquidation instigated. The contracts for Volksbank Malta Ltd. were signed in April 2014 and the deal closed out on 25 September 2014.

With no outcome reached in the sale of the entire VB Leasing International Group, a process that began in mid-2013, the process began to sell four national offices (Czech Republic, Poland, Slovakia, Romania). The contracts for the sale of the national offices in Poland and Romania were signed in the second quarter of 2014 and the deal closed out on 9 September 2014. Contractual negotiations for the sale of the national offices in the Czech Republic were completed on 11 September 2014 with the signing of the contract and the deal was closed out on 31 October 2014. A new sales process was launched for the remaining companies in the VB Leasing International Group.

On 27 March 2014, ratings agency Moody's downgraded VBAG's issuer rating from Baa3 to Ba1, lowering it again on 5 August 2014 from Ba1 to Ba3. This means that VBAG's senior unsecured bonds are rated below investment grade and are therefore outside the investment profile of some institutional investors. Consequently, some institutional investors sold their bond holdings. Private investors were also induced by the rating downgrade to sell VBAG bonds. The bank has repurchased a pre-defined volume of bonds itself, thus reducing the cost of its current liquidity surplus. The rating downgrade by Moody's thus did not have any unexpected impact on the Group's liquidity.

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

In November 2013, Sberbank of Russia filed 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.

Consolidated result for the first three quarters of 2014.

The result before taxes amounted to euro -197 million, while the consolidated result after taxes and minority interest totalled euro -230 million.

Net interest income amounted to euro 161 million in the first three quarters of 2014, up by euro 10 million on the same period in the previous year.

Risk provisions came to euro -42 million, an improvement of euro 8 million on the corresponding period of the previous year. This is largely attributable to the winding down of non-core loans as part of the restructuring and to the lower need for impairments as a result.

Net fee and commission income in the reporting period totalled euro 15 million, down by euro 12 million in comparison to the previous period. This was due primarily to wind-down measures in non-core areas.

Net trading income is up on the previous period (1-9/2013: euro -2 million). Net trading income in the reporting period totalled euro 26 million, with the increase on the previous year down to non-recurring effects resulting from issues being repurchased.

General administrative expenses remained practically unchanged on the previous year at euro 195 million (1-9/2013: euro 193 million). The headcount declined by 376 compared to the end of 2013 and now totals 1,477 employees, 427 of whom are employed outside Austria. The sales of the VB Leasing International companies in Poland and Romania and of Volksbank Malta in September 2014 pushed the number of staff employed outside Austria down by 323.

The other operating result for the 2014 reporting period amounted to euro -0.2 million (1-9/2013: euro 65 million). Main factors in the first three quarters of 2014 were the valuation of disposal groups under IFRS 5 and the results of deconsolidation in the amount of euro -43 million as well as losses from the repurchase of issues in the amount of euro -21 million. At the same time, income of euro 58 million was generated from adjustments to the valuations of the asset guarantee and loss-bearing liabilities on the basis of the current forecast. The previous year's figure includes income of euro 65 million from the first-time recognition of the asset guarantee.

Income from financial investments in the reporting period amounted to euro 6 million (1-9/2013: euro -1 million), up by euro 7 million on the comparable period. This was mainly because the negative effect of the measurement of guarantees for capital-guaranteed funds was lower by euro 17 million in the reporting period. This income was eroded to some extent by the result from the valuation of securities measured at fair value (euro -3 million; 1-9/2013: euro 5 million).

Statement of financial position

As of 30 September 2014, total assets amounted to euro 15.9 billion, down by euro 5.0 billion compared with 31 December 2013 (euro 20.9 billion) due to wind-down measures.

Loans and advances to credit institutions totalled euro 4.7 billion, falling by euro 1.1 billion compared to 31 December 2013 (euro 5.8 billion).

Loans and advances to customers amounted to euro 5.2 billion as of 30 September 2014, down by euro 1.9 billion compared with 31 December 2013 (euro 7.1 billion). Declines were registered mainly in the non-core areas of the business. The deconsolidation of the VB Leasing International companies in Poland and Romania as well as Volksbank Malta reduced customer receivables by euro 0.9 billion. As of 30 September 2014, loans totalling almost euro 0.5 billion were reclassified from loans and advances to customers to assets held for sale.

Sales and repayments reduced financial investments by euro 0.6 billion to euro 2.8 billion compared to 31 December 2013 (euro 3.4 billion).

Assets held for sale include loans, shares, participations and financial investments where a sale has already been contractually agreed as of 30 September or is considered highly likely. As of the reporting date, these mainly comprise the VB Leasing International subsidiaries in the Czech Republic.

Amounts owed to credit institutions fell by euro 1.1 billion to euro 6.6 billion compared to 31 December 2013 (euro 7.7 billion).

Amounts owed to customers stood at euro 1.8 billion, down by euro 0.3 billion compared to the end of 2013 (euro 2.1 billion).

Debts evidenced by certificates amounted to euro 3.5 billion as of 30 September 2014, which represents a fall of euro 3.5 billion compared to 31 December 2013 (euro 7.1 billion). This reduction is largely attributable to scheduled and early repayments.

Owing to the result for the first three quarters of 2014, equity decreased compared with the end of the previous year to stand at euro 1.0 billion.

Own funds of the Association of Volksbanks as defined by banking law amounted to euro 4.0 billion as of 30 September 2014. The total risk amount of the Association of Volksbanks stood at euro 24.9 billion as of 30 September 2014. The common equity tier 1 capital ratio based on total risk was 11.5% and the tier 1 capital ratio was also 11.5%. The equity ratio amounted to 16.0%.

Outlook

Economic environment

According to its September economic forecast, the Austrian Institute of Economic Research (WIFO) is expecting gross domestic product to grow in real terms by 0.8% in 2014 and 1.2% in 2015. The equivalent figures forecast by the International Monetary Fund in October are 1.0% and 1.9% respectively.

As demand is weak across the globe, foreign trade is expected to provide only minimal momentum for growth for the time being. This will also hit investment, with investment in equipment even likely to stagnate this year. The labour market will remain tight, with economic growth once again set to come mainly from increases in productivity next year. Despite the weak economy, inflation should remain a little on the high side (WIFO: 1.8%), with an adverse impact on purchasing power and consumption. Continued fiscal consolidation means that public consumption is also unlikely to provide significant momentum for growth. The expansionary monetary policy and the weak economy should keep yields low, facilitating the fiscal consolidation process.

According to its October forecast, the International Monetary Fund is expecting Romania's gross domestic product to rise by 2.4% in 2014. However, the monthly data reported above would tend to suggest that growth will be somewhat weaker. The IMF is anticipating growth of 2.5% in 2015 on the back of increased domestic demand. The inflation rate should make a clear return towards the midpoint of the central bank's target range (1.5% to 3.5%). Unemployment looks set to fall slightly.

The main factor that could jeopardise continued economic growth in Austria and Romania is a geopolitical one, that of a renewed escalation of the situation in Ukraine. The continued robustness in the US economy, cheaper oil and the loosening of monetary conditions may provide support.

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 in the medium term. 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.

On 2 October 2014, the Managing Board agreed a policy resolution to restructure VBAG subject to approval by the authorities and committees and under supervisory law. VBAG, the top institution, is to be split up. The tasks that VBAG carries out as required by law in its capacity as central organisation for the joint liability scheme of the Volksbanks are to be transferred to a large regional Volksbank. Service functions that VBAG performs for the Volksbank sector and that are required for orderly banking operations are also to be transferred. The original VBAG will press ahead expeditiously with the wind-down process that has been successfully under way for two years, service its debts to creditors on schedule as they fall due, and thus ultimately dissolve VBAG. The intention is to split VBAG up in the first half of 2015, after which VBAG is to leave the joint liability scheme.

In the run-up to the transfer of supervisory duties for 130 European banks, the European Central Bank (ECB) subjected these banks to a series of extensive stress tests, known as the comprehensive assessment. The Austrian Association of Volksbanks, and therefore the VBAG Group as well, was among six Austrian banking groups that underwent this assessment. Although the Association of Volksbanks had a core capital ratio of 11.5% as of 30 September 2014, the ECB calculated that the Association had an aggregate shortage of capital of euro 865 million. The stress test did not take into account the concrete wind-down measures taken in 2014 or the planned restructuring of the Association of Volksbanks as these came after the test's cut-off date (31 December 2013). A capital plan was submitted to the ECB on 10 November 2014, laying out the measures planned to cover the capital shortage arising from the comprehensive assessment.

On 30 October 2014, ratings agency Moody's responded to the results of the comprehensive assessment by downgrading VBAG's issuer rating by two notches from Ba3 to B2. As Moody's had already downgraded VBAG to below investment grade as recently as March 2014, there was no noticeable reaction from investors in the short term.

As a result of VBAG's announced split and the restructuring within the Association of Volksbanks, ratings agency Fitch reassessed its rating for VBAG, which had hitherto been identical with that of the Association. The Association's rating was confirmed as A with a negative outlook, while VBAG's was downgraded to BBB-, also with a negative outlook.

Vienna, 11 November 2014

The Managing Board

Statement of comprehensive income

Income statement	1-9/2014 Euro thousand	1-9/2013 Euro thousand	Changes Euro thousand	%
Interest and similar income	426,376	539,934	-113,558	-21.03 %
Interest and similar expense	-265,595	-388,949	123,354	-31.71 %
Net interest income	160,781	150,985	9,796	6.49 %
Risk provisions	-41,612	-49,871	8,259	-16.56 %
Fee and commission income	49,312	56,798	-7,486	-13.18 %
Fee and commission expenses	-34,210	-29,924	-4,286	14.32 %
Net fee and commission income	15,102	26,874	-11,772	-43.80 %
Net trading income	25,658	-1,893	27,551	< -200.00 %
General administrative expenses	-194,551	-192,822	-1,729	0.90 %
Other operating result	-238	64,782	-65,020	-100.37 %
Income from financial investments	5,649	-1,159	6,808	< -200.00 %
Income from companies measured at equity	-168,101	-60,853	-107,248	176.24 %
Income from the discontinued operations	0	15,308	-15,308	-100.00 %
Result for the period before taxes	**-197,312**	**-48,650**	**-148,662**	**> 200.00 %**
Income taxes	-13,971	716	-14,687	< -200.00 %
Result for the period after taxes	**-211,283**	**-47,933**	**-163,349**	**> 200.00 %**
Result attributable to shareholders of the parent company (Consolidated net result)	**-229,500**	**-66,804**	**-162,695**	**> 200.00 %**
thereof from continued operations	-229,500	-82,112	-147,387	179.49 %
thereof from discontinued operations	0	15,308	-15,308	-100.00 %
Result attributable to non-controlling interest	18,217	18,871	-654	-3.47 %
thereof from continued operations	18,217	18,871	-654	-3.47 %
thereof from discontinued operations	0	0	0	0.00 %

Other comprehensive income	1-9/2014 Euro thousand	1-9/2013 Euro thousand	Changes Euro thousand	%
Result for the period after taxes	**-211,283**	**-47,933**	**-163,349**	**> 200.00 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation obligation of defined benefit plans (IAS 19)	19	-9,526	9,545	-100.20 %
Deferred taxes of revaluation IAS 19	-4	2,381	-2,385	-100.16 %
Total items that will not be reclassified to profit or loss	**16**	**-7,144**	**7,160**	**-100.22 %**
Items that may be reclassified to profit or loss				
Currency reserve	10,086	-4,889	14,975	< -200.00 %
Available for sale reserve (including deferred taxes)				
Change in fair value	27,304	91,861	-64,557	-70.28 %
Net amount transferred to profit or loss	-6,556	-16,167	9,611	-59.45 %
Hedging reserve (including deferred taxes)				
Change in fair value (effective hedge)	-595	-1,624	1,030	-63.39 %
Net amount transferred to profit or loss	444	835	-391	-46.82 %
Change in deferred taxes of untaxed reserves	818	48	770	> 200.00 %
Change from companies measured at equity	-15,578	0	-15,578	100.00 %
Total items that may be reclassified to profit or loss	**15,924**	**70,064**	**-54,140**	**-77.27 %**
Other comprehensive income total	**15,940**	**62,920**	**-46,980**	**-74.67 %**
Comprehensive income	**-195,343**	**14,986**	**-210,329**	**< -200.00 %**
Comprehensive income attributable to shareholders of the parent company	**-218,652**	**-2,573**	**-216,078**	> 200.00 %
thereof from continued operations	-218,652	-17,881	-200,770	> 200.00 %
thereof from discontinued operations	0	15,308	-15,308	-100.00 %
Comprehensive income attributable to non-controlling interest	23,309	17,560	5,749	32.74 %
thereof from continued operations	23,309	17,560	5,749	32.74 %
thereof from discontinued operations	0	0	0	0.00 %

Statement of financial position as at 30 September 2014

	30 Sep 2014	31 Dec 2013	Changes	
	Euro thousand	Euro thousand	Euro thousand	%
Assets				
Liquid funds	284,142	1,762,453	-1,478,311	-83.88 %
Loans and advances to credit institutions (gross)	4,695,801	5,798,139	-1,102,338	-19.01 %
Loans and advances to customers (gross)	5,158,617	7,081,347	-1,922,730	-27.15 %
Risk provisions (-)	-558,843	-773,009	214,166	-27.71 %
Trading assets	1,650,119	1,627,392	22,727	1.40 %
Financial investments	2,827,448	3,422,739	-595,291	-17.39 %
Investment property	183,538	252,410	-68,872	-27.29 %
Companies measured at equity	5,599	5,626	-27	-0.48 %
Participations	366,684	359,531	7,153	1.99 %
Intangible assets	14,974	13,672	1,302	9.52 %
Tangible fixed assets	112,883	131,503	-18,619	-14.16 %
Tax assets	32,910	52,905	-19,995	-37.79 %
Current tax assets	19,848	19,974	-126	-0.63 %
Deferred tax assets	13,062	32,932	-19,870	-60.34 %
Other assets	672,126	614,744	57,382	9.33 %
Assets held for sale	459,623	554,657	-95,034	-17.13 %
TOTAL ASSETS	**15,905,620**	**20,904,109**	**-4,998,489**	**-23.91 %**
Liabilities and Equity				
Amounts owed to credit institutions	6,635,710	7,707,002	-1,071,293	-13.90 %
Amounts owed to customers	1,832,012	2,148,440	-316,428	-14.73 %
Debts evidenced by certificates	3,545,178	7,084,825	-3,539,647	-49.96 %
Trading liabilities	1,451,161	1,377,709	73,452	5.33 %
Provisions	165,827	188,703	-22,876	-12.12 %
Tax liabilities	56,362	66,511	-10,149	-15.26 %
Current tax liabilities	8,352	14,112	-5,760	-40.81 %
Deferred tax liabilities	48,010	52,399	-4,389	-8.38 %
Other liabilities	542,875	554,549	-11,674	-2.11 %
Liabilities held for sale	190,209	0	190,209	100.00 %
Subordinated liabilities	510,011	554,957	-44,946	-8.10 %
Equity	976,274	1,221,412	-245,138	-20.07 %
Shareholders' equity	848,916	1,067,553	-218,637	-20.48 %
Non-controlling interest	127,358	153,859	-26,500	-17.22 %
Total Liabilities and Equity	**15,905,620**	**20,904,109**	**-4,998,489**	**-23.91 %**