Write downs of sovereign risks affect half year results of Österreichische Volksbanken-AG (VBAG) Group

25 August 2011

- VBAG Group's pre-tax result of EUR 11 million affected by write downs of sovereign risks
- Slight decrease of net interest income to EUR 380 million
- Operating result of EUR 199 million
- Decline of risk provisions to EUR 130 million
- Reduction of total assets to EUR 44 billion and of RWAs to EUR 25 billion
- Tier 1 ratio in relation to credit risk is stable at 10.6%
- Payment of dividends on shares and participation capital instruments in 2012 for the 2011 business year unlikely
- Outlook: Implementation of redimensioning strategy continues

First half year 2011 consolidated results

VBAG Group's half year result was affected by impairments of financial investments, including the write down of Greek bonds. The pre-tax result was EUR 11 million (HY1 2010: EUR 45 million) and consolidated net income after taxes and minority interests was EUR 1 million (HY1 2010: EUR 15 million)

Half year results in detail

Net interest income decreased by 4% on the first half year of 2010 and was EUR 380 million. While net interest income grew in the Real Estate and Financial Markets segments, it decreased in the Retail segment as a result of decreasing interest margins in Central and Eastern European countries.

The operating result in the first half of 2011 was EUR 199 million. This represents a decline on the comparable value of the previous year (operative result of EUR 234 million) which is a result of the planned reduction of assets.

Despite the persistently difficult economic environment in parts of Central and Eastern Europe, risk provisions dropped by EUR 64 million to EUR 130 million as of 30 June 2011. Risk provisions decreased in all segments, the highest reduction could be reported in the Retail segment.

Total assets amounted to EUR 44 billion as of 30 June 2011 representing a decrease of 2.4 billion (1.7 billion of which are relating to the sale of Europolis Group) compared to year-end 2010. Risk weighted assets also declined from EUR 26 billion at year-end to EUR 25 billion in the first half-year of 2011.

Capital ratios are stable. The tier 1 ratio in relation to credit risk increased by 0.3 percentage points compared to the end of 2010 and stood at 10.6% as of 30 June 2011. The equity ratio in relation to total risk remains at 12.8%.

Payment on dividend-carrying securities (shares, participation capital and hybrid capital)

In the context of the rescue measures for Greece by the European Union – in which the private sector participates – VBAG Group wrote down Greek bonds. As result, a reclassification of the available for sales reserve led to a loss of EUR 17 million. Securities in the held to maturity category were valued at a present value of 79% which corresponds to an impairment of EUR 7 million. Furthermore, the result was affected by write downs for other sovereign risk. Declining market values of securities linked to baskets of various sovereign risks (e.g. Greece) resulted in a reduction of income from financial investments in an amount of EUR 36 million.

The consistently difficult economic environment resulted in a delay in the implementation of VBAG's strategy of re-dimensioning the group. The closing of the sale of VBI is expected by year-end, the sales of the stake in RZB and of VB-Leasing International Holding GmbH, however, have not yet been implemented.

As a result, a payment or full payment on dividend-carrying securities (shares, participation capital and hybrid capital) in 2012 for the 2011 business year is unlikely from today's viewpoint.

Outlook for the second half year

VBAG Group will continue to pursue the redimensioning strategy, which includes the focussing on core business areas and the sale of participations.

On 14 July 2011, the shareholders of Volksbank International AG (VBI) and Russian Sberbank signed a term sheet on the key points of a purchase agreement for 100% of the shares in VBI (VBAG Group holds 51% of these shares). Volksbank Romania S.A. is not included in the transaction. The closing is expected to take place by the end of 2011.

It is expected that VBAG's core shareholders will redeem EUR 300 million of participation capital held by the Republic of Austria.

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