VOLKSBANK AG

Oesterreichische Volksbanken-AG (VBAG) Group publishes result for the first three quarters of 2012

30 November 2012

- **Result before taxes** of **EUR 642** million as of 30 September 2012
- Positive Group result due to **extraordinary effects**
- **Net interest income** decreased to **EUR 160 million**
- **Risk provisions** increased to **EUR -201 million**
- **Total assets** fell to **EUR 28.5 billion** as of 30 September 2012
- The **tier I ratio** was **9.7%** at the end of the first three quarters of 2012

Consolidated results as of 30 September 2012

The **result before taxes** of Oesterreichische Volksbanken-AG Group was **EUR 642 million** as of 30 September 2012, the **consolidated result after taxes and non-controlling interests** reached **EUR 599 million.**

VBAG Group's high profit in the first three quarters of 2012 results from non-recurrent extraordinary effects and insufficiently reflects the challenges VBAG Group faces. Operative results of VBAG Group based on IFRS will be clearly negative in 2012 and most likely in 2013 as well. It is to be expected that single entity results based on local GAAP will show losses in 2012 and 2013.

This discrepancy is to a large extent due to different accounting and reporting rules relevant for the consolidated Group results (based on IFRS) and single entity results (based on local GAAP). While the 2008 participation capital (PS 2008) is reported as equity under local GAAP rules, it is allocated to liabilities under IFRS. According to IFRS, future profits resulting from redemptions below par are to be reported as soon as the bank's expectations regarding future cash flows change. This is the case for PS 2008 as well as for upper tier II bonds which are loss-participating. The capital write-down of the PS 2008 and the expected profit from the redemption below par of upper tier II bonds are realized in the IFRS consolidated profit and loss statement in the period under review. In the local GAAP statements, the capital write-down of the PS 2008 has no impact on profit or loss. Furthermore, according to local GAAP rules, profits resulting from the redemption below par of upper tier II bonds will have a P&L effect only when the profits actually materialize, i.e. at the maturity dates of the upper tier II bonds.

The profit from the repurchase of hybrid capital reported in the period under review constitutes another extraordinary effect.

Results for the first three quarters in detail

In accordance with VBAG Group's restructuring and redimensioning strategy, various divestitures were completed in the first three quarters of 2012. The sale and deconsolidation of Volksbank International AG and the sale of all participations in the VICTORIA insurance companies in Austria and CEE took place in February. The sale of Selini Holding GmbH, a participation which originally was part of Europolis Group, was closed in April. Furthermore, the predominant part of the portfolio of the Frankfurt branch was sold to Deutsche Zentral-Genossenschaftsbank in the first half year of 2012 leading to a EUR 400 million decrease of risk-weighted assets. Assets were also divested in the VB Real Estate Services Group, the sale of Immoconsult Asset Leasing GmbH, for example, closed on 5 September 2012.

The result for the comparative period of last year includes the 1-9/2011 result of Volksbank Romania, which has been carried at equity since October 2011.

Net interest income stood at **EUR 160 million** as of 30 September 2012, down EUR 184 million year-on-year. The deconsolidation of Volksbank Romania resulted in a net interest income decline of EUR 91 million and in the Non-core Corporate Customers segment a decrease of EUR 24 million was reported. Net interest income remained below the previous year's level in the Financial Markets/Investment Book segment as well. This decline is due firstly to interest rate elasticity – adjustment to the lower level of interest took place faster on the assets side than on the liabilities side – and secondly to the high liquidity buffer (EUR 2.9 billion as of 30 September 2012).

Net fee and commission income declined by EUR 29 million on the comparable period to **EUR 46 million** at the end of the first three quarters of 2012. The **trading result** grew by EUR 19 million and amounted to **EUR 31 million.**

General administrative expenses were reduced by EUR 75 million, to **EUR -195 million** as of 30 September 2012. Apart from Volksbank Romania, a reduction of costs was achieved in the Other Operations segment in particular.

The **other operating result** is the main driver of the Group result, after EUR -357 million last year it reached **EUR 703 million** in the period under review. This increase is primarily a result of the extraordinary effects described above (accounting effects of the write-down of participation capital and loss-participation of upper tier II capital in an amount of EUR 595 million, EUR 143 million profit from the repurchase of hybrid bonds).

Risk provisions grew by EUR 111 million on the comparable period in 2011 and stood at **EUR -201 million** as of 30 September 2012. The deconsolidation of Volksbank Romania accounts for a risk provisions decrease of EUR 40 million. The Financing, Non-core Corporate Customers and Non-core Investment Book/Other Operations segments and the Leasing CEE business field reported lower risk provisions. In the Non-core Real Estate segment, however, risk provisions had to be increased by EUR 180 million.

Income from financial investments was **EUR 48 million** as of 30 September 2012. This represents a growth of EUR 394 million compared to the first three quarters of 2011 when the result from financial investments was negative following impairments of Greek government bonds, among other factors. The result from the sale of the VICTORIA insurance companies (EUR 21 million) as well as proceeds from the sale of participations and securities (EUR 20 million) are recognized in this position. A valuation income of EUR 58 million from the surplus from effective fair value hedges was recorded and open derivatives positions in the investment book generated a positive valuation result of EUR 14 million in the period under review. These positive effects were partly offset by impairments of investment property assets (EUR -51 million) and impairments of participations in real estate companies (EUR -17 million) in the Non-core Real Estate segment.

Income from discontinued operations of **EUR 49 million** in the first three quarters includes the VBI deconsolidation result and VBI income for the period 1 January to 15 February 2012 (closing of the sale and deconsolidation) in a total amount of EUR 36 million.

In accordance with the redimensioning strategy, total assets of VBAG Group have been declining continuously. Compared to year-end 2011, **total assets** dropped by EUR 12.7 billion amounting to **EUR 28.5 billion** as of 30 September 2012. EUR 8.8 billion of this decrease is attributable to the deconsolidation of VBI.

Risk-weighted assets also declined considerably, from EUR 22.9 billion as of 31 December 2011 to **EUR 14.9 billion** at the end of the first three quarters of 2012.

As a result of the capital write-down and subsequent capital increase, the deconsolidation of VBI and further asset sales, capital ratios have increased compared to 31 December 2012. The **tier I ratio** (in relation to total risk) increased by 0.9 percentage points compared to the end of 2011 to **9.7%**. The **equity ratio** (in relation to total risk) was **14.6%** as of 30 September 2012 representing a growth of 1.9 percentage points. It is to be expected that until the end of the year 2012 capital ratios will decline.

Outlook

VBAG Group is currently undergoing a profound restructuring process. Pursuant to official requirements of the European Commission, business fields and participations which do not represent core business have to be sold in the medium term or wound down according to their maturity profiles. Haircuts on the run-down portfolio due to the difficult economic environment are expected and will affect results. VBAG's management board therefore announced on 9 November that the 2012 after-tax, single entity result (based on local GAAP) will be clearly negative. In the 2013 business year the single entity result will show a loss as well. Interest payments on upper tier II bonds in the years 2013 and 2014 are therefore not to be expected. Due to the discrepancies between accounting rules relevant for the single entity statement (based on local GAAP) and for the consolidated Group results (based on IFRS), the consolidated IFRS Group result for the 2012 business year will be positive in a high three-digit million euro range.

The interim report as of 30 September 2012 is available on VBAG Group's webpage:
www.volksbank.com/investor_relations

Please contact the investor relations team
(www.volksbank.com/investor_relations), if you have any questions