

immigon

**immigon
portfolioabbau ag**

INTERIM REPORT

AS AT 31 MARCH 2016

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The interim report covers the period from the beginning of the business year on 1 January 2016 to 31 March 2016.

The accounting policies from 31 December 2015 have been applied unchanged; in this regard we refer to the consolidated financial statements as at 31 December 2015. immigon's website can be found at www.immigon.com.

Report on business development and the economic situation

Economic environment

In the first quarter of 2016, [Austria's](#) gross domestic product grew by 0.4% on a seasonally adjusted basis, according to the estimate of the Austrian Institute of Economic Research (WIFO) published in April 2016. This was due to an increase in domestic demand. Private consumption grew by 0.2% in the first quarter and capital investment continued to recover, increasing by 1.0%. Government consumption grew by 0.3% in the first quarter of 2016, slightly below the rate of GDP growth. Foreign trade made no significant growth contribution.

Despite the recovery, Austria's unemployment rate remained high by historical standards. According to Eurostat's calculations, it fell only slightly from a seasonally-adjusted rate of 5.9% in January to 5.8% in March 2016. In the euro zone as a whole there was further improvement in the unemployment rate, which declined from 10.4% at the beginning of the year to 10.2% in March, thus reaching its lowest level in four and half years.

Austrian inflation tended lower in the first quarter of the year, but remained well above the comparable figures for the euro zone. According to the harmonised index of consumer prices, Austrian inflation fell from 1.4% in January to 0.6% in March. In the single currency area, inflation was only 0.3% in January, minus 0.2% in February and 0.0% in March.

In mid-March, the European Central Bank lowered its main refinancing rate from 0.05% to 0.0%. The interest rate on the marginal lending facility was cut from 0.30% to 0.25%, while the deposit rate was reduced from -0.30% to -0.40%. The ECB also announced an expansion of the bond purchase programme and a new series of targeted longer-term refinancing operations (TLTRO2). Against the backdrop of further monetary easing, money market rates have fallen further into negative territory. Three-month Euribor dropped from -0.09% at the start of the year to -0.23% at the end of the quarter.

Ultra-expansionary monetary policy in the euro zone, only very modest tightening in the US and reduced inflation expectations meant that yields on government bonds perceived as safe continued to fall in the first three months of the year, coming close to their historic lows. Yields on ten-year government bonds fell in Austria from 0.85% to 0.35% and in Germany from 0.57% to 0.15%.

First-quarter figures for Central and Eastern European countries are not yet available. However, the more frequent economic data from these countries tended positively almost across the board.

Most economic indicators in [Hungary](#), except for consumer confidence, showed a positive tendency. A particular highlight was February retail sales, which were 6.4% up on February, 2015.

In the [Czech Republic](#), both industrial output and retail sales grew strongly, especially in February. The purchasing manager indices also indicate powerful expansion.

Net wages showed exceptionally strong momentum, growing by more than 10% p.a. in [Romania](#), which also explains the strong growth in retail sales (January: up 15% year-on-year, February: up 8% year-on-year).

In line with most other countries in the region, industrial output, retail sales and purchasing manager indices in [Poland](#) point to a vigorous economic trend.

In [Croatia](#), [Slovenia](#), [Serbia](#) and [Bosnia-Herzegovina](#), published indicators likewise suggest buoyant economic performance.

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 has been undergoing a process of transformation which is based on a restructuring plan and therefore 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). As a result, the company's purpose, pursuant to section 2 of the Articles of Association, is to manage the company's assets and liabilities so as to ensure that they are actively liquidated in an orderly fashion on the best possible terms. Accordingly, the company is tasked with implementing a wind-down plan which plans for all risk-bearing assets to be eliminated by the end of 2017.

Moody's Investors Service has provided the company with a rating, albeit on a "non-participating basis". The issuer rating was downgraded to Caa1 on 15 June 2015, which immigon believes to be overly pessimistic.

Consolidated result for the first quarter of 2016

As a result of the demerger of the CO business unit on 4 July 2015, the figures for the reporting period are not fully comparable with the prior year.

immigon's consolidated result before taxes was euro -6 k and the consolidated result after taxes and non-controlling interests amounted to euro -1.274 million.

Net interest income amounted to euro 6 million in the first quarter of 2016, down euro 26 million on the prior-year period figure of euro 32 million. As well as the demerger of the CO business unit in the third quarter of 2015, the decline is also due to the disposal of subsidiaries in the second half of 2015.

Income of euro 1 million was recognised in the first quarter of 2016 relating to risk provisions. This represented a decrease of euro 1 million compared with the previous year's figure of euro 2 million. Provisions generally decreased owing to the winding down of the loan portfolios.

Net fee and commission income in the reporting period was euro -2 million, a decline of euro 6 million compared with the prior-year period (1-3/2015: euro 4 million). This is mainly due to the sale of VB Invest KAG at the end of 2015.

Net trading income was up on the prior-year period (1-3/2015: euro -2 million). Net trading income in the first quarter of 2016 amounted to euro -0.22 million. The decrease in the net loss was mainly owing to the reduction of the trading portfolio due to the demerger of the CO business unit.

Administrative expenses amounting to euro 14 million were down on the previous year (1-3/2015: euro 59 million), mainly due to the demerger and the sale of subsidiaries in the second half of 2015. The number of employees (full-time equivalents) decreased by 99 compared with the end of 2015 to 278. Of these, 97 work outside Austria.

Other operating income for the first quarter of 2016 amounted to euro 9 million (1-3/2015: euro 3 million). A result of euro 8 million was achieved in the reporting period from the

buyback of non-subordinated liabilities. In the prior-year period the result was reduced by euro –6 million due to the adjusted valuation of the repayment obligation for the asset guarantee issued by the Republic of Austria and by euro -5 million due to the bank levy. This was offset by income of euro 4 million resulting from the deconsolidation of two affiliates in the real estate segment and income from cost allocations from the CO business unit.

Income from financial investments stood at euro 2 million in the reporting period, down euro 9 million on the comparative period (1-3/2015: euro 11 million). The decrease in income from the sale of securities was only partially offset by more positive derivative valuations. The prior-year period figure included income from the valuation of guarantees for capital-guaranteed funds amounting to euro 7 million. These funds were transferred to VB Wien following the demerger of the CO business unit.

Income from companies measured at equity for the first quarter of 2016 came to euro 143 k (1-3/2015: euro 1.511 million). The prior-year figure included the valuation of shares in companies measured at equity transferred to VB Wien on 4 July 2015 as a result of the demerger, in the amount of euro 1 million.

immigon and some subsidiaries did not recognise any deferred tax assets on the tax loss for the first quarter of 2016, since these cannot be used in the next four years. 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 valuation differences.

Net assets

Total assets amounted to euro 3.2 billion as at 31 March 2016, a reduction of euro 0.6 billion since the end of 2015 (euro 3.8 billion), owing to wind-down measures.

Loans and advances to credit institutions came to euro 0.3 billion, representing a decrease of euro 0.1 billion compared with the end of 2015 (euro 0.5 billion). Loans and advances to customers amounted to euro 1.0 billion as at 31 March 2016, a slight decrease compared with the end of 2015 (euro 1.1 billion).

Trading assets fell by euro 0.2 billion from euro 0.5 billion as at the end of 2015 to euro 0.3 billion as at 31 March 2016. On the liabilities side, there was also a decrease in trading liabilities of euro 0.1 billion (31 March 2016: euro 0.2 billion; 31 December 2015: euro 0.3 billion).

Financial investments were unchanged compared with the end of 2015, standing at euro 0.2 billion.

Assets held for sales include loans and investment property whose sale had been contractually agreed or was highly likely as at 31 March 2016. As in the previous year, this includes the assets of VB Factoring Bank AG, which was classified as a disposal group in accordance with IFRS 5 from the point when the sale and purchase agreement was signed in August 2015. Closing took place on 21 April 2016. This item also includes a site in Romania and a loan financing portfolio for Polish wind farms.

Amounts owed to credit institutions fell by euro 0.1 billion compared with the end of 2015 (euro 0.3 billion), to euro 0.2 billion. Amounts owed to customers came to euro 0.4 billion, and were thus unchanged compared with the end of 2015.

Securitised liabilities amounted to euro 0.9 billion as at 31 March 2016, a decrease of euro 0.3 billion compared with 31 December 2015 (euro 1.2 billion). This was mainly the result of buybacks. Subordinated debt fell by euro 0.1 billion from euro 0.5 billion as at 31 December 2015 to euro 0.4 billion at the time of reporting, due to repayments.

Equity was unchanged compared with the end of the prior year at euro 0.8 billion.

Wind-down measures

The wind-down of assets continued during the reporting period.

On the assets side, further, smaller-volume closings from the real estate and credit business were realised in the first quarter.

The run-down of the remaining national companies of VB Leasing International and of the Austrian company VB-Leasing International Holding GmbH agreed at the end of September 2015 is being implemented.

To scale back the liabilities side, in January this year immigon decided to terminate certain certificates (index certificate on ATX AT0000436100, CECE AT0000436118, Hang Seng AT0000436134, Hang Seng China AT0000436142, RDX USD Index AT0000436167) in each case as of February 2016, at the amounts repayable calculated according to the terms of the respective certificates.

As of February 2016, immigon terminated the variable-rate, callable subordinated bond 2006 – 2016 with ISIN XS0275528627 according to the terms of issue at the nominal value of 100%.

On 30 March 2016, immigon approved a buyback programme for outstanding subordinated liabilities maturing after 31 December 2017. A buyback programme for bonds with a nominal value of around euro 229 million in the form of a reverse modified Dutch auction will start in the second quarter. Private and institutional investors will be invited separately to offer their instruments to immigon for repurchase, and immigon will be entitled to accept such offers at its sole discretion.

Future development of the company

Economic environment

According to the estimate of the Austrian Institute of Economic Research (WIFO) published in March, the Austrian economy will grow by 1.6% in 2016, helped by growing private consumption and still strong levels of investment.

In its forecast for Austria published in the World Economic Outlook for April, the International Monetary Fund estimated an annual growth rate for Austria of only 1.2%. The euro zone as a whole should see slightly stronger growth of 1.5%. The outlook for Central and Eastern European countries is better still, according to the International Monetary Fund. The growth forecast for Hungary is 2.3%, the Czech Republic 2.5%, Poland 3.6%, Romania 4.2%, Croatia 1.9%, Slovenia 2.7%, Serbia 1.8% and Bosnia-Herzegovina 3.0%.

In March, the European Central Bank forecast an average inflation rate for 2016 of just 0.1%. This means that the rate of inflation will again fail to reach the European Central Bank's target of just under 2% in 2016. The weak inflation outlook, relaxed monetary policy in the euro zone and only very hesitant tightening in the US suggest that interest rates in the euro zone will remain at a low level, though capital market interest rates could rise again slightly in the international context.

Risks to this outlook arise principally from ongoing geopolitical conflicts, weak economic performance by some major emerging economies and a possible resurgence of the debt crisis in the euro zone periphery. This could lead to increased financial market volatility as well as negative impacts on international demand.

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), which now trades under the name of immigon

portfolioabbau ag. Its sole aim is to press ahead swiftly with the wind-down process, service liabilities owed to creditors on schedule when they fall due and ultimately liquidate the company.

As a wind-down entity, immigon is extremely exposed to the uncertainties and risks related to the wind-down process, including with regard to sale prices obtained for assets, outstanding loans, expenses being higher than foreseen and guarantees.

The wind-down portfolio has been further reduced owing to the measures taken in the first quarter.

The sale of VB Factoring Bank AG to the international factoring group A.B.S. was closed in April of this year. The entire refinancing of immigon portfolioabbau ag was repaid upon closing.

Two office properties in Bucharest and a property in Bratislava were also sold in April 2016. Furthermore, a loan financing portfolio for Polish wind farms was sold and other smaller-volume closings in the real estate and credit business fields were realised.

Current measures to scale back the liabilities side include, in particular, an invitation agreed on March 30 to the holders of certain outstanding subordinated debt securities to offer these to immigon under the terms and subject to the conditions set forth in a buyback memorandum, so that they can be repurchased for cash. The debt securities comprise a total of 14 issues of subordinated liabilities in the form of bonds. The planned total compensation amount including accrued interest is euro 150 million. The offer period begins on 13 April 2016 and is expected to end at 5 pm CET on 18 May 2016. The invitation to submit offers to repurchase the debt securities for cash through immigon is made exclusively on the basis of the buyback memorandum dated 12 April 2016, which can be obtained – subject to observance of the restrictions on access, invitation and distribution – from Ithuba Capital AG, Vienna (the "Dealer Manager").

According to the plan, immigon will thereafter carry out further wind-down processes, including in the area of personnel. Experience in Austria and abroad has shown that such winding down sometimes involves higher costs than initially anticipated. immigon is also exposed to this uncertainty. The remainder of immigon's portfolio is concentrated on Central and Eastern Europe.

The wind-down operations are focused on sales of loan exposures, equity investments and real estate. If parts of this portfolio are sold, besides credit and real estate risks, valuation discounts could be substantial too.

Depending on the progress made in the scaling back of the assets side, early cancellations of liabilities or further buybacks will be examined and carried out in the subsequent months.

Vienna, 12 May 2016
The Managing Board

Condensed statement of comprehensive income

Income statement	1-3/2016	1-3/2015	Changes	
	Euro thousand	Euro thousand	Euro thousand	%
Interest and similar income	22,370	82,403	-60,033	-72.85 %
Interest and similar expense	-16,473	-50,804	34,331	-67.58 %
Net interest income	5,897	31,599	-25,702	-81.34 %
Risk provisions	680	1,858	-1,179	-63.43 %
Fee and commission income	1,376	14,861	-13,486	-90.74 %
Fee and commission expenses	-3,670	-10,767	7,097	-65.92 %
Net fee and commission income	-2,294	4,094	-6,388	-156.04 %
Net trading income	-220	-2,490	2,269	-91.15 %
General administrative expenses	-14,476	-58,797	44,321	-75.38 %
Restructuring cost	0	-364	364	-100.00 %
Other operating result	8,546	2,833	5,713	> 200.00 %
Income from financial investments	1,719	11,138	-9,419	-84.57 %
Income from companies measured at equity	143	1,511	-1,368	-90.54 %
Result for the period before taxes	-6	-8,618	8,612	-99.93 %
Income taxes	-12	6,547	-6,560	-100.19 %
Result for the period after taxes	-19	-2,071	2,052	-99.11 %
Result attributable to shareholders of the parent company (Consolidated net result)	-1,274	-2,172	897	-41.32 %
thereof from continued operations	-1,274	-2,172	897	-41.32 %
thereof from discontinued operations	0	0	0	0.00 %
Result attributable to non-controlling interest	1,256	101	1,155	> 200.00 %
thereof from continued operations	1,256	101	1,155	> 200.00 %
thereof from discontinued operations	0	0	0	0.00 %
Other comprehensive income				
	1-3/2016	1-3/2015	Changes	
	Euro thousand	Euro thousand	Euro thousand	%
Result for the period after taxes	-19	-2,071	2,052	-99.11 %
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation obligation of defined benefit plans (IAS 19)	0	0	0	100.00 %
Deferred taxes of revaluation IAS 19	0	0	0	100.00 %
Total items that will not be reclassified to profit or loss	0	0	0	100.00 %
Items that may be reclassified to profit or loss				
Currency reserve	-37	248	-284	-114.78 %
Available for sale reserve (including deferred taxes)				
Change in fair value	-736	11,711	-12,448	-106.29 %
Net amount transferred to profit or loss	1,280	-1,354	2,634	-194.50 %
Hedging reserve (including deferred taxes)				
Change in fair value (effective hedge)	2	-154	156	-101.37 %
Net amount transferred to profit or loss	0	127	-127	-100.00 %
Change in deferred taxes of untaxed reserves	0	0	0	0.00 %
Change from companies measured at equity	31	784	-753	-96.03 %
Total items that may be reclassified to profit or loss	540	11,361	-10,821	-95.25 %
Other comprehensive income total	540	11,361	-10,821	-95.24 %
Comprehensive income	522	9,290	-8,768	-94.38 %
Comprehensive income attributable to shareholders of the parent company	-782	9,166	-9,948	-108.54 %
thereof from continued operations	-782	9,166	-9,948	-108.54 %
thereof from discontinued operations	0	0	0	0.00 %
Comprehensive income attributable to non-controlling interest	1,304	124	1,180	> 200.00 %
thereof from continued operations	1,304	124	1,180	> 200.00 %
thereof from discontinued operations	0	0	0	0.00 %

Condensed statement of financial position as at 31 March 2016

	31 Mar 2016	31 Dec 2015	Changes	
	Euro thousand	Euro thousand	Euro thousand	%
Assets				
Liquid funds	1,056,342	1,269,829	-213,487	-16.81 %
Loans and advances to credit institutions (gross)	346,534	453,253	-106,719	-23.55 %
Loans and advances to customers (gross)	1,023,641	1,109,225	-85,585	-7.72 %
Risk provisions (-)	-200,851	-213,947	13,096	-6.12 %
Trading assets	313,364	528,384	-215,020	-40.69 %
Financial investments	170,780	185,877	-15,097	-8.12 %
Investment property	93,650	93,650	0	0.00 %
Companies measured at equity	62,867	62,693	174	0.28 %
Participations	73,478	74,210	-732	-0.99 %
Intangible assets	156	175	-19	-10.68 %
Tangible fixed assets	32,829	40,999	-8,170	-19.93 %
Tax assets	16,364	16,618	-255	-1.53 %
Current tax assets	15,236	15,432	-196	-1.27 %
Deferred tax assets	1,128	1,187	-59	-4.97 %
Other assets	182,322	154,761	27,561	17.81 %
Assets held for sale	65,110	64,118	992	1.55 %
TOTAL ASSETS	3,236,587	3,839,847	-603,260	-15.71 %
Liabilities and Equity				
Amounts owed to credit institutions	235,512	347,708	-112,196	-32.27 %
Amounts owed to customers	402,175	445,585	-43,410	-9.74 %
Debts evidenced by certificates	915,180	1,174,610	-259,430	-22.09 %
Trading liabilities	167,723	274,191	-106,468	-38.83 %
Provisions	165,806	167,811	-2,005	-1.19 %
Tax liabilities	14,947	15,425	-478	-3.10 %
Current tax liabilities	10,962	10,841	121	1.11 %
Deferred tax liabilities	3,985	4,584	-598	-13.05 %
Other liabilities	137,122	115,299	21,823	18.93 %
Liabilities held for sale	9,489	8,860	629	7.10 %
Subordinated liabilities	406,498	508,745	-102,247	-20.10 %
Equity	782,135	781,614	522	0.07 %
Shareholders' equity	724,918	725,700	-782	-0.11 %
Non-controlling interest	57,217	55,913	1,304	2.33 %
Total Liabilities and Equity	3,236,587	3,839,847	-603,260	-15.71 %