

immigon

**immigon
portfolioabbau ag**

**INTERIM
MANAGEMENT
STATEMENT**

AS AT 30 SEPTEMBER 2015

INTERIM MANAGEMENT STATEMENT AS AT 30 SEPTEMBER 2015

The interim report covers the period from the start of the business year on 1 January 2015 to 30 September 2015.

The accounting policies in force as at 31 December 2014 were applied unchanged; for details on the accounting policies please refer to the consolidated financial statements as at 31 December 2014.

Report on business development and the economic environment

Business development

immigon portfolioabbau ag (immigon) is the parent company of subsidiaries operating in Austria and internationally. Until 4 July 2015, the company traded under the name Österreichische Volksbanken-Aktiengesellschaft (VBAG). Since its partial nationalisation in April 2012, the Company had been undergoing a transformation process based on a restructuring plan and subject to requirements laid down by the European Commission and the Republic of Austria. As of 4 July 2015, immigon is a wind-down entity pursuant to Section 162 (1) of the Federal Act on the Recovery and Resolution of Banks (*Bundesgesetz über die Sanierung und Abwicklung von Banken, BaSAG*).

The Managing Board resolved to reorganise VBAG's structures on 2 October 2014, subject to approval from the authorities, regulators and committees. The duties which VBAG is statutorily required to fulfil as the Association of Volksbanks' central organisation, as well as service functions for the Association of Volksbanks to ensure the smooth-running of the banks, were transferred to Volksbank Wien-Baden AG (now VOLKSBANK WIEN AG) in July of this year. An Extraordinary General Meeting of VBAG held on 23 December 2014 resolved to change the business model with a view to creating a company in wind-down in accordance with Section 162 (1) BaSAG, and thus approved the strategy adopted by the Managing Board. The aim now is to press ahead with the wind-down process that has been running successfully since 2012, service liabilities owed to creditors on schedule when they fall due and ultimately liquidate immigon.

A spin-off and transfer agreement was approved by the Annual General Meeting of VBAG held on 28 May 2015, and thus it was resolved to implement the planned measures. The resolution provides for the separation by way of demerger of the VBAG business unit responsible for central organisation and central institution functions, as the transferor company, and its transfer to Volksbank Wien-Baden AG as the transferee company. The transfer took place with retrospective effect on the demerger date of 31 December 2014, based on the closing balance as at 31 December 2014, with continuation of the transferor company against a grant of shares. At the same time, it was decided to reduce the share capital and the participation capital to cover losses.

By its letter of 2 July 2015, the ECB approved the new Association of Volksbanks with Volksbank Wien-Baden AG as the central organisation, with effect from the entry of the demerger in the Commercial Register, which took place on 4 July 2015. The

transfer of the demerged business unit to Volksbank Wien-Baden AG has been completed and VBAG has surrendered its banking licence. As a result, VBAG has also left the joint liability scheme. The company name was changed to immigon portfolioabbau ag on 4 July 2015.

Rating actions

On 12 February 2015, the rating agency Fitch downgraded VBAG's long-term issuer default rating from BBB- to B. Reasons included the expectation that the Austrian government could no longer be relied upon to provide support, and an increased risk that lenders might have to share losses as a result of the application of BaSAG (bail-in). The outlook remains negative.

On 15 June 2015, the rating agency Moody's downgraded VBAG's rating from B2 to Caa1, owing to application of Moody's new bank rating methodology.

Fitch's downgrade, as well as Moody's downgrades announced in early August and late March 2014 and in June 2015, had no major negative impact on immigon's liquidity situation.

Economic environment

Austrian gross domestic product grew moderately in the third quarter. According to the preliminary estimate from the Austrian Institute of Economic Research (WIFO), economic output grew by 0.3% in real terms compared with the previous quarter. Unadjusted GDP growth was 1.0% compared with the third quarter in the previous year. While private consumption stagnated, government consumption made a modest positive growth contribution, increasing 0.2% on the previous quarter. After a long period of contraction, investment continued to recover, growing strongly for the second time in succession at 1.4% qoq. Foreign trade continued to recover in the third quarter. However, at 1.6% qoq, imports grew more strongly than exports (1.4% qoq), meaning that net exports did not deliver a positive growth contribution.

Despite a slight recovery, Austria's unemployment rate remained high in the third quarter by historical standards. According to Eurostat, it stood at 5.8% in July and 5.7% in August and September. In the euro zone as a whole the unemployment rate improved slightly, albeit from significantly higher levels. The seasonally adjusted unemployment rate as calculated by Eurostat was 11.0% in the first two months of the quarter and 10.8% in September.

According to the Harmonised Index of Consumer Prices (HICP), Austria's inflation rate was 1.1% in July, 0.9% in August and 0.6% in September. Austria's rate of inflation is thereby one of the highest in the euro zone, as it has been for some time. In the single currency area, inflation rates were just within positive territory at 0.2% in the first two months of the quarter before a slightly negative rate of -0.1% in September.

The European Central Bank left its main refinancing rate unchanged at 0.05% in the third quarter. The interest rate on the marginal lending facility remained at 0.30%, while the deposit rate stayed negative at -0.20%. Three-month Euribor was negative for the entire quarter, falling from -0.02% at the beginning of July to -0.04% at the end of September.

After the significant increase in yields on government bonds – which are perceived as safe – in the previous quarter, in the third quarter there has been a strong movement in the opposite direction. Yields on ten-year Austrian government bonds fell from 1.27% at the beginning of July to 0.90% at the end of September. In Germany, yields in the ten-year maturity segment fell from 0.85% to 0.59% over the course of the quarter. Downgraded inflation forecasts, increased doubts about an imminent rise in interest rates in the U.S., falling oil prices and pessimism about global economic growth were the main reasons for this development.

Consolidated result for the first three quarters of 2015

immigon's consolidated result before taxes was euro 221 million and the consolidated result after taxes and non-controlling interests was euro 207 million.

Net interest income amounted to euro 82 million in the first three quarters of 2015, down euro 78 million on the comparative prior-year period (1-9/2014: euro 161 million). The decrease in net interest income is primarily due to the demerger of the central organisation business unit and the sale of subsidiaries in 2014.

An expense of euro 8 million was recognised for the first three quarters of 2015 relating to risk provisions. This represented a decrease in risk provision expense of euro 34 million compared with the previous year's figure of euro 42 million. Owing to the winding down of the non-core loan portfolios in connection with restructuring, the write-downs required in the reporting period were lower than in the comparative period, and provisions previously created could be released.

Net commission income in the reporting period was euro 9 million, a decline of euro 6 million compared with the prior-year period (1-9/2014: euro 15 million).

Net trading income was down on the prior-year period (1-9/2014: euro 26 million). In the first three quarters of 2015, net trading income amounted to euro 15 million. The prior-year result was driven by non-recurring items relating to winding down issues.

Administrative expenses amounting to euro 138 million were down on the previous year (1-9/2014: euro 195 million), mainly due to the demerger as well as the sale of subsidiaries in the second half of 2014. The number of employees (full-time equivalents) decreased by 717 compared with the end of 2014 to 600. Of these, 187 work outside Austria.

Other operating income for the first three quarters of 2015 amounted to euro 295 million (1-9/2014: euro -0.2 million). The buyback programme for non-subordinated liabilities which began in July 2015 led to a result of euro 317 million in the third quarter of 2015. However, this item was reduced by a loss of euro 43 million relating to the demerger of the central organisation business unit. Proceeds from deconsolidation relating to the sale of subsidiaries and valuation of disposal groups pursuant to IFRS 5 amount to euro -9 million (1-9/2014: euro -43 million). An adjustment was also made in the first quarter of 2015 to the valuation of the repayment obligation for the asset guarantee issued by the Republic of Austria on 15 March 2013, which reduced other operating income by euro -6 million (1-9/2014: euro 31 million). Cost allocation adjustments in the first half of 2015 and adjustments for the 2014 financial year had a positive effect on other operating income. The prior period figure contains loss-bearing liabilities valued at euro 27 million.

Income from financial investments stood at euro -29 million in the reporting period, down euro 34 million on the comparative period (1-9/2014: euro 6 million). The main reasons for the decrease are losses of euro -25 million incurred on the sale of securities in the reporting period (1-9/2014: euro 12 million) and the need to write

down securities by a total of euro -16 million (1-9/2014: euro -1 million). The sale of participations led to proceeds of euro 24 million in 2015 (1-9/2014: euro 7 million). Euro 8 million is recognised for the valuation of derivatives in the investment book and the surplus in effective hedge relationships (1-9/2014: euro 2 million).

The scope of companies measured at equity increased at the end of the 2014 financial year. This led to a year-on-year rise of euro 5 million in the result from companies measured at equity, taking it to euro 6 million. VB Romania S.A. (VBRO) has been reclassified under result from discontinued operations on the basis of the contract of sale for all shares in the company signed on 10 December 2014. The previous year's figures have been adjusted accordingly.

Following the company's classification as a discontinued operation, VBRO is no longer measured at equity and is instead measured according to IFRS 5. VBRO was disposed of as at the closing date of 7 April 2015, and the proceeds were recognised under result from discontinued operations. Since the company was measured at fair value at the end of 2014, the other comprehensive income recognised in equity was included in the result for the period, and thus accounts for a large part of the result from discontinued operations.

As a tax profit is anticipated within immigon's single-entity financial statements for 2015, a corresponding tax expense has been recognised. No tax profits are expected for subsequent years, and immigon has therefore not recognised any deferred tax assets on tax loss carryforwards. Deferred tax income on differences derived from the valuation of derivatives and securities was recognised to the extent that deferred tax liabilities arose due to other differences in valuation.

Statement of financial position and own funds

Total assets amounted to euro 4.8 billion as at 30 September 2015, a reduction of euro 10.3 billion since the end of 2014 (euro 15.1 billion), primarily owing to the demerger of the central organisation business unit as well as the wind-down measures.

Loans and advances to credit institutions came to euro 0.9 billion, which represented a decrease of euro 3 billion compared with the end of the previous period (euro 3.8 billion).

Loans and advances to customers amounted to euro 1.3 billion as at 30 September 2015, a decrease of euro 2.8 billion compared with the end of 2014 (euro 4.1 billion). In addition to the disposal resulting from the demerger and the reduction in customer business, euro 0.8 billion was reclassified as assets held for sale.

Trading assets fell by euro 1 billion from euro 1.7 billion as at the end of 2014 to euro 0.6 billion as at 30 September 2015, due to the demerger and the winding down of securities and derivatives. On the liabilities side, there was also a decrease in trading liabilities of euro 1.2 billion (30 September 2015: euro 0.3 billion; 31 December 2014: euro 1.5 billion).

Financial investments were reduced by euro 2.6 billion to euro 0.2 billion compared with the end of 2014 (euro 2.8 billion), through sales and redemptions, but primarily the demerger of the central organisation business unit.

Assets held for sale include loans and investment property whose sale had been contractually agreed or was highly likely as at 30 September 2015. In the previous year this included the refinancing of VB Romania S.A. redeemed in 2015 as well as its carrying value. As at the reporting date, this item primarily concerns the VB Leasing Finanzierung (VBLF) Group, Volksbank Invest Kapitalanlagegesellschaft m.b.H. (VB Invest KAG) and Immo Kapitalanlage AG (Immo KAG).

Amounts owed to credit institutions fell by euro 5.5 billion compared with the end of 2014 (euro 6.2 billion) to euro 0.7 billion. Amounts owed to customers came to euro 0.5 billion, a

decrease of euro 1.3 billion compared with the end of 2014 (euro 1.8 billion). This is also primarily due to the demerger.

Debts evidenced by certificates amounted to euro 1.5 billion as at 30 September 2015, a decrease of euro 1.8 billion compared with 31 December 2014 (euro 3.3 billion). A volume of euro 1 billion including accrued interest was repurchased through the buyback programme undertaken in the third quarter.

Equity rose compared with the end of the prior year owing to the positive consolidated result and comes to euro 0.8 billion.

Wind-down measures

The wind-down of assets continued during the reporting period. The sale of Volksbank Romania S.A. outside the VB International Group was closed in the first half-year, after the transaction was approved by the Romanian National Bank and the competition authority. The sale of the participation in VB Leasing SK spol. s.r.o. was closed in July. The transaction for the sale of the 33.33% minority interest in RSV Beteiligungs GmbH (Österreichische Lotterien GmbH) to Novomatic AG was completed in August.

The shareholders resolved on 16 September 2015 to discontinue new business for the remaining companies within the VB International Group and to run down the remaining four VBLI national companies and VB-Leasing International Holding GmbH in Austria.

A key milestone was reached in the sales process for Volksbank Invest Kapitalanlagegesellschaft m.b.H. and its subsidiary Immo Kapitalanlage AG with the signing of a contract of sale on 3 July 2015. It is anticipated the deal will be closed in the first quarter of 2016 at the latest, subject to approval by the Austrian financial markets supervisory authority.

Together with its co-shareholders, immigon signed a contract on 10 July 2015 for the sale of VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft and VICTORIA-VOLKSBANKEN Vorsorgekasse AG. It is anticipated the deal will be closed in the first quarter of 2016, subject to approval by the Austrian financial markets supervisory authority.

The agreement for the sale of immigon's 100% stake in VB Leasing Finanzierungsgesellschaft m.b.H. to BAWAG PSK Leasing GmbH was signed on 12 August 2015. The stake was held via the subsidiary Unternehmensbeteiligungs Gesellschaft mit beschränkter Haftung. As well as the shareholding, the purchaser will assume the entire refinancing of the VB Leasing Finanzierungsgesellschaft m.b.H. Group of around EUR 650 million.

An agreement for the sale of VB Factoring Bank AG to A.B.S. Global Factoring AG was also signed on 27 August 2015. Upon closing, immigon portfolioabbau ag's entire refinancing will be repaid.

Overall, more than 50 wind-down transactions were completed over the reporting period. These cover a significant part of the securities portfolio, sales of a non-performing loan portfolio, a solar energy financing portfolio, an outlet centre in Italy, three properties in Budapest, along with further loan and property lease exposures.

To wind down its liabilities, immigon resolved in July to invite the holders of specific instruments to make offers for them to be bought back or redeemed early. The instruments concerned covered a total of 268 non-subordinated liabilities comprising bonds, registered bonds and promissory notes. This buyback programme was

completed in August. Through the offers accepted by immigon portfolioabbau ag, 122 liabilities were fully resolved overall, including those with the longest terms (to 2035 and 2047). In September of this year, the Managing Board resolved to invite the holders to

specific outstanding instruments to offer them to immigon for repurchase against consideration in cash. The instruments concerned comprised in total 95 non-subordinated liabilities in the form of bonds, with a total planned buyback volume of EUR 400 million. The offer period ended in October of this year.

Future development of the company

Economic environment

According to the medium-term economic forecast of the Austrian Institute of Economic Research (WIFO) published in October, the Austrian economy will grow by 0.7% this year and 1.4% next year. In its World Economic Outlook in October, the International Monetary Fund lowered its forecast for global economic growth for both the current and the following year by 0.2 percentage points, to 3.1% and 3.6% respectively. Its forecast for growth in the euro zone in 2015 remained unchanged at 1.5%, while the forecast for 2016 was revised downwards by 0.1 percentage points to 1.6%. According to the International Monetary Fund, economic growth in the euro zone will be supported by sustained low oil prices, the loose monetary policy and the weak euro.

The European Central Bank and the International Monetary Fund forecast that the rate of inflation within the euro zone will not reach its inflation target of just under 2% set by the European Central Bank, even over the next year. Against this backdrop the European Central Bank announced in October that it would review its monetary measures in December and, if necessary, implement additional expansionary measures. In the U.S., on the other hand, there may be an interest rate hike in the same month. These opposing influences indicate that interest rates are unlikely to change significantly for the rest of the year.

There are risks with regard to this outlook, including from ongoing geopolitical conflicts and weak economic development in some large emerging countries such as China and Brazil.

Business performance

As of 4 July 2015, the company is a wind-down entity pursuant to Section 162 (1) of the Federal Act on the Recovery and Resolution of Banks (Bundesgesetz über die Sanierung und Abwicklung von Banken, BaSAG) and now operates under the name immigon portfolioabbau ag. Its sole aim is to press ahead with the wind-down process, service liabilities owed to creditors on schedule when they fall due and ultimately liquidate immigon.

Immigon as wind-down entity is, as such, exposed to the risks and uncertainties in the wind-down process, including those pertaining to sales prices which can be attained for assets, outstanding loans, higher expenses and guarantees.

The wind-down portfolio has been reduced through the measures taken in the first three quarters. Alongside VB Leasing Finanzierungsgesellschaft m.b.H., other smaller volume transactions have been closed in the fourth quarter in the property and leasing segment. As per its strategy, immigon will have to implement further wind-down processes going forward. Experience in Austria and abroad has shown that such wind-down processes sometimes involve higher costs than initially anticipated. immigon is also exposed to this uncertainty. immigon's remaining portfolio is concentrated in central and eastern Europe, including Russia.

Some of the sales agreed in the first three quarters have not yet been closed as at the time of reporting. These include the sales of VB Factoring Bank AG, Leasing West GmbH, Volksbank Invest Kapitalanlage GmbH and of the participations in VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft and VICTORIA-VOLKSBANKEN Vorsorgekasse AG. The run down of the four remaining VBLI national companies and VB-Leasing International Holding GmbH is currently being implemented.

Wind-down activities in the fourth quarter will be focused on the sale of loan exposures and properties. As well as the credit and property risk, there is also a risk of devaluation on sale of parts of the portfolio.

Depending on progress in winding down the assets side, early redemption of liabilities or further buybacks will be assessed and implemented over the following months.

In part because of its role as a wind-down entity, it is currently planned for immigon to put as much of the year's profit as possible into reserves to protect against these risks.

Vienna, 10 November 2015

The Managing Board

Condensed statement of comprehensive income

Income statement	1-9/2015	restated	Changes	
	Euro thousand	1-9/2014 Euro thousand	Euro thousand	%
Interest and similar income	204,353	426,376	-222,023	-52.07 %
Interest and similar expense	-121,963	-265,595	143,632	-54.08 %
Net interest income	82,390	160,781	-78,390	-48.76 %
Risk provisions	-7,732	-41,612	33,880	-81.42 %
Fee and commission income	36,416	49,312	-12,896	-26.15 %
Fee and commission expenses	-27,613	-34,210	6,596	-19.28 %
Net fee and commission income	8,803	15,102	-6,300	-41.71 %
Net trading income	14,794	25,658	-10,864	-42.34 %
General administrative expenses	-138,018	-194,551	56,533	-29.06 %
Restructuring cost	-364	0	-364	100.00 %
Other operating result	295,464	-238	295,702	< -200.00 %
Income from financial investments	-28,513	5,649	-34,163	< -200.00 %
Income from companies measured at equity	5,506	322	5,185	> 200.00 %
Income from discontinued operations	-11,639	-168,422	156,784	-93.09 %
Result for the period before taxes	220,692	-197,312	418,004	< -200.00 %
Income taxes	-11,924	-13,971	2,047	-14.65 %
Result for the period after taxes	208,768	-211,283	420,051	-198.81 %
Result attributable to shareholders of the parent company (Consolidated net result)	206,717	-229,500	436,216	-190.07 %
thereof from continued operations	218,355	-61,077	279,433	< -200.00 %
thereof from discontinued operations	-11,639	-168,422	156,784	-93.09 %
Result attributable to non-controlling interest	2,051	18,217	-16,166	-88.74 %
thereof from continued operations	2,051	18,217	-16,166	-88.74 %
thereof from discontinued operations	0	0	0	0.00 %
Other comprehensive income				
	1-9/2015	restated	Changes	
	Euro thousand	1-9/2014	Euro thousand	%
Result for the period after taxes	208,768	-211,283	420,051	-198.81 %
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation obligation of defined benefit plans (IAS 19)	1,484	19	1,464	> 200.00 %
Deferred taxes of revaluation IAS 19	-409	-4	-405	> 200.00 %
Total items that will not be reclassified to profit or loss	1,075	16	1,059	> 200.00 %
Items that may be reclassified to profit or loss				
Currency reserve	-4,379	10,086	-14,465	-143.42 %
Available for sale reserve (including deferred taxes)				
Change in fair value	-3,216	27,304	-30,521	-111.78 %
Net amount transferred to profit or loss	-8,007	-6,556	-1,451	22.14 %
Hedging reserve (including deferred taxes)				
Change in fair value (effective hedge)	463	-595	1,057	-177.77 %
Net amount transferred to profit or loss	0	444	-444	-100.00 %
Change in deferred taxes of untaxed reserves	13,407	818	12,588	> 200.00 %
Change from companies measured at equity	12,869	-15,578	28,446	-182.61 %
Total items that may be reclassified to profit or loss	11,135	15,924	-4,789	-30.07 %
Other comprehensive income total	12,210	15,940	-3,730	-23.40 %
Comprehensive income	220,978	-195,343	416,321	< -200.00 %
Comprehensive income attributable to shareholders of the parent company	219,107	-218,652	437,759	< -200.00 %
thereof from continued operations	218,004	-34,652	252,655	< -200.00 %
thereof from discontinued operations	1,103	-184,000	185,103	-100.60 %
Comprehensive income attributable to non-controlling interest	1,871	23,309	-21,438	-91.97 %
thereof from continued operations	1,871	23,309	-21,438	-91.97 %
thereof from discontinued operations	0	0	0	0.00 %

The comparative figures were restated according to IFRS 5.

Condensed statement of financial position as at 30 September 2015

	30 Sep 2015	31 Dec 2014	Changes	
	Euro thousand	Euro thousand	Euro thousand	%
Assets				
Liquid funds	390,697	1,351,246	-960,549	-71.09 %
Loans and advances to credit institutions (gross)	859,240	3,812,548	-2,953,309	-77.46 %
Loans and advances to customers (gross)	1,323,305	4,134,053	-2,810,748	-67.99 %
Risk provisions (-)	-245,300	-410,128	164,828	-40.19 %
Trading assets	623,624	1,650,358	-1,026,734	-62.21 %
Financial investments	209,992	2,802,099	-2,592,107	-92.51 %
Investment property	140,517	208,326	-67,809	-32.55 %
Companies measured at equity	67,099	70,560	-3,461	-4.91 %
Participations	150,218	227,451	-77,233	-33.96 %
Intangible assets	192	10,565	-10,373	-98.18 %
Tangible fixed assets	44,618	110,279	-65,662	-59.54 %
Tax assets	22,724	32,498	-9,774	-30.08 %
Current tax assets	18,994	20,893	-1,900	-9.09 %
Deferred tax assets	3,731	11,605	-7,874	-67.85 %
Other assets	361,667	737,437	-375,770	-50.96 %
Assets held for sale	853,381	388,029	465,351	119.93 %
TOTAL ASSETS	4,801,974	15,125,323	-10,323,349	-68.25 %
Liabilities and Equity				
Amounts owed to credit institutions	688,668	6,182,497	-5,493,830	-88.86 %
Amounts owed to customers	518,240	1,825,079	-1,306,839	-71.60 %
Debts evidenced by certificates	1,493,914	3,295,644	-1,801,731	-54.67 %
Trading liabilities	332,697	1,519,805	-1,187,107	-78.11 %
Provisions	148,018	209,083	-61,066	-29.21 %
Tax liabilities	19,441	37,902	-18,461	-48.71 %
Current tax liabilities	6,075	5,973	102	1.72 %
Deferred tax liabilities	13,365	31,929	-18,564	-58.14 %
Other liabilities	262,027	909,215	-647,188	-71.18 %
Liabilities held for sale	45,126	5,509	39,617	> 200.00 %
Subordinated liabilities	495,697	493,146	2,551	0.52 %
Equity	798,147	647,443	150,705	23.28 %
Shareholders' equity	737,947	519,090	218,857	42.16 %
Non-controlling interest	60,200	128,352	-68,152	-53.10 %
Total Liabilities and Equity	4,801,974	15,125,323	-10,323,349	-68.25 %