VOLKSBANK AG

Oesterreichische Volksbanken-AG (VBAG) Group publishes result for the 2012 business year

28 March 2013

- **Consolidated Group result (IFRS)** of **EUR 313 million** as of 31 December 2012 influenced by extraordinary effects
- **Single entity result (local GAAP)** was **EUR -131 million**
- **Net interest income** decreased to **EUR 220 million**, **risk provisions** increased to **EUR -367 million**
- **Total assets fell** to **EUR 27.7 billion** at the end of 2012
- Capital ratios improved, as of 31 December 2012 the **tier I ratio** was **10.9%**

Discrepancy between consolidated result and single entity result

The **pre-tax result** of Oesterreichische Volksbanken-AG Group stood at **EUR 499 million** as of 31 December 2012, the **consolidated result after taxes and non-controlling interests** was **EUR 313 million.** The 2012 **single entity result**, however was negative at **EUR -131 million.**

This difference is due to a large extent to different accounting and reporting rules relevant for the consolidated Group result (based on IFRS) and the single entity result (based on local GAAP).

The different treatment of the capital write-down under IFRS and local GAAP accounting rules in particular cause the discrepancy in results. 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 capital which is loss-participating. The capital write-down of 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 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 those profits actually materialize, i.e. at the maturity dates of the respective upper tier II bonds.

2012 consolidated results influenced by non-recurrent effects

The operative result of VBAG Group based on IFRS is negative in 2012 and for the current business year an operative loss is to be expected as well.

VBAG Group's result in 2012 is influenced by non-recurrent extraordinary effects. Apart from the accounting effects of the write-down of participation capital and loss-participation of upper tier II capital, profits resulting from the repurchase of hybrid tier I capital and lower tier II capital in the period under review also constitute extraordinary effects.

Redimensioning of VBAG Group

In accordance with VBAG Group's restructuring and redimensioning strategy, various divestitures were completed in 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. Assets of VB Real Estate Services Group were also divested, the sale of Immoconsult Asset Leasing GmbH, for example, closed in September 2012. Furthermore, the branch in Frankfurt was closed in December. A large part of the portfolio was sold to Deutsche Zentral-Genossenschaftsbank in the first half year of 2012 leading to a decrease of risk-weighted assets of roughly EUR 400 million. The remaining assets were sold to investors or absorbed by VBAG in the second half year.

VBAG Group results as of 31 December 2012 in detail

Last year's result includes the 1-9/2011 result of Volksbank Romania, which has been carried at equity since October 2011.

Net interest income stood at **EUR 220 million** as of 31 December 2012, down EUR 174 million year-on-year. In 2011, Volksbank Romania contributed EUR 46 million to the interest result. In the Non-core Corporates and Non-core Real Estate segments net interest income decreases of EUR 36 million and EUR 20 million respectively were reported as a result of the divestiture of assets. 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 4 billion as of 31 December 2012) held by VBAG due to its role as central institution.

Net fee and commission income declined by EUR 36 million on the comparable period to **EUR 58 million** at the end of 2012. The **trading result** grew by EUR 29 million and amounted to **EUR 32 million**.

General administrative expenses could be reduced by EUR 36 million in 2012 and stood at **EUR -264 million** at the end of the year.

The **other operating result** was **EUR 772 million** as of 31 December 2012. The accounting effects of the write-down of participation capital and loss-participation of upper tier II capital in a total amount of EUR 648 million were included in the other operating result. Furthermore, profits of EUR 183 million from the repurchase of hybrid tier I capital and lower tier II capital were allocated to the other operating result. Bank taxes, which are also reported in this position, amounted to EUR -46 million in the period under review.

Risk provisions grew by EUR 263 million and stood at **EUR -367 million** as of 31 December 2012. Increasing risk provisions were reported in particular in the Non-core Real Estate segment (plus EUR 212 million) and in the Non-core Corporates segment (plus EUR 90 million).

Income from financial investments was **EUR -1 million** as of 31 December 2012. This represents a growth of EUR 440 million compared to 2011 when the result from financial investments was strongly affected by impairments of Greek government bonds, among other factors. The result from the sale of the VICTORIA insurance companies (EUR 18 million) is recognized in this position. A valuation income of EUR 30 million from the surplus of effective fair value hedges was recorded and open derivatives positions in the investment book generated a positive valuation result of EUR 23 million in the period under review. These positive effects were offset by impairments of investment property assets (EUR -53 million) and impairments of participations in real estate companies (EUR -20 million) in the Non-core Real Estate segment.

Income from discontinued operations 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 the end of 2011, **total assets** dropped by EUR 13.5 billion amounting to **EUR 27.7 billion** as of 31 December 2012. EUR 8.8 billion of the decrease is attributable to the deconsolidation of VBI.

As a result of the capital write-down and subsequent capital increase, the deconsolidation of VBI and further asset sales, capital ratios have improved. The **tier I ratio** (in relation to total risk) grew by 2.1 percentage points to **10.9%** and the **equity ratio** (in relation to total risk) was **15.7%** as of 31 December 2012 representing a growth of 3 percentage points.

Outlook

The activities of Oesterreichische Volksbanken-AG are to be limited to its function as central institution of the Association of Volksbanks, which is based on a joint liability and joint liquidity scheme. Therefore, VBAG Group is currently undergoing a profound restructuring process which is also in line with requirements of the European Commission. Business fields and participations which do not represent core business have to be sold or wound down. Haircuts on the run-down portfolio are expected, which may lead to negative effects on VBAG's results.

Due to the negative single entity result in 2012, interest payments on upper tier II bonds are not possible in the current business year. Last November, VBAG's management announced that in the 2013 business year as well a single entity loss is to be expected and consequently interest payments on upper tier II bonds are highly unlikely in 2014.

Furthermore, dividend payments on shares, participation capital and participation capital certificates are prohibited by the European Commission during the restructuring phase, i.e. until the end of 2017.

Please contact the investor relations team if you have any questions.
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