VOLKSBANK AG

HALF-YEAR FINANCIAL REPORT

AS AT 30 JUNE 2010

KEY FIGURES OF VOLKSBANK AG

In euro million	30 Jun 2010	31 Dec 2009	31 Dec 2008
Statement of financial position [1]			
Total assets	**50,887**	**49,146**	**55,815**
Loans and advances to customers	**24,529**	24,134	26,028
Amounts owed to customers	**7,735**	7,467	8,628
Debts evidenced by certificates	**16,857**	17,329	14,954
Subordinated liabilities	**1,905**	1,983	1,957
Own funds			
Core capital (tier I) after deductions	**2,563**	2,715	2,515
Supplementary capital (tier II, tier III) after deductions	**806**	968	909
Eligible qualifying capital	**3,369**	3,682	3,424
Assessment base credit risk	**27,257**	27,255	33,263
Capital requirement market risk	**58**	55	42
Capital requirement operational risk	**135**	125	114
Surplus capital	**996**	1,321	606
Core capital ratio in % [2]	**9.4**	**10.0**	**7.6**
Equity ratio in % [3]	**11.4**	**12.5**	**9.7**
	1-6/2010	**1-6/2009**	**1-6/2008**
Income statement [1]			
Net interest income	**396.9**	275.3	310.2
Risk provisions	**–193.8**	–282.5	–40.7
Net fee and commission income	**72.5**	77.3	93.1
Net trading income	**45.9**	72.8	44.8
General administrative expenses	**–281.6**	–270.3	–292.6
Other operating result	**5.7**	14.7	3.2
Income from financial investments	**–5.8**	–26.6	–20.7
Income from the disposal group	**5.0**	–0.1	96.1
Result before taxes	**45.0**	**–139.4**	**193.3**
Income taxes	**–10.6**	46.2	–24.3
Result after taxes	**34.4**	**–93.2**	**169.0**
Non-controlling interest	**–19.8**	–12.9	–70.3
Consolidated net income	**14.6**	**–106.1**	**98.8**
Key ratios [4]			
Cost-income-ratio	**52.7 %**	59.8 %	65.8 %
ROE before taxes	**4.1 %**	–11.1 %	9.0 %
ROE after taxes	**3.2 %**	–7.5 %	8.3 %
ROE consolidated net income	**2.5 %**	–12.7 %	7.9 %
ROE before taxes (regulatory)	**3.8 %**	–12.2 %	8.4 %
Resources [1]			
Staff average	**7,651**	8,060	7,681
of which domestic	**1,423**	1,475	1,419
of which foreign	**6,228**	6,585	6,262
	30 Jun 2010	**31 Dec 2009**	**31 Dec 2008**
Staff at end of period	**7,561**	7,740	8,255
of which domestic	**1,424**	1,433	1,502
of which foreign	**6,137**	6,307	6,753
Number of sales outlets	**575**	584	611
of which domestic	**1**	1	1
of which foreign	**574**	583	610

[1] The comparative figures of 2008 and 2009 were restated by disposal group in line with IFRS 5.
[2] In relation to credit risk
[3] In relation to total risk
[4] The cost-income-ratio was calculated without taking into account impairment of financial investments and of goodwill but including revaluation of investment properties.
All ROEs were displayed without including the disposal group.

CONTENT

Half-Year Financial Report

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

HALF-YEAR MANAGEMENT REPORT

Report on business development and the economic situation

Economic environment

GDP growth in the USA was gradually revised downwards in the first quarter of 2010 and, according to final calculations, the annualised rate was 2.7 % . Following growth of 5.6 % in the US economy in the fourth quarter of the previous year, the latest figures show that the growth momentum has slowed considerably. On the one hand, the 3 % increase in consumer spending was lower than expected, while on the other hand, the 1.9 % drop in government expenditure due to expiring economic stimulus programmes decelerated growth. Although the unemployment rate improved slightly to 9.7 % during the second quarter, consumer spending, which accounts for around two thirds of economic output in the USA, remained cautious. In contrast, capacity utilisation in industry reached 74.7 % , its highest level since October 2008. In May the volume of production increased by 1.2 %.

Euro zone

Compared with the USA, growth in GDP in the euro zone in the first quarter was very modest, at just 0.2 % . The growth rates for both private consumer spending and gross investment in fixed assets were negative in the first three months of the year. A rise in government expenditure and an increase in the volume of exports were the crucial factors in ensuring that GDP grew nevertheless. The recovery in foreign trade following the global economic crisis represents an important source of economic support for the European currency area. While the trade balance was still negative in the first quarter, a trade surplus was recorded in March and April. However, domestic demand is gathering momentum only slowly. A high unemployment rate (10 % in May) – that means 15.86 million people out of work – continued to have a negative impact on consumer spending. This has most recently been reflected in retail sales that have virtually stagnated (April: –0.5 % ; May: +0.3 %) and poor survey results with regard to consumer confidence. Sentiment has also been dampened by ongoing concerns about the high levels of government debt in many euro countries, particularly the "PIIGS" countries (Portugal, Ireland, Italy, Greece and Spain). However, these effects were offset by very positive signs from the industry. The volume of production rose by 9.6 % year-on-year in April, which represented the highest increase since records began, while the level of growth in May was over 9 % as well. Unexpectedly high order figures – incoming industry orders rose by 22.1 % year-on-year in April – lead us to expect that growth could be slightly higher in the second quarter than at the beginning of the year.

Austria

The relatively good order situation in Austria also gives us reason to hope that growth will gain momentum in the second half of the year. As with the euro zone as a whole, Austrian exports are benefiting from the gradual recovery of world trade. In the first three months of the year, however, the domestic economy declined by 0.1 % compared with the previous quarter.

Financial Markets

The development of the financial markets was characterised by the above mentioned fiscal uncertainties, particularly with regard to Greece. After risk premiums on Greek bonds rose to alarming levels despite an EU rescue package originally containing euro 45 billion, the euro countries together with the IMF decided to put together a bail-out package for distressed euro countries worth up to euro 750 billion. At the same time, the ECB decided to extend the special facilities it had made available for a limited period in connection with the liquidity crisis, and also began actively buying up bonds from countries at risk. A slight increase in interested rates was observed in the second quarter on the European as well as on the US money market, although the interest rates remained very low. (EURIBOR on 30 June 2010: 3m: 0.77 %, 12m: 1.31 %). Most major stock markets saw a decline in the second quarter.

Central Eastern and South-Eastern Europe

The developments in the leading industrial nations have resulted in a mixed picture for the economies of Central Eastern and South-Eastern Europe (CEE, SEE). As a consequence of the comparatively lively recovery in the European economy, particularly in the German economy, the CE4 countries (Czech Republic, Hungary, Poland, Slovakia) could work their way out of the recession thanks to their close trading connections and comparatively broad export base. This is confirmed by the latest GDP data for the CE4 countries from the first quarter of 2010 and the leading economic indicators available so far for the second quarter of 2010. However, the picture is not consistent: Poland had not actually experienced a recession, the Czech Republic and Slovakia are developing almost in line with the euro zone and Hungary is lagging behind these economies somewhat. At the same time, the only moderate value increases of Czech koruna and Polish zloty over the course of this year and the depreciation of the Hungarian forint (approximately –4.5 % since the beginning of 2010) will boost the competitiveness of exports. Nevertheless, the right balance is important here. Weak local currencies are putting a strain on the private sector, which has already been badly shaken and has high levels of debt in foreign currencies (particularly in Hungary, Romania, Croatia and Serbia). Weak local currencies could therefore ultimately affect the stability of financial markets.

The economic recovery is progressing sluggishly in SEE, as these countries are less able to benefit from the external upturn during the current recovery phase, as they are less open. The slight depreciation of the Romanian leu since the beginning of 2010 has somewhat contributed to the export-driven recovery, while in the non-diversified Serbian economy, the sharp depreciation of the Serbian dinar by more than 8 % in 2010 has not had the desired effect. All in all, most SEE economies seem likely to remain in a slight recession or to stagnate this year.

Business development

VBAG Group could continue the positive trend from the first three months of 2010 and had a successfull second quarter. The result before taxes reached euro 45 million as at 30 June 2010. Capital ratios remained satisfactory in the first half year. The tier 1 ratio (in relation to credit risk) was well over 9 %, similar to the ratio in the first quarter. The equity ratio remained clearly above 11 %. The outlook for the current year is satisfactory and according to plan. VBAG Group expects to report a consolidated result before taxes in a high two-digit million range for the full year 2010.

Results in detail

The main driver of the half-year result was net interest income, which clearly reflects the turnaround. At euro 397 million in the first half of 2010, net interest income exceeded the result of the last half year by euro 122 million or 44 %. In the second quarter of 2010 net interest income reached euro 204 million which is the highest level of the last six quarters.

This can be attributed to several factors. One is that almost all segments had better results than in the previous year. Another factor is that net interest costs from issues (interest expense for debts evidenced by certificates less income from interest rate hedging transactions) were reduced as a result of the long period of low interest rates (in the segment Other Operations net interest income for the first half of 2010 was euro 72 million above the previous year). In the Corporates segment, net interest income was still behind the previous year, which is mainly attributable to the restrained demand for loans of the last few quarters. Nonetheless, a positive trend is evident regarding loans and advances to customers, which rose by euro 100 million against the first quarter of 2010.

Net fee and commission income declined by 6 % compared to last year and stood at euro 73 million as of 30 June 2010. Detailed analysis shows that net fee and commission income from the lending business was down euro 4 million on the same period of 2009. Furthermore, the deliberate reduction in foreign currency loans as part of the adaptation of the risk strategy to current market conditions led to a drop in net income from exchange rate transactions from euro 13 million to euro 8 million. In contrast, the results from payment transactions rose by euro 4 million. VBAG Group also increased net fee and commission income from the securities business, where the rise in customer demand led to an improvement of euro 2 million.

At euro 46 million, net trading income declined by euro 27 million compared to the previous year. However, this is mainly a consequence of the excellent performance and record net trading income in 2009. Furthermore, a clearly positive trend can be observed in the second quarter of 2010 with a net trading result of euro 36 million after euro 10 million in the first quarter.

Compared with the previous year, administrative expenses of euro 282 million show a slight growth of euro 11 million. Operating expenditure increased by 8 million in comparison to last year, which is largely due to non-recurring expenses in connection with the refocusing of VBAG. At 1,424, the number of employees in Austria (adjusted for employees of Europolis Group and VB Linz+Mühlviertel) has remained stable since the end of 2009. The sales network abroad has been further optimised, which led to a decline in the number of employees from 6,307 (without Europolis) to 6,137.

The operating result (net interest income, net fee and commission income, net trading income, administrative expenses) reached euro 234 million. The operating cost-income ratio was further decreased to 54.6 %, which is lower than the figure of 57.6 % for 2009.

The economic environment remains difficult in some regions of Central and Eastern Europe. For this reason, VBAG Group is recording increased risk provisions of euro 194 million in the first half of 2010. The amount of risk provisions is still above the level of pre-crisis years; compared to the year 2009, however, risk provisions declined by 31 %. Following risk provisions of euro 269 million in the third quarter and euro 300 million in the fourth quarter of 2009, figures of euro 107 million in the first quarter of 2010 and euro 87 million in the second quarter showed a distinct trend reversal.

Other operating income and income from financial investments balanced out, at euro 6 million and euro −6 million respectively.

In the first half of 2010 the result from the disposal group included the results of Europolis Group and VB Linz+Mühlviertel. Negotiations regarding the sale of the Europolis Group were concluded in June. The buyer of Europolis, CA Immo AG, acquires the shares after the end of 31 December 2010. The effects on the consolidated financial statements are expected to be slightly positive. Negotiations for the sale of VB Linz+Mühlviertel were also finalised successfully, with the deal closing in August 2010. The first projects for refocusing VBAG on its core business have thereby been concluded.

Statement of financial position and own funds

As of 30 June 2010, total assets amounted to euro 50.9 billion, up euro 1.7 billion or 3.5 % in comparison to 31 December 2009.

While the lending volume dropped continuously from one quarter to the next in 2009 owing to the low demand for loans, this development stopped in the first quarter of 2010. The trend reversal became clearly noticeable in the second quarter. Loans and advances to customers increased by euro 400 million since the end of 2009, reaching euro 24.5 billion. The Retail segment made the largest contribution to this growth with euro 200 million.

At euro 16.9 billion, debts evidenced by certificates decreased by −2.7 % against the end of 2009, as a result of scheduled repayments. At the same time, the deposit base was strengthened in the second quarter. At euro 7.7 billion as of 30 June 2010, amounts owed to customers increased by euro 270 million. The liquidity situation of VBAG Group therefore remains very comfortable .

As at 30 June 2010, VBAG Group had eligible own funds of euro 3.4 billion. The tier I ratio (ratio of core capital to the assessment base for credit risk) was 9.4 % , while the tier I ratio in relation to total risk was 8.6 % . The equity ratio in relation to total risk amounted to 11.4 %. Available own funds exceeded the regulatory requirements by euro 1.0 billion or 42 % . Capitalisation of VBAG Group is sound, as shown by these figures.

Outlook

Economic environment

Weak credit markets, a slowdown in wage growth combined with rising or high unemployment and limited scope with regard to fiscal policy (particularly in RO) are placing a severe strain on domestic demand and particularly on private consumption. Inflation in both CEE and SEE countries has been mitigated, largely by falling domestic demand. Even if weak local currencies and unusually heavy burdens from the spring floods increase the inflation risk, there is little cause for concern in the current year. The short-term implications for monetary policy remain unchanged, which means that interest rate reduction cycles seem to have come to an end (with the exception of HU and RO) and significant tightening measures are not expected at any time during 2010. In comparison with the US economy, the eurozone recovered in the second quarter, thanks primarily to a surprisingly strong upturn across the German industrial landscape. The former exhibited a distinct deceleration in economic recovery, mainly as a result of an expanding trade balance deficit and continuingly subdued demand. Nonetheless, there is some economic data giving cause for optimism, which means that growth of around 3 % can be expected in the USA for 2010 as a whole. Uncertainties remain in the eurozone in the second half of the year with regard to high levels of state debt and the problems in Greece. In addition, high unemployment and the restraint of private consumption tend to persist. Very positive recent economic data, especially increasing export demand from Asia, is a source of optimism that GDP growth in the eurozone will exceed the 1 % mark in 2010. Economic growth in Austria – whose most important trading partner, Germany, grew much stronger than the rest of the eurozone – will be above the eurozone growth by a few tenths of a percentage point due to its reinvigorated export sector. On the European money market, the greatest effect of a single maturing long-term tender (over euro 450 billion in June) has already been absorbed. The upward trend of euro money market interest rates is therefore likely to pause in the next few weeks. In the fourth quarter, the three-month rate should converge towards the prime interest rate, i.e. a three-month Euribor of 1 % at the end of the year is expected.

Österreichische Volksbanken-Aktiengesellschaft (VBAG)

The outlook for 2010 is considerably more optimistic than it was in 2009, with the turnaround already apparent in the results of the first and second quarters of 2010. For this reason, VBAG Group expects a consolidated net profit in 2010.

Distributions on profit-related securities in 2011 for the fiscal year 2010, however, are unlikely from today's viewpoint. Nevertheless, VBAG Group has more than adequate liquidity and capital resources due to extensive refinancing measures.

To strengthen the VBAG Group business model, a comprehensive process has been established to refocus on core areas. In order to ensure further streamlining of the group structure, the VBAG supervisory board approved the merger with Investkredit in June 2010, which will be concluded in the first half of 2011. All these and future measures target at servicing and redeeming the participation capital of the Republic of Austria from 2011 onwards.

CORPORATES SEGMENT

Corporate customers of VBAG Group are managed through Investkredit Bank AG, Investkredit Investmentbank AG, Invest Mezzanin Capital Management GmbH, Investkredit International Bank Malta and VB Factoring Bank AG.

In Austria, there is a particular focus on small and medium-sized companies. Investkredit's aspiration is to act as the main bank for its corporate customers. Key product areas are long-term financing, subsidies, export and trade finance, cash management, factoring and interest rate and exchange rate hedging. Special corporate finance services are available to customers throughout the German-speaking countries and in adjacent Central European markets (Poland, Slovakia, Czech Republic). Investkredit also performs the tasks of an umbrella organisation for the Austrian Volksbank sector as a funding partner for corporate customers, particularly medium-sized companies.

Result of the segment

Overall, the segment result in the first half of 2010 showed a considerable improvement compared with the previous year. However, net interest income declined, owing to a reduction in the volume of business, and amounted to euro 68 million. Individual impairments could be reduced in the first half of the year. In view of the unstable economic situation and the threats resulting from European country risks, however, precautionary measures were taken. Despite these measures, credit risk provisions were significantly lower than in the same period of the previous year, at euro –31 million (euro –126 million in the first half year of 2009). Commission-related business failed to live up to expectations. In total, the result before taxes was up euro 54 million on the figure for the same period of the previous year and stood at euro –8 million as of 30 June 2010.

The major challenge for Austrian companies, particularly for export-oriented companies in the second quarter of 2010 was to stabilise business at a reduced level of sales. Their focus is therefore on securing liquidity, primarily through working capital financing, and on risk management. Investkredit's core business – long-term financing and investment subsidies – has been strongly impacted by this trend. It was barely possible to replace maturing loans and advances to customers with new business in the first half of the year.

Syndication and subsidies

The syndicate business with Austrian Volksbanks proved stable in the second quarter. Investkredit's close cooperation with the Volksbanks in the area of syndicated loans was successful. In the field of company subsidies, Investkredit fulfills an important function for Austrian Volksbanks. The number of approved ERP subsidy applications increased in comparison to 2009 and amounts to 52, mainly due to growth in the ERP microloan programme. The second quarter was characterised by rising demand for large-volume financing in connection with the Austrian Enterprise Liquidity Support Act. Once again, this was due to the consequences of the economic crisis and the resulting restructuring measures. Restraint is still being observed with regard to larger investments in Austria and abroad.

Export finance

In the field of structured export finance, there was increased demand for customer financing in the form of transaction-linked loans including soft loans. Investkredit concluded agreements regarding credit lines with Bank of Communications in China and various Chinese correspondent banks. Through the use of the new electronic banking tool "trade connect", more letters of credit and guarantees can be offered.

Structured finance

In the field of structured finance, there was a significant year-on-year increase in transaction activity in Austria, Central and Eastern Europe and in Germany. The deal flow improved significantly in terms of both quantity and quality. Furthermore, Investkredit was lead arranger in international structured financing transactions.

Project finance

Project financing was provided for renewable energy projects in the Czech Republic and Germany. In addition, the financing of infrastructre projects in Austria was realized.

Investkredit Investmentbank

In the second quarter of 2010, Investkredit Investmentbank AG concluded a new co-investment and gained new M&A consulting contracts to support Austrian small and medium-sized companies concerning their expansion plans.

Cash management

The business development of cash management was positive in all product areas, the volume of term deposits could be increased by 40 % in the first half of the year.

Treasury Sales

Favourable hedging levels in the field of interest rates and currencies – coupled with optimised processes in the field of derivatives – should continue to lead to an increase in consulting and transaction activities in the area of Treasury Sales.

Outlook

The potential for cross-selling to existing customers is to be exploited in the second half of 2010. The focus will be on short-term business and payment transactions. At the same time, work is being carried out on a new risk assessment method which focuses on the business model of corporate customers. This should make it possible to become even more competitive in long-term financing in early 2011.

In order to ensure that the business model is strengthened, particularly in the Corporates segment, it was decided to merge Österreichische Volksbanken-Aktiengesellschaft and Investkredit Bank AG. The implementation of these plans is to be concluded in the first half of 2011. This will further strengthen the excellent position in the market segment of corporate customers.

RETAIL SEGMENT

Österreichische Volksbanken-AG is represented in the Retail segment both in Austria and abroad. In Austria by VB Leasing Finanzierungsgesellschaft m.b.H. and in the CEE countries by the Volksbank International Group and VB-Leasing International Holding GmbH. Owing to the sale of Volksbank Linz-Mühlviertel rGenmbH, this company is presented as a disposal group and as of the fiscal year 2010 it is no longer allocated to the Retail segment.

Retail in Austria

VB Leasing Finanzierungsgesellschaft m.b.H.

The development of the number of new contracts concluded was highly positive in the second quarter. As at 30 June 2010, it reached the level of the most successful half-year to date (first half of 2008).

VB Leasing Finanzierungsgesellschaft m.b.H. reported a new business volume of euro 145 million in the first half of 2010, of which euro 80 million related to the second quarter. This corresponds to 8,200 contracts (almost 4,600 in the second quarter). Positive development was seen in practically all areas of business.

In view of the difficult economic situation, the need for impairment was moderate. Furthermore, there were unexpectedly high repayments from doubtful debts from the year 2009.

Retail abroad

Volksbank International

Volksbank International Group (VBI) increased its operating result year-on-year in the first half of 2010. The main reason for this was the growth of interest income.

Slight increase in total assets compared with first quarter of 2010

As at 30 June 2010, total assets of VBI Group amounted to euro 13.9 billion, a slight increase on the first quarter of 2010. Volksbank Romania accounted for the largest proportion of total assets of VBI Group with euro 5.2 billion, followed by the Volksbanks in the Czech Republic (euro 1.9 billion), Hungary (euro 1.8 billion), Slovakia (euro 1.3 billion) and Volksbank Croatia (euro 1.1 billion). Total assets decreased slightly since the end of 2009 when they stood at euro 14.2 billion.

Increase in profit at all VBI banks

For the period from January to June 2010, all ten VBI banks increased their operating results (before risk) compared with the same period of the previous year. In total, the operating result (before risk, after deduction of Group overheads) of VBI Group amounted to euro 126.5 million as at 30 June 2010, which represented an increase of 19.7 % compared with the first half of 2009 (euro 105.7 million). Credit risk provisions which increased by 27.9 % to euro 105.9 million could therefore be absorbed easily.

Slight increase in net interest income

VBI Group recorded a slight increase in net interest income for the period from January to June 2010 to euro 206.6 million. In the same period of 2009 it was euro 202.0 million. In general, interest income at the VBI banks was largely stable. Net interest income increases were achieved at Volksbank Banja Luka (+37.5 %), Volksbank Slovenia (+28.2 %) and Volksbank Croatia (+6.6 %). A decline in net interest income was seen only at the Volksbanks in Hungary (–5.7 %), Romania (–5.0 %) and Ukraine (–1.4 %).

The total lending volume of VBI Group amounted to euro 9.8 billion as at 30 June 2010 (2009: euro 9.5 billion). The volume of deposits remained almost unchanged year-on-year, at euro 5.2 billion.

Further reduction in fixed costs

The cost management programme launched in 2009 at all VBI banks was continued in the first half of 2010. Internal processes were optimised further and the sales network of VBI Group was reviewed and adapted with regard to efficiency and profitability. From January to June 2010, an average of 5,435 staff was employed in the VBI banks, a reduction of 266 employees compared with the first two quarters of the previous year. The number of branches was also adapted to the change in market conditions in Central and Eastern Europe. As at the end of June 2010, VBI banks operated a total of 507 branches (501 branches at the end of 2009). The number of franchise branches was reduced by 3 to 66. In total, VBI Group operates 573 branches.

Efficiency significantly improved once again

Efficiency was once again improved considerably during the first six months of the current year. The cost-income ratio of VBI Group improved year-on-year by 3.4 percentage points to 55.6 %. In total, the Group's cost-income ratio therefore dropped by 32.0 percentage points between 2004 (87.6 %) and the end of June 2010.

Network with ten banks

Founded in 1991, Volksbank International AG, headquartered in Vienna, today manages a network of ten VBI banks in nine Central and Eastern European countries (Slovakia, Czech Republic, Hungary, Slovenia, Croatia, Romania, Bosnia-Herzegovina, Serbia and Ukraine).

The strategic focus of the VBI banks is on business with private customers and with small and medium-sized companies and micro-enterprises. A conservative risk policy also forms part of their strategy.

The referral business for corporate customers of its Austrian, German, French and Italian partner banks is also strongly anchored in the business model of VBI AG.

Österreichische Volksbanken-Aktiengesellschaft owns a majority holding of 51 % in VBI. Since 2004, the German cooperative banks DZ BANK AG and WGZ BANK AG and French Banque Populaire Caisse d'Epargne (BPCE) have each held a 24.5 % interest in VBI.

VB-Leasing International Holding GmbH

A gradual recovery is currently being seen on the markets in Central and Eastern Europe. Exports are the drivers of growth in these countries, even if stagnating domestic demand is continuing to weaken the economy. A slight decline in new business was therefore recorded compared with the same period of 2009.

However, the solid business model of the VB Leasing Group is proving itself especially in these economically turbulent times. The long-term success of the company is due to a sustainable income strategy, with which a healthy balance is achieved between income and risk. This strategy based on stability made a respectable result possible also in the second quarter of 2010. VB-Leasing International recorded a new business volume of almost euro 450 million in this reporting-period, corresponding to around 19,000 objects.

International orientation with local roots

As a multi-specialist in the equipment leasing sector, VB-Leasing International offers vendor partners and customers comprehensive full-service solutions. VB-Leasing International focuses on sustainability and its relationships with customers and partners are based on security, trust and fairness.

Years of market and industry expertise on eight different markets in Central and Eastern Europe (Czech Republic, Slovenia, Croatia, Poland, Bosnia-Herzegovina, Slovakia, Serbia and Romania) enable VB Leasing-International to react swiftly and actively to country-specific market conditions and requirements.

Outlook

The retail market is set to remain turbulent in 2010. Providing the best possible service and support to all customers will continue to be the primary aim of the retail banks.

In a market that is recovering slowly, VB Leasing Finanzierungsgesellschaft m.b.H. will pursue its consistent risk policy with regard to credit rating, object quality and risk diversification. Particular attention will be paid to a risk-adequate pricing policy.

VBI Group will continue its strategy of qualitative growth and prudent risk policy in the second half of 2010 and will also focus on its cooperative main bank business model. In addition, VBI will add microloans to its portfolio and will concentrate on the area of referral business for corporate customers.

VBI sees particularly good opportunities for new business in the fields of renewable energy, the automotive industry and also in the real estate sector. A slight economic recovery is already becoming apparent in these sectors.

In Central and Eastern European markets, many economic sectors still have to catch up with Western Europe. For VBI and its subsidiary banks, this offers many opportunities and lucrative prospects, particularly in the long term.

With a focus on customer retention and orientation towards service, VB-Leasing International will continue to pursue the course it has adopted and will work intensively on expanding its vendor network.

REAL ESTATE SEGMENT

The Real Estate segment includes the real estate financing activities of Investkredit, the lease financing operations of Immoconsult, the development activities of Premiumred and the asset management business of Europolis. Europolis AG was sold in June 2010 and is presented as a disposal group. The segment's core markets are Austria and the Central and Eastern European region. The segment result for the first half of the year shows a noticeable improvement year-on-year. An increase in net interest income and net fee and commission income, along with a stabilisation in administrative expenses, were crucial factors contributing to the good result. Credit risk provisions were higher than in the same period of the previous year and stood at euro –15 million. The pre-tax profit reached euro 12 million.

Investkredit

The trend towards higher real estate investments continued in the second quarter of 2010, although investments are still at a low level. Investkredit concluded the financing of an office project at an outstanding location in the Central Business District of Warsaw. Furthermore, the refinancing of a portfolio of commercial properties in CEE (predominantly office, but also retail and logistics properties), including some with the character of a landmark, was concluded.

Immoconsult

As a specialist in real estate leasing, Immoconsult is concentrating on business in Austria and will continue its close cooperation with the Volksbanks (on a syndicate basis). In the core markets in Central and Eastern Europe, business activities are concentrated on major international customers, who are serviced both from Vienna and by local subsidiaries. Leasing transactions with a total volume of euro 23.5 million were concluded in the first half of 2010.

Premiumred

Premiumred, which is responsible for international real estate project development within VBAG Group, currently holds three properties in Poland and Romania. The office buildings "North Gate" in Warsaw as well as "Premium Plaza" and "Premium Point" in Bucharest, which were completed in 2008 and 2009, have a total usable space of approximately 44,500 m^2. Despite the difficult economic environment, around 95 % of the space is rented out. Valid planning permission is expected to be obtained during the course of the year for the projects under development "Horizon Offices" in Prague (rentable space around 23,000 m^2) and "Salomea Business Park" in Warsaw (rentable space around 28,000 m^2). In its role as work out unit for real estate investments of Investkredit that are at risk, Premiumred took steps towards successfull sales.

Europolis

Europolis owns a real estate portfolio with a total value of around euro 1.5 billion, with a focus on the CEE region (of which around 70 % is in Poland, Czech Republic and Hungary). CA Immobilien Anlagen AG concluded a contract with Österreichische Volksbanken-Aktiengesellschaft in June 2010 regarding the acquisition of 100 % of shares in Europolis AG. The contract between VBAG and CA Immo provides for a purchase price of euro 272 million. This is subject to adjustments that may arise based on the balance sheet as at 31 December 2010; in particular, the risk of changes in the value of the properties in 2010, is transferred to the buyer. In addition, an extensive financing package is part of the contract.

Before the closing of the transaction, which will take place at the end of 31 December 2010, some restructuring measures – such as the spinning off of the investment in a Russian shopping centre and the termination of Europolis' banking operations – are to be implemented and approval is to be obtained under the competition laws.

Europolis achieved a positive result in the first half of the year. Rental income increased by 12.7 % from euro 40.9 million to euro 46.1 million. The result before taxes, which will be included in the VBAG Group result, was euro 4.2 million, compared with euro –10.4 million in the same period of the previous year.

In the field of real estate financing, it was decided that the loan portfolio of Europolis will be transferred to Investkredit. This will allow the following goals to be achieved: stronger concentration of real estate financing within the VBAG Group, separation of the position of owner from the position of lender at Europolis and termination of Europolis' banking operations. In a first step, a loan volume of around euro 413 million was sold to Investkredit in May 2010.

Outlook

Despite the signs that economic tension is easing on the core markets of VBAG Group, prospects remain uncertain in some cases. The polarisation between the Polish and Czech markets on the one hand and Hungary and Romania on the other will continue in 2011. For the second half of 2010, the market environment is expected to remain very difficult and the margins are expected to deteriorate, owing to tough competition and cutbacks in investment activities.

The real estate financing division of Investkredit plans to conclude further financing agreements for properties in excellent locations in the second half of the year and will take over the management of Europolis' loan portfolio.

Immoconsult, together with the Austrian Volksbanks, will focus its market activities on Austria.

In the current market environment, Premiumred sees the focus of its work in its role as a workout unit for the real estate financing of the VBAG Group.

In view of the situation on the real estate markets, Europolis will continue to concentrate on asset management in 2010 and will aim to improve the vacancy rate. Development projects such as the "Orhideea Tower" in Bucharest will be constructed only when advance letting has reached an adequate level. Europolis will return its banking licence in accordance with the agreement with the new owner, CA Immo.

FINANCIAL MARKETS SEGMENT

The Financial Markets segment continued the positive trend and achieved a very good result once again in the second quarter. In total, the segment recorded a result before taxes of euro 38 million as at 30 June 2010.

Group Treasury

Group Treasury completed a period of restructuring in the first half of 2010. The new structure is based on the three key areas of Trading, Consulting and Sales. The restructuring resulted in streamlined processes and a pooling of expertise. Furthermore it ensures a consistant method of approaching customers and guarantees the highest possible profitability. Group Treasury creates added value for its customers by way of product innovation and optimisation of processes, as well as through providing services in the areas of risk management and balance sheet management.

Trading

In the second quarter of 2010, Group Treasury launched a series of new issues on the market, such as inflation-linked bonds, mortgage bonds and "ratchet notes" (ratchet notes are bonds with a fixed interest rate at the beginning of the term, which is replaced by a variable interest rate. The special feature is that the interest rate can never drop below the rate of the previous period). Volksbank's origination activities were also expanded in the first half of 2010 due to increasing interest from the Volksbank sector but also from institutional customer. Six co-lead mandates were won in the first half year.

Despite volatile interest rate markets and the "PIIGS" crisis, the net trading income was increased further in the second quarter through an optimal currency and volatility management in the FX option books.

Consulting

Solution Management

At the Volksbanks, the focus was on interest rate hedging in the first half of 2010. In addition, a large number of stop loss orders were carried out owing to severe fluctuations on the currency markets, particularly as a result of the depreciation of the EUR against the CHF. Through targeted action (purchase of FX options), it was possible for Volksbanks to replace stop loss orders temporarily. In the field of commodity hedging, the possibility of hedging with periodic compensation payments was created and the sizes were reduced.

Order Management

Portfolio diversification has an increasingly important role for retail customers of primary banks and the positive trend among third-party products continued. At a "third-party funds" event a large number of customer advisors of the regional Volksbanks were informed about the services offered by leading foreign fund companies and heard their assessments regarding the development of the markets and the fund sector. By stepping up cooperation with existing customers and attracting new customers, it was possible to increase the net fee and commission income.

Volksbanks' own account business

With respect to the investment books of the primary banks, the maturity transformation strategies were continued in order to increase net interest income at the Volksbanks. A trend was observed here towards products with fixed interest rates at the beginning of the term and a variable money market interest rate at the end of the term. Specialist conferences on 'A-Depot' securities (securities on bank's own accounts) were held for managers and treasurers in the second quarter of 2010, which proved very popular – almost 100 % of Volksbanks participated.

Retail business of Volksbanks

In the Volksbanks retail business department, the ongoing optimisation of the Portfolio Illustrator software, which is used to advise customers on securities in Volksbanks, was continued in the second quarter of 2010. The "Financial Education" project for retail customers is still being developed in cooperation with the Group marketing department. Advisor days were also held in the second quarter, at which over 350 customer advisors of Volksbanks obtained information about the current market situation.

Sales

Corporate Treasury Sales

The Corporate Treasury Sales department advises corporate customers on the management of all capital market risks. This helps to reduce the volatility of results and thus to increase the value of the company. In view of the historic low of capital market interest rates, the department's consulting activities focused on hedging low interest costs in the first half of 2010. In addition, measures to reduce risks for customers were implemented in the area of foreign exchange, owing to the highly volatile currency markets. In total, around 250 derivative transactions were concluded with large corporate customers. The optimisation of processes for the conclusion of derivative transactions was successfully completed, allowing even more efficient risk management of capital market risks in the corporate customers segment. Restructuring was also carried out in the second quarter: the Corporate Treasury Sales department was aligned with the new Group Treasury Strategy.

Institutional Sales

It was possible to sell new products in the first half of 2010 despite the difficult market environment. Continuous customer services and a consistant information policy provided by the Institutional Sales Team are the basis of successful, sustainable business relations.

Volksbank Investments

In the second quarter, the activities of Volksbank Investments centred on the official market launch of the VB Asset Navigator. This premium asset management service (minimum investment euro 1,000) is based on the fact that asset classes perform differently during different market phases. The Asset Management division of Volksbank Investments has calculated precisely in extensive simulations how various asset classes behave in different market phases and derived scenario portfolios from this. These are applied in a systematic investment process. With the VB Asset Navigator, which is available in a security-oriented and a growth-oriented version, the Volksbank sector can offer an unprecedented degree of diversification. The advisors' forum held in May, at which around 200 participants were welcomed, was also used – in addition to a road show beforehand – to present this competitive advantage.

The development of structured investments was also very positive, with Volksbank Investments maintaining its market leadership in the first half of 2010 with a market share of more than 40 %. The market share for guarantee certificates could be increased to around 45 %. The performance of guarantee certificates developed very well, as confirmed by a yield analysis conducted in the second quarter for coupon-oriented guarantee certificates (which are already repaid and were issued by Volksbank Investments since the beginning of 2005). At over 4 % p.a., the average performance was in some cases well above the performance of comparable forms of investment and also above that of our competitors. This is significant as guarantee certificates account for around 80 % of the volume of certificates in Austria. In total, assets under management in the field of certificates remained at the high level of the first quarter and increased slightly compared with 31 December 2009.

The Asset Management division continued its slight upward trend, both compared with the previous year and compared with the first quarter of 2010. However, the volume in traditional funds has developed in line with the market in the last few months and has thus seen a slight decline, following an increase in the first quarter. The assets under management at Volksbank Investments therefore also fell slightly to euro 7.93 billion in the second quarter, in comparison to the end of 2009, however, the trend is still positiv.

Immo KAG

The <immofonds1>, which is organised in accordance with the Austrian Real Estate Investment Fund Act, offers small private investors an opportunity to invest in a broadly diversified real estate portfolio. Investments are made in commercial properties in Austria and Germany. The stability of the real estate markets in those countries has proved itself unequivocally in the last two years and has led to economically sustainable rental income.

The real estate sector was marked by a clear stabilisation in the economic environment in the first half of 2010. The investment market gradually began moving again, however still at a low level. A property in Wiener Neustadt was sold as planned.

Capital expenditures for properties in the portfolio of <immofonds1> are planned in the second half of 2010; these measures will focus on the issue of sustainable construction.

Outlook

Group Treasury expects that the positive business development of the first quarter will be continued and that the targets set for 2010 will be reached.

The favourable hedging levels with respect to interest rates and currencies, together with optimised processes in the field of derivatives, should lead to continued growth in consulting activities and the conclusion of transactions in the Corporate Treasury Sales segment. The fulfilment of the ambitious medium-term targets in the Corporate Treasury Sales department can be regarded as realistic from the current viewpoint. Risk aversion remains an issue for institutional customers; sales of fixed income products are expected to be rather average for 2010. Group Treasury expects the second half of the year to continue to be characterised by country risks (Greece, Portugal, Spain, Ireland, Italy) and therefore anticipates that proprietary trading will be difficult.

Further uncertainty on the financial markets is anticipated for the second half of 2010. Nevertheless the positive business trend of the Financial Markets segment should be continued in the second half of the year and a good full year 2010 result is expected.

INVESTMENT BOOK/OTHER OPERATIONS SEGMENT

At the start of the 2010 fiscal year, all activities for VBAG's investment book were bundled together at one organisational level, and are now presented in the Investment Book/Other Operations segment. The Investment Book business line thus consists of the Capital Markets and Asset Liability Management profit centres. The activities of the Back Office Service für Banken GmbH and of various holding companies are also included in the new segment.

Capital Markets

Within VBAG Group, the Capital Markets division is responsible for the management of the strategic investment book. The portfolio contains the entire securities portfolio of around euro 6.1 billion that is required for regulatory purposes and banking operations, along with other capital market investments amounting to around euro 2.5 billion.

The second quarter of the year under review was strongly influenced by the intensifying sovereign crisis. Spreads for government bonds of "PIIGS" countries, particularly those of Greece, widened considerably. As a result, credit risk premiums for corporates and banks also came under pressure.

Once again, no impairments were necessary in the strategic investment book during the period under review. As in the previous period, provisions made in the past could be released in an amount of approximately euro 8 million.

Group ALM and Liquidity Management

The focus of Österreichische Volksbanken-Aktiengesellschaft is on securing liquidity in the long term. For this reason steps have been taken to further optimise existing processes and a new liquidity strategy has been formulated and approved by the Group's Managing Board in the first half of 2010. This strategy is based on the business strategy and documents the main principles of successful and cost-effective liquidity management across the whole Group.

The definition and documentation of a detailed emergency process with respect to liquidity risks will be quality-assured and concluded by the end of the year under involvement of the Group's Managing Board. The Group's existing information and decision-making processes, tried and tested in practice, form the basis for this emergency process.

The first half of 2010 was clearly positive. The result from the mismatch contribution increased, the long-term mismatch contribution reached euro 31 million and the change in the present value of interest rate swaps and swaptions was euro 40.9 million in the first half of the year.

Outlook

With the Model Regio, VBAG implemented its long-term group strategy of uniting all retail banks in the sector to a large extent in 2009. The sale of VB Linz+Mühlviertel to Volksbank Wels became legally effective when the deal was closed on 6 August 2010.

Income statement

	1-6/2010 in euro thousand	1-6/2009 restated in euro thousand	Changes in euro thousand	Changes %	1-6/2009 published in euro thousand
Interest and similar income and expenses	394,899	282,850	112,049	39.61 %	330,221
Income from companies measured at equity	2,041	−7,594	9,635	−126.88 %	−7,594
Net interest income	396,941	275,256	121,684	44.21 %	322,627
Risk provisions	−193,758	−282,467	88,710	−31.41 %	−294,144
Net fee and commission income	72,524	77,338	−4,815	−6.23 %	88,147
Net trading income	45,938	72,815	−26,877	−36.91 %	74,432
General administrative expenses	−281,578	−270,306	−11,272	4.17 %	−312,286
Other operating result	5,746	14,652	−8,905	−60.78 %	9,635
Income from financial investments	−5,833	−26,566	20,734	−78.04 %	−27,812
Income from the disposal group	5,033	−124	5,156	<−200.00 %	0
Result for the period before taxes	45,013	**−139,402**	**184,415**	**−132.29 %**	**−139,402**
Income taxes	−9,410	45,387	−54,798	−120.73 %	46,189
Income taxes of the disposal group	−1,207	802	−2,009	<−200.00 %	0
Result for the period after taxes	34,395	**−93,213**	**127,608**	**−136.90 %**	**−93,213**
Result attributable to shareholders of the parent company (Consolidated net income/loss)	14,599	**−106,099**	**120,698**	**−113.76 %**	**−106,099**
Result attributable to non-controlling interest (Non-controlling interest)	19,796	12,886	6,910	53.62 %	12,886

Statement of financial position

	30 Jun 2010 in euro thousand	31 Dec 2009 restated in euro thousand	Changes in euro thousand	Changes %	31 Dec 2009 published in euro thousand
Assets					
Liquid funds	2,640,082	3,008,042	–367,960	–12.23 %	3,008,052
Loans and advances to credit institutions (gross)	8,632,632	6,795,291	1,837,341	27.04 %	5,961,684
Loans and advances to customers (gross)	24,529,310	24,133,518	395,792	1.64 %	24,168,604
Risk provisions (–)	–1,414,893	–1,233,691	–181,202	14.69 %	–1,245,350
Trading assets	1,836,808	1,764,095	72,713	4.12 %	1,764,095
Financial investments	9,459,166	9,410,642	48,523	0.52 %	9,410,647
Assets for operating lease	320,975	331,424	–10,449	–3.15 %	1,836,332
Companies measured at equity	74,841	70,887	3,954	5.58 %	70,887
Participations	639,755	634,992	4,763	0.75 %	655,254
Intangible assets	128,145	127,030	1,115	0.88 %	131,820
Tangible fixed assets	251,654	247,871	3,783	1.53 %	263,050
Tax assets	225,775	193,723	32,052	16.55 %	211,221
Other assets	1,540,280	1,491,838	48,442	3.25 %	1,491,414
Assets of the disposal group	2,022,454	2,169,929	–147,475	–6.80 %	388,734
TOTAL ASSETS	**50,886,984**	49,145,593	1,741,391	3.54 %	48,116,444
Liabilities and Equity					
Amounts owed to credit institutions	17,500,817	15,664,943	1,835,875	11.72 %	16,078,604
Amounts owed to customers	7,734,723	7,466,565	268,158	3.59 %	7,315,468
Debts evidenced by certificates	16,856,533	17,328,664	–472,131	–2.72 %	17,328,664
Trading liabilities	1,218,140	1,236,911	–18,771	–1.52 %	1,236,911
Provisions	173,790	179,636	–5,846	–3.25 %	191,001
Tax liabilities	64,536	62,424	2,112	3.38 %	146,591
Other liabilities	1,897,177	1,418,875	478,302	33.71 %	1,405,413
Liabilities of the disposal group	1,535,557	1,682,878	–147,321	–8.75 %	369,359
Subordinated liabilities	1,905,315	1,983,383	–78,067	–3.94 %	1,923,117
Equity	2,000,395	2,121,315	–120,920	–5.70 %	2,121,315
Shareholders' equity	1,074,125	1,178,072	–103,947	–8.82 %	1,178,072
Non-controlling interest	926,270	943,243	–16,973	–1.80 %	943,243
TOTAL LIABILITIES AND EQUITY	**50,886,984**	49,145,593	1,741,391	3.54 %	48,116,444

In order to provide a better comparability, the balance sheet figures as at 31 December 2009 were restated for the disposal group, although this is not required in accordance with IFRS 5.40. In doing so intragroup transactions between the disposal group and other Group members were not eliminated in order to present the remaining business transactions already in the right way.

Changes in the Group's equity

Euro thousand	Subscribed capital [1]	Capital reserves	Retained earnings	Currency reserve	IAS 39 valuation reserves [2]: Available for sale reserve	IAS 39 valuation reserves [2]: Hedging reserve	Shareholders' equity	Non-controlling interest	Equity
As at 1 January 2009	339,524	493,343	613,006	–21,230	–204,200	10,162	1,230,604	993,229	2,223,833
Comprehensive income *			–106,099	–6,565	–9,833	2,661	–119,837	5,686	–114,151
Dividends paid			–2,660				–2,660	–35,186	–37,846
Participation capital	1,000,000						1,000,000		1,000,000
Change in treasury stocks	–85	–123					–208		–208
Change due to reclassifications shown under non-controlling interest and capital increases			221				221	–11,556	–11,335
As at 30 June 2009 [3]	1,339,439	493,220	504,468	–27,796	–214,033	12,823	2,108,120	952,173	3,060,293
As at 1 January 2010	1,339,346	0	32,861	–41,771	–149,393	–2,970	1,178,072	943,243	2,121,315
Comprehensive income *			14,599	–14,405	–100,464	–3,734	–104,004	9,837	–94,167
Dividends paid							0	–13,143	–13,143
Change in treasury stocks	–105		–86				–190		–190
Change due to reclassifications shown under non-controlling interest and capital increases			248				248	–13,667	–13,419
As at 30 June 2010 [3]	**1,339,241**	**0**	**47,621**	**–56,176**	**–249,857**	**–6,705**	**1,074,125**	**926,270**	**2,000,395**

* Comprehensive income (Income and changes in reserves)

	1-6/2010 Shareholders' equity	1-6/2010 Non-controlling interest	1-6/2010 Equity	1-6/2009 Sahreholders' equity	1-6/2009 Non-controlling interest	1-6/2009 Equity
Consolidated net income	**14,599**	**19,796**	**34,395**	–106,099	12,886	–93,213
Currency reserve	**–14,405**	**–8,271**	**–22,676**	–6,565	–8,239	–14,805
thereof from application of the average rates of exchange in income statement	**–378**	**–381**	**–759**	44	35	80
Available for sale reserve (including deferred taxes) [4]	**–100,464**	**–60**	**–100,524**	–9,833	829	–9,004
Hedging reserve (including deferred taxes) [5]	**–3,734**	**–1,627**	**–5,362**	2,661	210	2,871
Comprehensive income	–104,004	9,837	–94,167	–119,837	5,686	–114,151

1) Subscribed capital corresponds to the figures reported in the financial statements of Österreichische Volksbanken-Aktiengesellschaft.

2) As at 30 June 2010 the available for sale reserve included deferred taxes of euro 82,102 thousand (30 June 2009: euro 68,394 thousand).
The hedging reserve contains deferred taxes in the amount of euro 1,879 thousand at the balance sheet date (30 June 2009: euro –4,691 thousand).

3) In the figures as at 30 June 2009 the disposal group accounted for an amount of euro –1,926 thousand in the currency reserve (disposal group Real Estate) and for an amount of euro 205 thousand in the available for sale reserve (disposal group Retail Banks).
In the figures as at 30 June 2010 the disposal group accounted for an amount of euro –6,759 thousand in the currency reserve (disposal group Real Estate) and for an amount of euro 124 thousand in the available for sale reserve (disposal group VB Linz+Mühlviertel).

4) In the first half of 2010, an amount of euro 191 thousand (1-6/2009: euro 8,051 thousand) previously recognised in the available for sale reserve was reclassified and shown in the income statement.

5) Changes in value in the hedging reserve in the amount of euro –7,959 thousand (1-6/2009: euro –849 thousand) were recognised in income during the reporting period.

Cash flow statement

from continued operations

Euro thousand	1-6/2010	1-6/2009
Cash and cash equivalents at the end of previous period (= liquid funds)	3,008,042	3,875,611
Cash flow from operating activities	–364,759	–1,942,843
Cash flow from investing activities	94,402	45,644
Cash flow from financing activities	–97,603	918,336
Cash and cash equivalents at the end of period (= liquid funds)	2,640,082	2,896,749

NOTES

Interim financial statements as at 30 June 2010

1) General

The interim report as at 30 June 2010 of Österreichische Volksbanken-Aktiengesellschaft (VBAG) has been prepared in accordance with all IFRS/IAS published by the International Accounting Standards Board (IASB) as well as all interpretations (IFRIC/SIC) issued by the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee respectively as adopted for use in the European Union. These interim financial statements comply with IAS 34 Interim financial reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at 31 December 2009.

These condensed consolidated interim financial statements have not been audited or reviewed.

In preparing this interim report the estimates and assumptions were the same as those applied to the consolidated financial statements as at 31 December 2009.

In the first half of 2010 an impairment test for a company was carried out and led to an impairment of euro 461 thousand. There were no events or changes in circumstances for the remaining goodwill that would indicate an impairment, therefore no impairment tests were carried out for these goodwill.

The interim consolidated financial statements have been drawn up in euro as this is the Group's functional currency. All figures are indicated in thousands of euros, unless specified otherwise. The following tables may contain rounding differences.

2) Changes in the Group structure

In the first half of 2010, capital increases took place in some subsidiaries. At one company, partly some of the shares of third-party shareholders were taken over. The takeover of these non-controlling interests was recognised directly in equity.

Two new companies were included in the scope of consolidation of the Europolis Group, as they are now no longer immaterial to the presentation of the Group. The takeover of results from previous years was recognised directly in equity.

In a contract dated 29 June 2010, the shares in Europolis AG were sold to CA Immo CEE Beteiligungs GmbH and CA Immobilien Anlagen AG. The purchase was concluded with various conditions precedent, which must be fulfilled by the time the deal is closed. The deal is to be closed on 31 December 2010; the right of disposal over the shares will be transferred to the buyers at the end of 31 December 2010. The purchase price consists of a fixed amount of euro 272 million and a variable component based on the development of the net asset value (NAV) in 2010. In the calculation of the NAV, some assets and liabilities have been specified at their amounts as at 31 December 2009. This includes, among other things, investment property assets and deferred taxes. The result of the Europolis Group for the first six months of 2010 was therefore adjusted for investment property valuations and deferred taxes, so that profit components that are no longer attributable to the VBAG Group would not be reported in the income statement. In addition, one company is to be transferred to the VBAG Group before the deal is closed and the banking operations of Europolis AG are to be sold to Investkredit Bank AG. The results, assets and liabilities of this company and the banking operations are not presented in the disposal group. All other results, assets and liabilities of the Europolis Group are presented as a disposal group.

The comparative figures in the income statement were restated accordingly. The balance sheet figures as of 31 December 2009 were also restated in order to ensure improved comparability. In this process, intragroup income and expenses as well as loans and advances and liabilities have no longer been eliminated, so as to present correctly any business relationships with the Europolis group remaining within the Group in the future.

Profit and loss of disposal group segment real estate

Euro thousand	1-6/2010	1-6/2009
Net interest income	32,247	6,735
Risk provisions	–9,837	–4,520
Net fee and commission income	1,470	1,659
Net trading income	888	2,121
General administrative expenses	–10,288	–11,273
Other operating result	–9,120	–3,458
thereof impairment of goodwill	–461	0
Income from financial investments	–1,193	–1,713
Result for the period before taxes	4,166	**–10,449**
Income taxes	–991	3,550
Result for the period after taxes	3,176	**–6,899**
Profit attributable to shareholders of the parent company	–548	**–4,669**
Profit attributable to non-controlling interest	3,723	–2,230

Assets of disposal group segment real estate

Euro thousand	30 Jun 2010	31 Dec 2009
Liquid funds	11	10
Loans and advances to credit institutions (gross)	15,083	121,707
Loans and advances to customers (gross)	38,560	49,545
Risk provisions (–)	–11,562	–11,659
Financial investments	5	5
Assets for operating lease	1,511,322	1,504,908
Participations	19,688	20,262
Intangible assets	4,327	4,790
Tangible fixed assets	15,281	15,179
Tax assets	22,651	36,373
Other assets	43,936	40,075
Total assets	1,659,302	**1,781,195**

Liabilities of disposal group real estate

Euro thousand	30 Jun 2010	31 Dec 2009
Amounts owed to credit institutions	896,981	1,019,199
Amounts owed to customers	39,114	37,364
Provisions	12,880	11,365
Tax liabilities	86,465	84,167
Other liabilities	35,905	47,223
Subordinated liabilities	120,264	114,201
Liabilities	1,191,608	1,313,519

Negotiations regarding the sale of VB Linz+Mühlviertel were concluded on 25 June 2010 when the contract of sale was signed. All shares in VB Linz+Mühlviertel rGenmbH were sold to Volksbank Wels e.Gen. When the deal was closed on 6 August 2010, all rights and obligations were transferred to VB Wels. The agreed purchase price consists of a fixed amount of euro 10.75 million and a variable performance-related amount. VB Linz+Mühlviertel will therefore be deconsolidated in the third quarter of 2010. The comparative period was therefore also adapted according to IFRS 5, owing to the sale of VB Linz+Mühlviertel on the one hand and the deconsolidation of the three retail banks with effect from 31 December 2009 on the other. Immo-Bank AG, Bank für Ärzte und Freie Berufe AG, Volksbank Wien AG and VB Linz+Mühlviertel are therefore shown in the results for the first six months of 2009. Only VB Linz+Mühlviertel is included in the results for the first six months of 2010.

Profit and loss of disposal group segment retail

Euro thousand	1-6/2010	1-6/2009
Net interest income	2,967	39,872
Risk provisions	623	–7,157
Net fee and commission income	1,172	11,000
Net trading income	28	308
General administrative expenses	–3,977	–34,080
Other operating result	32	–84
Income from financial investments	21	467
Result for the period before taxes	866	**10,325**
Income taxes	–217	–2,748
Result for the period after taxes	650	**7,577**
Profit attributable to shareholders of the parent company	633	**7,445**
Profit attributable to non-controlling interest	17	131

Assets of disposal group segment retail

Euro thousand	30 Jun 2010	31 Dec 2009
Liquid funds	2,377	2,036
Loans and advances to credit institutions (gross)	127,507	153,406
Loans and advances to customers (gross)	199,725	197,333
Risk provisions (–)	–11,152	–11,696
Trading assets	208	0
Financial investments	36,948	37,106
Participations	2,218	2,218
Intangible assets	7	4
Tangible fixed assets	4,379	4,306
Tax assets	125	384
Other assets	813	3,637
Total assets	363,152	**388,734**

Liabilities of disposal group retail

Euro thousand	30 Jun 2010	31 Dec 2009
Amounts owed to credit institutions	64,113	62,547
Amounts owed to customers	271,326	302,855
Provisions	2,374	2,312
Other liabilities	6,136	1,645
Liabilities	343,949	369,359

3) Subsequent events

Closing concerning the sale of VB Linz+Mühlviertel took place on 6 August 2010. At that time VB Wels achieved the power of disposition of interest of VB Linz+Mühlviertel.

In July 2010 a framework agreement regarding the repurchase of shares of Investkredit International Bank p.l.c with a face value of euro 53,000 thousand was concluded. From that date these shares are not shown as non-controlling interest in equity any more but are shown as debt capital.

A comprehensive procedure regarding the strengthening of the business model of VBAG was started, aiming at the re-concentration of specific business areas. In order to assure the strengthening of the business model and the tightening up of the group structure, the Supervisory Board of VBAG has decided in June 2010 to consolidate VBAG with Investkredit. The implementation of this consolidation should be completed in the first half of 2011.

No other events took place during the period of the interim report that had any significant effect on the interim financial statements as at 30 June 2010.

4) Notes to the income statement

Net interest income

Euro thousand	1-6/2010	1-6/2009
Interest and similar income	1,012,468	1,162,117
Interest and similar income from	981,108	1,140,701
liquid funds	11,662	35,920
credit and money market transactions with credit institutions	27,579	81,927
credit and money market transactions with customers	558,588	693,990
debt securities	149,123	181,522
derivatives in the investment book	234,156	147,342
Current income from	20,095	12,538
equities and other variable-yield securities	1,773	2,951
other affiliates	1,053	697
companies measured at equity	2,041	−7,594
investments in other companies	15,228	16,484
Operating lease operations (including investment property)	11,265	8,878
rental income	27,796	25,564
unrealised income / expenses from investment property	−300	0
depreciation of operating lease assets	−16,232	−16,686
Interest and similar expenses of	−615,528	−886,861
deposits from credit institutions (including central banks)	−135,770	−288,272
deposits from customers	−99,446	−149,615
debts evidenced by certificates	−305,506	−314,400
subordinated liabilities	−25,933	−54,694
derivatives in the investment book	−48,872	−79,880
Net interest income	**396,941**	**275,256**

Net interest income according to IAS39 in categories

Euro thousand	1-6/2010	1-6/2009
Interest receivable and similar income	1,012,468	1,162,117
Interest receivable and similar income from	981,108	1,140,701
financial investments at fair value through profit or loss	10,396	20,664
derivatives in the investment book	234,156	147,342
financial investments available for sale	79,196	77,549
financial investments at amortised cost	617,479	845,801
of which financial lease	105,133	122,596
of which unwinding	5,025	1,464
financial investments held to maturity	39,881	49,345
Current income from	20,095	12,538
financial investments at fair value through profit or loss	1	1,062
financial investments available for sale	18,053	19,070
companies measured at equity	2,041	−7,594
Operating lease operations (including investment property)	11,265	8,878
Interest and similar expenses of	−615,528	−886,861
financial investments at fair value through profit or loss	−948	−115
derivatives in the investment book	−48,872	−79,880
financial investments at amortised cost	−565,708	−806,866
Net interest income	**396,941**	**275,256**

Risk provisions

Euro thousand	1-6/2010	1-6/2009
Allocation to risk provisions	–322,941	–327,582
Release of risk provisions	134,020	53,483
Allocation to provisions for risks	–4,880	–10,653
Release of provisions for risks	4,945	1,354
Direct write-offs of loans and advances	–8,360	–2,273
Income from loans and advances previously written off	3,457	3,204
Risk provisions	**–193,758**	**–282,467**

Net fee and commission income

Euro thousand	1-6/2010	1-6/2009
Fee and commission income from	100,873	114,084
lending operations	25,625	31,927
securities businesses	20,376	18,835
payment transactions	27,290	22,147
foreign exchange, foreign notes and coins transactions	14,285	25,330
other banking services	13,297	15,846
Fee and commission expenses from	–28,349	–36,746
lending operations	–10,093	–12,183
securities businesses	–6,165	–6,280
payment transactions	–3,074	–2,180
foreign exchange, foreign notes and coins transactions	–6,440	–12,113
other banking services	–2,577	–3,990
Net fee and commission income	**72,524**	**77,338**

Net trading income

Euro thousand	1-6/2010	1-6/2009
Equity related transactions	–1,407	3,295
Exchange rate related transactions	26,077	5,850
Interest rate related transactions	21,268	63,670
Net trading income	**45,938**	**72,815**

General administrative expenses

Euro thousand	1-6/2010	1-6/2009
Staff expenses	–144,178	–140,225
Other administrative expenses	–120,732	–112,406
Depreciation of fixed tangible and intangible assets	–16,669	–17,675
General administrative expenses	**–281,578**	**–270,306**

Income from financial investments

Euro thousand	1-6/2010	1-6/2009
Result from financial investments at fair value through profit or loss / macro hedges	20,519	1,525
Result from financial investments at fair value through profit or loss and from underlying instruments for macro hedges	20,523	1,525
Result from revaluation of derivatives	–4	0
Result from fair value hedges	0	69
Result from revaluation of underlying instruments	–234,109	–315,358
Result from revaluation of derivatives	234,109	315,427
Result from valuation of other derivatives in the investment book	–21,710	754
Exchange rate related transactions	–63	461
Interest rate related transactions	–22,112	–2,158
Credit related transactions	472	2,613
Other transactions	–7	–162
Result from available for sale financial investments	2,905	1,067
Realised gains/losses	191	7,447
Income from revaluation	2,830	0
Impairments	–116	–6,381
Results from loans and receivables financial investments	–4,315	–19,740
Realised gains/losses	510	182
Income from revaluation	5,120	0
Impairments	–9,946	–19,922
Result from held to maturity financial investments	–4,777	–10,423
Realised gains/losses	3,106	1,841
Income from revaluation	263	0
Impairments	–8,146	–12,264
Result from participations, assets for operating lease and other financial investments	1,546	183
Realised gains/losses	1,854	343
Impairments	–308	–160
Income from financial investments	–5,833	**–26,566**

5) Notes to the consolidated statement of financial position

Loans and advances to credit institutions and customers

Euro thousand	30 Jun 2010	31 Dec 2009 restated	31 Dec 2009 published
Loans and advances to credit institutions	8,632,632	6,795,291	5,961,684
Loans and advances to customers	24,529,310	24,133,518	24,168,604
Loans and advances to credit institutions and customers	33,161,941	**30,928,809**	**30,130,288**

Loans and advances to credit institutions and customers are measured at amortised cost.

Risk provisions

Euro thousand	Individual impairment credit institutions	Individual impairment customers	Portfolio based allowance	Total	of which disposal group
As at 1 Jan 2009	491	571,843	33,963	606,297	8,627
Currency translation	48	–265	–410	–627	42
Reclassification	0	7,010	–3,323	3,688	3,176
Unwinding	0	–1,464	0	–1,464	0
Utilisation	0	–36,839	0	–36,839	0
Release	0	–36,757	–22,575	–59,331	–733
Addition	0	320,726	23,871	344,596	5,550
As at 30 Jun 2009	539	824,254	31,527	856,320	16,661
As at 1 Jan 2010	539	1,177,271	79,237	1,257,047	23,355
Currency translation	0	16,617	834	17,452	499
Reclassification	0	7,062	–90	6,973	–10,291
Unwinding	0	–5,025	0	–5,025	0
Utilisation	0	–37,053	0	–37,053	–142
Release	0	–113,590	–21,660	–135,250	–1,229
Addition	0	308,839	24,625	333,464	10,523
As at 30 Jun 2010	**539**	**1,354,121**	**82,947**	**1,437,607**	22,714

The additions include an amount of euro 7,693 thousand (2009: euro 779 thousand), which is caused by allocation due to interest past-due. Loans and advances to credit institutions and customers include non-interest-bearing receivables amounting to euro 562,569 thousand (31 December 2009: euro 441,379 thousand). The reclassification item reflects the regrouping of other assets. The sale of loans and advances to customers of Europolis AG to Investkredit Bank AG also included the transfer of the corresponding risk provisions. This transfer is shown in line reclassification in column disposal group with the amount of euro –8,677 thousand.

Trading assets

Euro thousand	30 Jun 2010	31 Dec 2009 restated	31 Dec 2009 published
Debt securities	**461,392**	157,002	157,002
Equity and other variable-yield securities	**73,324**	43,125	43,125
Positive fair value from derivatives	**1,302,092**	1,563,968	1,563,968
foreign exchange transactions	**70,229**	100,101	100,101
interest rate related transactions	**1,223,555**	1,455,559	1,455,559
other transactions	**8,308**	8,308	8,308
Trading assets	**1,836,808**	**1,764,095**	**1,764,095**

Financial investments

Euro thousand	30 Jun 2010	31 Dec 2009 restated	31 Dec 2009 published
Financial investments at fair value through profit or loss	**933,730**	1,066,890	1,066,895
Debt securities	**855,775**	986,605	986,610
Equity and other variable-yield securities	**77,955**	80,286	80,286
Financial investments available for sale	**4,719,861**	4,466,256	4,466,256
Debt securities	**4,450,104**	4,197,122	4,197,122
Equity and other variable-yield securities	**269,756**	269,134	269,134
Financial investments loans & receivables	**1,971,057**	1,918,289	1,918,289
Financial investments held to maturity	**1,834,518**	1,959,208	1,959,208
Financial investments	**9,459,166**	**9,410,642**	**9,410,647**

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 with retrospective effect from 1 July 2008. The fair value at the reclassification date was applied as the new carrying amount of these securities.

Euro thousand	30 Jun 2010	31 Dec 2009	1 Jul 2008
Carrying amount	872,071	861,322	1,140,363
Fair value	821,138	783,706	1,140,363
Available for sale reserve with reclassification	–54,450	–53,935	–79,177
Available for sale reserve without reclassification	–103,225	–121,012	–79,177

Amounts of available for sale reserves are shown under consideration of deferred taxes. The reclassification did not have any effect on the income statement.

Participations

Euro thousand	30 Jun 2010	31 Dec 2009 restated	31 Dec 2009 published
Investments in unconsolidated affiliates	492,294	487,902	507,784
Participating interests	73,177	73,204	73,267
Investments in other companies	74,284	73,885	74,202
Participations	**639,755**	**634,992**	**655,254**

All participations are measured at amortised cost. None of the Group's participations are listed on a stock exchange.

Other assets

Euro thousand	30 Jun 2010	31 Dec 2009 restated	31 Dec 2009 published
Deferred items	63,888	24,401	32,599
Other receivables and assets	158,169	425,861	409,734
Positive fair value from derivatives in the investment book	1,318,223	1,041,576	1,049,080
Other assets	**1,540,280**	**1,491,838**	**1,491,414**

Amounts owed to credit institutions

Euro thousand	30 Jun 2010	31 Dec 2009 restated	31 Dec 2009 published
Central banks	1,505,053	838,030	838,030
Other credit institutions	15,995,765	14,826,912	15,240,574
Amounts owed to credit institutions	**17,500,817**	**15,664,943**	**16,078,604**

The amounts owed to credit institutions are all measured at amortised cost.

Amounts owed to customers

Euro thousand	30 Jun 2010	31 Dec 2009 restated	31 Dec 2009 published
Measured at fair value through profit or loss	20,787	20,419	20,419
Measured at amortised cost	7,713,936	7,446,146	7,295,050
Savings deposits	145,529	136,360	136,360
Other deposits	7,568,407	7,309,786	7,158,689
Amounts owed to customers	**7,734,723**	**7,466,565**	**7,315,468**

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

The carrying amount of the amounts owed to customers designated at fair value through profit or loss falls below the redemption amount at maturity by euro 656 thousand (31 December 2009: euro 486 thousand).

Debts evidenced by certificates

Euro thousand	30 Jun 2010	31 Dec 2009 restated	31 Dec 2009 published
Mortgage and local authority bonds	250,041	233,308	233,308
Bonds	16,606,492	17,095,356	17,095,356
Debts evidenced by certificates	**16,856,533**	**17,328,664**	**17,328,664**

Debts evidenced by certificates are all measured at amortised cost.

Trading liabilities

Euro thousand	30 Jun 2010	31 Dec 2009 restated	31 Dec 2009 published
Negative fair value from derivatives			
exchange rate related transactions	73,565	105,297	105,297
interest rate related transactions	1,141,430	1,128,468	1,128,468
other transactions	3,146	3,146	3,146
Trading liabilities	**1,218,140**	**1,236,911**	**1,236,911**

Other liabilities

Euro thousand	30 Jun 2010	31 Dec 2009 restated	31 Dec 2009 published
Deferred items	69,463	40,773	56,018
Other liabilities	750,699	420,132	377,863
Negative fair value from derivatives in the investment book	1,077,015	957,970	971,532
Other liabilities	**1,897,177**	**1,418,875**	**1,405,413**

Subordinated liabilities

Euro thousand	30 Jun 2010	31 Dec 2009 restated	31 Dec 2009 published
Subordinated liabilities	923,762	953,971	1,043,706
Supplementary capital	981,554	1,029,412	879,412
Subordinated liabilities	**1,905,315**	**1,983,383**	**1,923,117**

Subordinated liabilities are all measured at amortised cost.

Subordinated liabilities comprise hybrid tier I capital in the amount of euro 300,000 thousand (31 December 2009: euro 353,123 thousand).

6) Own funds

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	30 Jun 2010	31 Dec 2009
Subscribed capital (less treasury stocks)	1,844,895	1,845,000
Open reserves (including differential amounts and minority interests)	931,484	1,061,125
Funds for general banking risks	10,553	10,886
Intangible assets	–34,895	–34,461
Net loss	–33,345	–68,707
Core capital (tier I capital) before deductions	2,718,692	2,813,843
Deductions from core capital (50 % deduction pursuant to section 23 (13) Austrian Banking Act)	–155,453	–99,161
Core capital (tier I capital) after deductions	2,563,239	2,714,682
Supplementary capital	359,842	361,322
Eligible subordinated liabilities	580,735	620,201
Hidden reserves pursuant to section 57 (1) Austrian Banking Act	181	117
IRB risk provision surplus	0	55,510
Supplementary capital (tier II capital) before deductions	940,758	1,037,150
Deductions from supplementary capital (50 % deduction pursuant to section 23 (13) Austrian Banking Act)	–155,453	–99,161
Supplementary capital (tier II capital) after deductions	785,305	937,989
Deductions from own funds pursuant to section 103e no.13 Austrian Banking Act	–19,898	0
Short-term subordinated liabilities (tier III capital)	40,661	29,790
Eligible qualifying capital	**3,369,307**	**3,682,461**
Capital requirement	2,372,840	2,361,064
Surplus capital	996,467	1,321,397
Core capital ratio (tier I) (in relation to the assessment base pursuant to section 22 Austrian Banking Act – credit risk)	9.40 %	9.96 %
Equity ratio (solvency ratio) (in relation to credit risk after deduction of capital requirements for market and operational risk)	11.66 %	12.85 %
Core capital ratio (in relation to the risks pursuant to section 22 (1) no. 1-5 Austrian Banking Act)	8.64 %	9.20 %
Equity ratio (in relation to the risks pursuant to section 22 (1) no. 1-5 Austrian Banking Act)	11.36 %	12.48 %

The item open reserves includes the hybrid tier I capital totalling euro 300,000 thousand (31 December 2009: euro 353,123 thousand).

The risk-weighted assessment base as defined in the Austrian Banking Act and the ensuing equity requirement show the following changes

Euro thousand	30 Jun 2010	31 Dec 2009
Risk-weighted assessment base pursuant to section 22 Austrian Banking Act – credit risk	27,257,125	27,255,125
Of which 8 % minimum capital requirement for credit risk	2,180,570	2,180,410
Capital requirement for position risk in debt instruments, equities, foreign exchange and commodities – market risk	57,555	55,241
Capital requirement for operational risk	134,715	125,413
Total capital requirement	**2,372,840**	**2,361,064**

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 are fully consolidated. 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 the first half of 2010, no substantial, practical or legal obstacles existed which would have prevented the transfer of equity or the repayment of liabilities between the senior institution and institutions subordinated to the former.

7) Financial assets and liabilities

The table below shows a classification of 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
30 Jun 2010							
Liquid funds	0	0	0	0	2,640,082	2,640,082	2,640,082
Loans and advances to credit institutions	0	0	0	0	8,632,632	8,632,632	8,632,562
Loans and advances to customers	0	0	0	0	24,529,310	24,529,310	23,014,252
Trading assets	1,836,808	0	0	0	0	1,836,808	1,836,808
Financial investments	0	933,730	1,834,518	4,719,861	1,971,057	9,459,166	9,278,473
Assets for operating lease	0	0	0	0	320,975	320,975	320,975
Companies measured at equity and participations	0	0	0	0	714,596	714,596	714,596
Derivatives in the investment book	1,318,223	0	0	0	0	1,318,223	1,318,223
Financial assets – total	**3,155,031**	**933,730**	**1,834,518**	**4,719,861**	**38,808,651**	**49,451,791**	**47,755,970**
Financial assets of the disposal group	1,124	5	0	36,948	1,916,489	1,954,567	1,932,348
Amounts owed to credit institutions	0	0	0	0	17,500,817	17,500,817	17,502,097
Amounts owed to customers	0	20,787	0	0	7,713,936	7,734,723	7,737,053
Debts evidenced by certificates	0	0	0	0	16,856,533	16,856,533	16,602,033
Trading liabilities	1,218,140	0	0	0	0	1,218,140	1,218,140
Derivatives in the investment book	1,077,015	0	0	0	0	1,077,015	1,077,015
Subordinated liabilities	0	0	0	0	1,905,315	1,905,315	1,323,173
Financial liabilities – total	**2,295,155**	**20,787**	**0**	**0**	**43,976,601**	**46,292,543**	**45,459,511**
Financial liabilities of the disposal group	2,886	0	0	0	1,391,797	1,394,683	1,394,683

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 2009							
Liquid funds	0	0	0	0	3,008,042	3,008,042	3,008,042
Loans and advances to credit institutions	0	0	0	0	6,795,291	6,795,291	6,795,273
Loans and advances to customers	0	0	0	0	24,133,518	24,133,518	22,850,385
Trading assets	1,764,095	0	0	0	0	1,764,095	1,764,095
Financial investments	0	1,066,890	1,959,208	4,466,256	1,918,289	9,410,642	9,129,803
Assets for operating lease	0	0	0	0	331,424	331,424	331,424
Companies measured at equity and participations	0	0	0	0	705,879	705,879	705,879
Derivatives in the investment book	1,041,576	0	0	0	0	1,041,576	1,041,576
Financial assets – total	**2,805,671**	**1,066,890**	**1,959,208**	**4,466,256**	**36,892,443**	**47,190,468**	**45,626,478**
Financial assets of the disposal group	7,504	5	0	37,106	2,051,426	2,096,041	2,073,181
Amounts owed to credit institutions	0	0	0	0	15,664,943	15,664,943	15,671,235
Amounts owed to customers	0	20,419	0	0	7,446,146	7,466,565	7,464,292
Debts evidenced by certificates	0	0	0	0	17,328,664	17,328,664	17,182,599
Trading liabilities	1,236,911	0	0	0	0	1,236,911	1,236,911
Derivatives in the investment book	957,970	0	0	0	0	957,970	957,970
Subordinated liabilities	0	0	0	0	1,983,383	1,983,383	1,338,097
Financial liabilities – total	**2,194,881**	**20,419**	**0**	**0**	**42,423,136**	**44,638,435**	**43,851,104**
Financial liabilities of the disposal group	13,562	0	0	0	1,536,166	1,549,728	1,549,728

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

Euro thousand	Level 1	Level 2	Total
30 Jun 2010			
Financial assets			
Trading assets	382,831	1,453,977	1,836,808
Financial investments	4,671,663	981,928	5,653,591
at fair value through profit or loss	724,471	209,259	933,730
available for sale	3,947,191	772,669	4,719,861
Derivatives in the investment book	0	1,318,223	1,318,223
Total	**5,054,494**	**3,754,129**	**8,808,622**
Financial liabilities			
Amounts owed to customers	0	20,787	20,787
Trading liabilities	0	1,218,140	1,218,140
Derivatives in the investment book	0	1,077,015	1,077,015
Total	**0**	**2,315,942**	**2,315,942**
31 Dec 2009			
Financial assets			
Trading assets	97,672	1,666,424	1,764,095
Financial investments	4,849,904	683,247	5,533,151
at fair value through profit or loss	885,107	181,788	1,066,895
available for sale	3,964,797	501,459	4,466,256
Derivatives in the investment book	0	1,049,080	1,049,080
Total	**4,947,576**	**3,398,751**	**8,346,326**
Financial liabilities			
Amounts owed to customers	0	20,419	20,419
Trading liabilities	0	1,236,911	1,236,911
Derivatives in the investment book	0	971,532	971,532
Total	**0**	**2,228,862**	**2,228,862**

In 2010 and 2009 there have not been any reclassifications between the levels.

VBAG only uses market data which are from observable markets. If the system delivers prices for inactive traded positions, these prices are checked with prices based on secondary available market data, like credit spreads or transactions which are done on active markets in similar products. If necessary, the prices of the system are adapted.

8) Number of staff

Number of staff employed during the business year, including disposal groups

	Average number of staff		Number of staff at end of period	
	1-6/2010	1-6/2009	30 Jun 2010	31 Dec 2009
Domestic	1,527	2,053	1,527	1,541
Foreign	6,304	6,670	6,209	6,390
Total	**7,831**	**8,723**	**7,736**	**7,931**

The number of staff employed in disposal groups is as follows

	Average number of staff		Number of staff at end of period	
	1-6/2010	1-6/2009	30 Jun 2010	31 Dec 2009
Real Estate disposal group				
Domestic	30	31	28	34
Foreign	76	85	72	83
Real Estate disposal group total	106	116	100	117
Retail disposal group				
Domestic	74	547	75	74
Total number of staff	**180**	**663**	**175**	**191**

9) Sales outlets

	30 Jun 2010	31 Dec 2009
Domestic	11	11
Foreign	574	583
Total	**585**	**594**

As at 30 June 2010, VB Linz+Mühlviertel owns 10 branches (31 December 2009: 10).

10) Segmenting reporting

Beginning with this fiscal year, a change concerning the classification of business segments and profit centres to the several segments took place. The Domestic retail segment was dissolved, due to the finalised sale of Immo-Bank, Ärztebank and VB Wien and the sale of VB Linz+Mühlviertel in June 2010. Both profit centres, housing construction- and model financing, previously assigned to the Domestic retail segment, are now allocated to the Corporates segment. The result from the disposal group Domestic retail is shown in the Investment Book/Other Operations segment. As all activities relating to the investment book of VBAG were summarised organisationally, the business segment Capital Markets is displayed in the Investment book/Other Operations segment. Figures of the comparative period were adapted accordingly.

Segment reporting by business segments

Euro thousand	Corporates	Retail	Real Estate	Financial Markets	Investment Book/Other Operations	Consolidation	Total
Net interest income							
1-6/2010	**68,306**	**277,709**	**43,221**	**15,693**	**–10,835**	**2,847**	**396,941**
1-6/2009	80,571	269,933	23,932	1,426	–82,527	–18,078	275,256
Risk provisions							
1-6/2010	**–31,335**	**–145,256**	**–15,341**	**359**	**–2,186**	**0**	**–193,758**
1-6/2009	–126,275	–130,137	–9,827	0	–16,227	0	–282,467
Net fee and commission income							
1-6/2010	**4,899**	**41,914**	**1,776**	**14,156**	**15,400**	**–5,621**	**72,524**
1-6/2009	12,043	43,794	–3,100	15,109	14,168	–4,676	77,338
Net trading income							
1-6/2010	**59**	**20,334**	**–3,548**	**30,222**	**–1,129**	**0**	**45,938**
1-6/2009	1,067	1,319	5	73,780	1,342	–4,698	72,815
General administrative expenses							
1-6/2010	**–40,371**	**–176,885**	**–18,928**	**–21,991**	**–40,460**	**17,056**	**–281,578**
1-6/2009	–36,077	–171,172	–17,416	–23,263	–37,263	14,885	–270,306
Other operating result							
1-6/2010	**140**	**–936**	**56**	**–36**	**16,705**	**–10,183**	**5,746**
1-6/2009	1,121	9,241	–1,448	557	14,510	–9,329	14,652
Of which impairment of goodwill							
1-6/2010	***0***	***0***	***0***	***0***	***0***	***0***	***0***
1-6/2009	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Income from financial investments							
1-6/2010	**–10,186**	**4,311**	**904**	**–160**	**–701**	**0**	**–5,833**
1-6/2009	4,630	362	–4,774	822	–27,606	0	–26,566
Income from the disposal group							
1-6/2010	**0**	**0**	**4,166**	**0**	**866**	**0**	**5,033**
1-6/2009	0	0	–10,449	0	10,325	0	–124
Result for the period before taxes							
1-6/2010	**–8,488**	**21,191**	**12,306**	**38,244**	**–22,340**	**4,099**	**45,013**
1-6/2009	**–62,920**	**23,340**	**–23,078**	**68,432**	**–123,279**	**–21,896**	**–139,402**
Total assets							
30 Jun 2010	**8,694,055**	**16,742,163**	**7,598,110**	**4,152,869**	**35,186,114**	**–21,486,327**	**50,886,984**
31 Dec 2009	9,826,343	16,810,119	7,172,287	4,276,836	32,399,659	–21,339,649	49,145,593
Loans and advances to customers							
30 Jun 2010	**6,713,690**	**12,544,899**	**4,708,652**	**1,100**	**2,321,768**	**–1,760,800**	**24,529,310**
31 Dec 2009	7,176,803	12,340,241	4,262,757	290,792	1,897,956	–1,835,031	24,133,518
Amounts owed to customers							
30 Jun 2010	**491,650**	**4,950,323**	**553,500**	**1,362,052**	**613,065**	**–235,867**	**7,734,723**
31 Dec 2009	559,690	4,739,259	620,432	1,443,467	362,578	–258,862	7,466,565
Debts evidenced by certificates including subordinated liabilities							
30 Jun 2010	**3,992,320**	**428,575**	**642,792**	**483,670**	**16,885,212**	**–3,670,721**	**18,761,848**
31 Dec 2009	4,036,750	408,720	772,366	484,575	17,261,916	–3,652,280	19,312,047

Segment reporting by geographical markets

Euro thousand	Austria	Central- and Eastern Europa	Other Markets	Total
Net interest income				
1-6/2010	80,202	272,661	44,078	396,941
1-6/2009	–21,292	256,031	40,518	275,256
Risk provisions				
1-6/2010	–49,887	–142,924	–946	–193,758
1-6/2009	–132,844	–126,728	–22,896	–282,467
Net fee and commission income				
1-6/2010	28,661	42,033	1,829	72,524
1-6/2009	37,866	44,444	–4,972	77,338
Net trading income				
1-6/2010	30,978	15,055	–95	45,938
1-6/2009	70,892	2,335	–412	72,815
General administrative expenses				
1-6/2010	–99,807	–171,036	–10,736	–281,578
1-6/2009	–92,932	–167,206	–10,168	–270,306
Other operating result				
1-6/2010	9,067	–3,394	73	5,746
1-6/2009	7,950	5,664	1,038	14,652
Income from financial investments				
1-6/2010	–6,483	6,615	–5,965	–5,833
1-6/2009	7,431	353	–34,350	–26,566
Income from the disposal group				
1-6/2010	–8,277	12,629	681	5,033
1-6/2009	6,532	–5,365	–1,291	–124
Result for the period before taxes				
1-6/2010	–15,546	31,639	28,919	45,013
1-6/2009	**–116,395**	**9,526**	**–32,533**	**–139,402**

11) Quarterly financial data

Euro thousand	4-6/2010	1-3/2010	10-12/2009	7-9/2009	4-6/2009
Net interest income	204,423	192,517	137,675	185,342	127,537
Risk provisions	–87,174	–106,583	–300,208	–269,072	–170,727
Net fee and commission income	37,684	34,840	36,118	31,508	42,112
Net trading income	35,750	10,188	19,648	26,487	46,135
General administrative expenses	–145,748	–135,830	–129,192	–138,988	–123,752
Other operating result	–2,461	8,207	2,492	3,991	10,077
Income from financial investments	–16,294	10,461	5,983	–234,669	27,490
Income from the disposal group	–2,753	7,785	–109,149	–72,016	–4,917
Result for the period before taxes	**23,427**	**21,586**	**–336,634**	**–467,416**	**–46,044**
Income taxes	–6,100	–3,311	–315,270	54,475	28,754
Income taxes of the disposal group	–2,897	1,690	16,322	18,694	1,894
Result for the period after taxes	**14,430**	**19,965**	**–635,582**	**–394,248**	**–15,396**
Result attributable to shareholders of the parent company	**7,228**	**7,371**	**–611,077**	**–367,095**	**–20,315**
Result attributable to non-controlling interest	7,202	12,594	–24,505	–27,152	4,919

STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the condensed interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of important events that have occurred during the first half of the financial year and their impact on the condensed interim financial statements and of the principal risks and uncertainties for the remaining six months of the financial year.

Vienna, 26 August 2010

Gerald Wenzel
Chairman of the Managing Board
Finance, Human Resources, Law, Organisation/IT and Marketing

Michael Mendel
Deputy Chairman of the Managing Board
Risk

Martin Fuchsbauer
Member of the Managing Board
Treasury

Wolfgang Perdich
Member of the Managing Board
Market/Overseas