

ANNUAL FINANCIAL REPORT

**WITH INTEGRATED
CORPORATE RESPONSIBILITY REPORT**

2010

KEY FIGURES OF VOLKSBANK AG

| In euro million | 2010 | 2009 | 2008 |
|--|---------------|-----------------|---------------|
| Statement of financial position ¹⁾ | | | |
| Total assets | 46,465 | 49,146 | 55,815 |
| Loans and advances to customers | 23,615 | 24,134 | 26,028 |
| Amounts owed to customers | 7,312 | 7,467 | 8,628 |
| Debts evidenced by certificates | 16,122 | 17,329 | 14,954 |
| Subordinated liabilities | 1,864 | 1,983 | 1,957 |
| Own funds | | | |
| Core capital (tier I) after deductions | 2,613 | 2,715 | 2,515 |
| Supplementary capital (tier II, tier III) after deductions | 950 | 968 | 909 |
| Eligible qualifying capital | 3,563 | 3,682 | 3,424 |
| Assessment base credit risk | 25,454 | 27,255 | 33,263 |
| Capital requirement market risk | 54 | 55 | 42 |
| Capital requirement operational risk | 141 | 125 | 114 |
| Surplus capital | 1,333 | 1,321 | 606 |
| Core capital ratio in % ²⁾ | 10.3 | 10.0 | 7.6 |
| Equity ratio in % ³⁾ | 12.8 | 12.5 | 9.7 |
| Income statement ¹⁾ | | | |
| Net interest income | 776.3 | 596.5 | 1,114.2 |
| Risk provisions | -364.3 | -851.7 | -143.7 |
| Net fee and commission income | 166.9 | 200.8 | 179.0 |
| Net trading income | 39.7 | 63.1 | 52.9 |
| General administrative expenses | -551.1 | -538.5 | -596.4 |
| Other operating result | -21.6 | 21.1 | 10.4 |
| Income from financial investments | 42.8 | -253.5 | -241.5 |
| Income from the disposal group | 2.2 | -181.3 | -776.7 |
| Result before taxes | 90.8 | -943.5 | -401.9 |
| Income taxes | -34.3 | -179.6 | 191.0 |
| Result after taxes | 56.5 | -1,123.0 | -210.9 |
| Non-controlling interest | -1.1 | 38.8 | 58.9 |
| Consolidated net income | 55.4 | -1,084.3 | -152.0 |
| Key ratios ⁴⁾ | | | |
| Operating cost-income-ratio | 56.1% | 62.6% | 69.8% |
| ROE before taxes | 4.5% | -27.7% | 16.4% |
| ROE after taxes | 2.9% | -35.5% | 23.2% |
| ROE consolidated net income | 4.8% | -50.6% | 36.5% |
| ROE before taxes (regulatory) | 4.3% | -34.0% | 16.4% |
| Resources ¹⁾ | | | |
| Staff average | 7,606 | 7,941 | 7,920 |
| of which domestic | 1,426 | 1,468 | 1,454 |
| of which foreign | 6,180 | 6,473 | 6,466 |
| Staff at end of period | 7,531 | 7,740 | 8,255 |
| of which domestic | 1,416 | 1,433 | 1,502 |
| of which foreign | 6,115 | 6,307 | 6,753 |
| Number of sales outlets | 549 | 584 | 611 |
| of which domestic | 1 | 1 | 1 |
| of which foreign | 548 | 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 operating cost-income-ratio is the ratio between net interest income, net fee and commission income and general administrative expenses. (2008: Without the special dividends amounting to euro 491 million.)

All ratios were displayed without including the disposal group.

CORPORATE RESPONSIBILITY FIGURES

| | Unit | 2010 | 2009 | 2008 |
|--|----------------|-----------|-----------|-----------|
| Economy | | | | |
| Corporates segment: | | | | |
| Share of credits with a high environmental benefit financed by Volksbank AG – Investkredit | % | 5.6 | 3.4 | 2.3 |
| Real Estate segment: | | | | |
| Average energy demand of the offices owned by VB Real Estate Services | kWh/m² | 190.3 | n.a. | n.a. |
| Financial Markets segment: | | | | |
| Share of sustainable funds in the overall fund volume | % | 11.2 | 11.7 | 11.5 |
| Financial Markets segment: | | | | |
| Share of sustainable certificates in the overall certificate volume | % | 19.0 | 11.6 | 5.8 |
| Employees* | | | | |
| Number of employees in Austria | Number | 1,416 | 1,433 | 1,502 |
| Women in managerial positions | % | 21.9 | 21.0 | 21.0 |
| Proportion of part-time staff | % | 15.1 | 12.1 | 13.6 |
| Number of sick days per employee | Days | 9.1 | 7.0 | 7.4 |
| Average training days per employee | Days | 3.4 | 5.9 | 5.8 |
| Environment | | | | |
| Electricity consumption** | kWh | 4,903,711 | 3,305,031 | 3,089,797 |
| Consumption of natural gas** | kWh | 1,889,950 | 2,855,240 | 2,036,475 |
| Consumption of district heating** | kWh | 1,920,960 | 812,370 | 456,820 |
| Overall heat requirements** | kWh | 3,810,910 | 3,667,610 | 2,493,295 |
| Printing and copying paper | Pages/employee | 8,607 | 7,237 | 8,154 |

* Employees in Austria belong to the following group companies in addition to the VBAG Group: Back Office Service für Banken Gesellschaft m.b.H., Investkredit Bank AG, VB Leasingfinanzierungsgesellschaft m.b.H., VB-Leasing International Holding GmbH, Immoconsult Leasinggesellschaft m.b.H., PREMIUMRED Real Estate Development GmbH, Volksbank Invest Kapitalanlage GmbH, Immo Kapitalanlage AG, VB Management Beratung GmbH, VB IT-Services GmbH. All data on the number of employees has been adapted with regard to the disposal groups for the purposes of comparison.

** For details of the organisational units included, see the chapter on „Corporate Responsibility Report Environment“.

Any role discriptions in this consolidated annual report and the Corporate Responsibility Report that are used only in the masculine form apply analogously to the feminine form.

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Österreichische
Volksbanken-AG

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INTRODUCTION FROM THE CHIEF EXECUTIVE OFFICER



>> FOCUS ON CORE STRENGTH <<

Interview with CEO Gerald Wenzel

There were numerous changes during the business year just closed. How would you describe the year?

We are looking back on a business year in which the course was set for the sustainable future success of VBAG. At the beginning of the year, we were pursuing two parallel strategies: remaining independent with a new, sustainable corporate strategy on the one hand, or bundling competences with a strategic partner on the other. It is now well-known that in spring talks with BAWAG were discontinued due to differing organisational and strategic ideas. This made it clear that we would implement our Strategy 2015.

Can you set out for us the key points of “Strategy 2015”?

We will put a clear focus on our core business where we will further increase our efficiency. VBAG will stand for stability, traditional banking business and customer focus.

Our core business is based on the following pillars: our function as central institution for the Volksbank sector, corporate and real estate business and competence in treasury business. In geographical terms, we will concentrate on Austria and its neighbouring countries. This will significantly reduce risk while stabilising our results and earnings trends.

Let's elaborate on the core business. What exactly do you mean by focussing on VBAG's role as central institution for the Volksbank sector?

Fulfilling its function as central institution for the Volksbank sector has always been one of VBAG's central tasks. It will remain an integral element of our core business in the future. In other words, our central task is supporting the Volksbanks in operating efficiently in their market segments for the benefit of their customers. Our shared code of values – freedom and responsibility, self-determination and commitment to self-help – combined with the services that we offer create the unique and extraordinary appeal of the association of Volksbanks. This determines our strategy, the way we deal with one another and our customers relations. I am proud to be able to say that our bank genuinely is the customers' bank!

It is clear that corporate business was boosted by the acquisition of Investkredit. What does the combination with VBAG bring to the table?

It allows us to strengthen our business model, while further optimising the Group's structure. The combination has already been rolled out in organisational terms and should be completed with respect to legal requirements in the second half of 2011. VBAG and Investkredit will be present on the market as one bank with one brand, a common strategy and common objectives. Together with the Volksbanks, we will further expand our excellent position in the corporate customer segment, while continuing to inspire in terms of performance, quality and enthusiasm.

What about real estate business?

VBAG has traditionally been a strong player in this segment. With a streamlined organisation and centralised management, we will be able to work even more efficiently in the future and bundle our comprehensive expertise.

What about activities outside the core business?

These operations are being continued, cut back or divested.

Does this mean that the sale of Europolis was part of this strategy?

Yes, that's right. The sale was concluded on 31 December 2010. In December, we also started the sales process for Volksbank International AG and VB-Leasing International Holding GmbH. We are currently negotiating with a range of potential investors. For this reason, I am very confident that we will be able to make a definitive decision on these two divestitures by the end of the year.

What is the outlook regarding the redemption of the government's participation capital?

Redemption of the participation capital held by the Austrian Republic will begin this year in accordance with our plans. Our aim is to redeem the entire government participation capital of the Republic, and thus the taxpayer, as quickly as we can.

Can you predict at what point you will be able to pay dividends on the government participation capital again?

From our current perspective, VBAG as a single entity will achieve the turnaround in the 2011 financial year and return to profitability. We anticipate that we will be able to begin distributing dividend payments on the participation capital held by the Austrian Republic and all other profit-related instruments in 2012.

If the bank redeems the government's participation capital, will the equity ratios be sufficient?

We are well capitalised. Our equity ratio in relation to total risk was 12.8% on 31 December 2010. This means that available own funds exceeded the regulatory requirements by more than euro 1.3 billion or 59.7%.

As far as our earnings performance is concerned, we can confirm that our predictions have been fulfilled. In April of last year, at the press conference on our annual results, I had announced that we were expecting an annual result in the high two-digit million range for 2010. The annual result before taxes is euro 91 million. The consolidated result after taxes and minority interests for the 2010 financial year is euro 55 million.

Where do you stand on the issue of bank tax?

Over the last few years, the US property crisis has spiralled into a global financial and economic crisis. We understand well that a contribution to the consolidation of strained budgets is demanded from the banks, including ourselves. It remains to be discussed whether 2011 is the right year to implement this tax. Many banks are starting to recover from the years of crisis. At the same time, they have to prepare for more stringent requirements regarding capital ratios under Basel III. Under these circumstances, the bank tax is certainly a challenge. On top of this, the tax assessment base for the first three years is calculated on the basis of the 2010 result. This fails to take into account the fact that total assets may fluctuate in subsequent years. In our view, this regulation is therefore a heavy burden to carry. Nonetheless, our plans for 2011 are clearly positive.

What role has the theme of sustainability played during the upheavals of last year?

Our sustainability strategy forms an integral part of all of our strategic business segments, as well as all HR issues and environmental measures. In other words, we are constantly aiming to improve in terms of sustainability in all relevant segments, creating innovative products and services which in turn form the basis for acting in a responsible manner. We are currently entering the second reporting period with our Corporate Responsibility project. We faced challenges here as a result of the structural changes within the Group, as I have just outlined. However, we have succeeded, by means of a variety of measures, in involving our employees more and more and raising their awareness of this issue. We have also made a difference through our cooperation with Oikocredit Austria and our signing of the Diversity Charter. Furthermore, VBAG has been a member of the UN Global Compact since April 2010, and is committed to the ten principles of this initiative. For this reason, we have included a Global Compact progress report in our annual report.

What are the main sustainability challenges that you face in the next five years?

Our objectives in the area of corporate responsibility are diverse. On the one hand, we plan to intensify the dialogue with our stakeholders. We want to push ahead with our business mediation project not only within the Group, but also for our customers. On the other hand, we are working to expand our product range. At the moment, three products in the area of asset management are undergoing the certification process for the award of an eco-label. A clear focus will be on the development of sustainable products. The diversity project is another issue of importance to VBAG. There is a whole range of important measures to which we are dedicated, even if implementation of some of these measures requires a little more time. In addition, we want to pass on our experience in the area of sustainability to the Volksbanks in the coming years.

You have achieved and implemented a great deal. However, it has not always been easy. Are you satisfied with last year?

Last year we really did our homework. The Group was restructured and we developed a new strategy. All of this will help to ensure a successful and stable performance in the long term. Throughout this process, we have never taken our eyes off the core task of our banking business, namely offering financial solutions to people and companies. This was and remains the core of the business concept of both the Volksbanks and their central institution; all our activities always are centred on creating sustainable benefits for our customers.

I am confident that we set the right course last year for our sustainable future success. Together with the Volksbanks, we will continue on this path, further strengthening the VBAG brand and safeguarding the independent nature of the sector.

I would like to extend my warmest thanks to all of our employees, who have worked tirelessly for the future of our bank. Our employees are the capital of our bank. This capital may not be recorded on any balance sheet, but it is still vital to VBAG's success.

I would also like to thank our business partners for putting their trust in us during a time in which media reports about VBAG were often characterised by a lack of understanding and by mistrust. This trust of our business partners is highly appreciated and VBAG will strive to retain it by means of our new, clearly formulated strategy and our pledge to follow and implement this strategy conscientiously. Together, we are on the way to reaching new strengths!

Vienna, March 2011



Chief Executive Officer Gerald Wenzel
CEO and Chairman of the Managing Board

REPORT OF THE SUPERVISORY BOARD



>> FULL CONFIDENCE IN VBAG'S NEW COURSE <<

In the financial year 2010, the company's Supervisory Board held five regular meetings and one extraordinary meeting, as well as conducting additional discussions and committees to stay informed about management's legal compliance, expediency and operating efficiency. Note was made of the Managing Board's report and the necessary resolutions were voted upon. The chairmen of the five committees (dealing respectively with risk, approvals, building, audit and staff and remuneration) made regular reports on the work of their committees to the Supervisory Board.

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft audited VBAG's annual financial statements and the notes as well as the consolidated financial statements as per 31 December 2010. Since there was no cause for objection, an unconditional audit certificate was granted. The management report and management report for the Group are consistent with the annual financial statements and consolidated financial statements.

The Supervisory Board made note of the report presented by the Managing Board and, following prior submission to the Audit Committee, approved VBAG's annual financial statements according to section 96 (4) of the Stock Corporation Act. The consolidated financial statements as per 31 December 2010 including the management report and management report for the Group were also reviewed and acknowledged.

In the previous financial year, the company fully complied with its mission as stated in its Articles of Association and as mandated by its shareholders.

The Supervisory Board extends its thanks to the Managing Board and all employees, acknowledging their clear commitment and work effort in this difficult economic environment.

Vienna, March 2011

Hans Hofinger
Chairman of the Supervisory Board

The year 2010 was an eventful one for VBAG: from the search for a strategic partner at the beginning of the year up to a new business strategy and return to profitability, there were plenty of challenges to overcome.

That's right. And the good news is that the positive aspects outweigh the negative at the end of the day. VBAG has not only achieved a turnaround, but also created a concrete and attractive vision for the future, a credible strategy. The Supervisory Board backs all of the strategic decisions and structural measures. In this way, VBAG Group and the entire association of Volksbanks will be strengthened in a sustainable way. We have full confidence in the course adopted by the Managing Board.

This course was also associated with structural changes.

It was clear that if VBAG was to react to the changed market environment, it would have to become more streamlined and flexible. The sale of the domestic retail banks to the Volksbank primary bank sector, as well as the sale of Europolis, represented a first step towards this objective, and one which also served to bolster VBAG's capital base. In addition to this, VBAG was merged with Investkredit in organisational terms, thereby realising synergies. VBAG has decided to focus on its function as a central institution for the Volksbank sector and on its customer business. This is the right decision. The measures which have been initiated and implemented form the basis for a VBAG which is sound, sustainable, and even stronger in its core business. This year, our strategic course will be implemented consistently.

Do the Volksbanks also back this course?

The regional Volksbanks see the added value of a powerful and efficient central institution, and fully support our new strategy. One key step was the formal completion of Project Regio in 2010 (sale of four VBAG retail banks to the regional Volksbanks). Through this sale the aim of uniting all retail banks within the primary sector has been achieved. I see this as confirmation of the vitality of the cooperative ideal; a clear signal that we support decentralisation and an iconic example of cooperative self-help. A robust, independent central institution is vital for the continued positive development of the regional Volksbanks as local providers of financial services. With its new strategy, VBAG is well on the way to gaining new strengths which is the basis of further optimising the fulfilment of its tasks as central institution for the Volksbanks.

Cohesion within the association is also reflected in the latest rating. In December, rating agency Fitch confirmed its "A" rating for both VBAG and the Austrian association of Volksbanks, as well as its "stable" outlook.

This is a very pleasing confirmation of our joint endeavours as well as the course we have taken. The rating reflects the cohesion of the association, VBAG's successful new positioning and systemic importance. Thus, a challenging year has ended on a very positive note for the entire Volksbank family. I would like to extend my thanks to the entire Managing Board and to all employees, they excelled this year and made VBAG's turnaround possible.

*Where would you like to see VBAG in the future?
What are the expectations of the Supervisory Board?*

I anticipate that VBAG will continue to pursue its new course consistently, thereby remaining stable and predictable. Customers, partners and the Volksbanks must be able to rely on VBAG's continued excellence in terms of competence, top quality, service orientation and reliability.

VISION AND STRATEGY

Left-right:

Martin Fuchsbauer

Gerald Wenzel

Michael Mendel

Wolfgang Perdich

VOLKSBANK AG

**>> ECONOMIC SUCCESS
IS ONLY POSSIBLE
THROUGH SUSTAINABLE,
RESPONSIBLE ACTION.<<**

Chief Executive Officer Gerald Wenzel



VISION

Österreichische Volksbanken-AG aims to be the most innovative and the best bank in every strategic business segment. As central institution for the Volksbank sector, VBAG is distinguished by its cooperative identity and by the sustainable implementation of its core values. At VBAG, all activities are centred around our customers, partners and employees. The Group stands for trust, reliability, competence and unmatched quality. We always strive to act in a way that is responsible, sustainable, entrepreneurial, rapid and flexible.

MISSION

VBAG stands for traditional banking business with innovative services and products. In all business segments, we are distinguished by the way in which we actively pursue proximity to our customers.

STRATEGY 2015

In 2010, the Group achieved a turnaround. We expect this positive performance to continue on a sustainable basis over the coming years. Our focus is on the core business which is based on the two strategic pillars of being the "Central institution for the Volksbank sector" and a "Commercial bank and financial service provider". We are currently examining our options with regard to activities and stakes outside the core business.

VBAG considers itself primarily a service provider and partner to the regional Volksbanks. In the future, it will excel by concentrating on the core business, by flexibility and by a solid development of results. This strategic orientation is based on the values of the association of Volksbanks, as well as the declaration of cooperative principles. These values also form the keystone of the Group's corporate responsibility. Active implementation and embedding of sustainable principles in VBAG's strategy has been promoted by the establishment of sustainability management in the Group. Now, the challenge lies in interweaving even more closely our aims and their implementation.

VISION AND STRATEGY



OUR AIMS

- **VBAG views its new size as an opportunity to react with speed, efficiency and flexibility to future challenges.**
- **The Austrian Volksbank sector (VBAG's central institution function) as well as corporate and real-estate customers benefit from VBAG's competence in the treasury business and its extensive experience in the capital market.**
- **VBAG stands for traditional banking business and customer proximity.**

In order to achieve these aims, VBAG is focusing on new sustainable standards in service, as well as exceptional product quality. We work by the following principle: financial transactions require a reliable partner – a partner that can be trusted. This principle, combined with the certainty that it is only through the success of our partners that we can achieve our own corporate success, explains our outstanding customer relations. Success, for us, also means acting responsibly and finding innovative answers to social, ecological and economic questions. This means that within its strategic business segments, VBAG is making a concrete contribution towards ensuring a more rapid transformation to a sustainable society.

CORPORATES

CENTRAL INSTITUTION OF THE VOLKSBANK-SECTOR

REAL ESTATE

VBAG

Classic corporate business

- Corporate Banking
- Attractive refinancing sources
- Syndicated loan business
- Subsidies & trade finance

Corporate Finance

- Project financing
- Structured corporate financing
- Akquisition financing

Financial markets

- Liquidity
- Asset/liability management
- Order Management
- Consulting
- Private customer business
- Corporate customer business
- Product development
- Research

Volksbank AG – Investkredit

- Syndicated financing
- Subsidies & trade finance

Back Office Services

- Payment transactions
- Custodian bank
- Bank logistics

Other services

- Association of Volksbanks-Organisation
- Association of Volksbanks-Marketing
- Training
- Credit management support
- Insurance products
- Leasing products

Financing

Development

- Focus on offices

Equipment leasing

- Container leasing

New products

- Real estate investment products for institutional investors

THE MANAGING BOARD

>> LIVING RESPONSIBLY IS AN ESSENTIAL PART OF OUR COOPERATIVE IDENTITY.<<



Gerald Wenzel

Head of department

Committee Supervision
Auditing
Compliance Office
Marketing & Communication
HR Management
Volksbanks Cooperation
Legal Affairs
Organisation/IT
Requirements Management CEE
IT infrastructure
Execution
Corporate Planning & Finance
VICTORIA-VOLKSBANKEN Versicherungs AG
ARZ Allgemeines Rechenzentrum GmbH
VB IT-Services GmbH
Back Office Service für Banken
Gesellschaft m.b.H.

Born 6 August 1950 in Vienna

Professional career

- 1975** Joined Creditanstalt, Corporate division
- 1978** Move to Erste Österreichische Sparkasse (branch of Bankhaus Rössler)
- 1981** Joined VBAG
- 1984** Managing Director of Volksbank Aspern, employee of Volksbank-Managementhilfe (until April 1985)
- 1985** Managing Director of Volksbank Gleisdorf, employee of Volksbank-Managementhilfe (until November); Managing Director of Volksbank Alpenvorland, employee of Volksbank-Managementhilfe (from December)
- 1987** Granted power of attorney at VBAG, Head of VB-Managementservice at VBAG (from September)
- 1989** Managing Director and member of the Managing Board of Volksbank Ost
- 1995** Managing Director of Volksbank Baden-Mödling-Liesing
- 2004** Chairman of the Managing Board of Volksbank Baden-Mödling-Liesing
- since 1 May 2009** CEO and Chairman of the Managing Board of VBAG



Martin Fuchsbauer

Head of department

Banks/Liquidity
Research
Financial Markets Operations
Group Treasury
International Financial Markets Relation
VB Investments
Capital Markets
ALM
Volksbank Invest Kapitalanlage
Gesellschaft m.b.H.
Immo Kapitalanlage AG
VICTORIA-VOLKSBANKEN Pensionskassen AG
VICTORIA-VOLKSBANKEN Vorsorgekasse AG

Born 24 July 1966 in Vienna

Professional career

- 1989** Joined VBAG, Bond Trading group, including basic banking training
- 1992** Head of the Bond Trading group
- 1998** Head of the Securities Trading department
- 2001** Built up Group Treasury division
- 2009** Head of Financial Markets segment
Founding of VB Investments AG
- 2010** Member of the Managing Board of VBAG

Michael Mendel

Head of department

Operational Risk Control
Strategic Risk Management
Group Risk Control
VB Management Consulting

Born 13 June 1957 in Hamburg

Professional career

- 1986** Joined Bayerische Vereinsbank, Corporate lending business, finally Division Manager Corporate Finance
- 1997** Division Manager Group Risk Management and Corporate Banking of Hypo Vereinsbank
- 2001** Member of the Managing Board, Chief Risk Officer of Bank Austria (until 2002)
- 2002** Member of the Managing Board, responsible for Germany, Austria and CEE regions of Hypo Vereinsbank, finally Chairman of the Supervisory Board of Bank Austria-Creditanstalt (until 2006)
- 2007** Various Supervisory Board mandates (until 2008)
- since 2009** Member of the Managing Board of VBAG since May 2009 Deputy Chairman of the Managing Board of VBAG



Wolfgang Perdich

Head of department

International activities
Model Financing
Housing
Volksbank International AG
VB-Leasing International Holding GmbH
VB Leasing
Finanzierungsgesellschaft m.b.H.
VB Factoring Bank AG
Investkredit Bank AG
Europolis Gruppe
Volksbank Malta Ltd.
Leasing-West GmbH & Co KG

Born 10 January 1958 in Vienna

Professional career

- 1981** Basic banking training at the Raiffeisen organisation in Vienna
- 1983** Joined Österreichische Volksbanken-AG, Head of Syndicated Loans Department
- 1985** Head of the Special Financing Department
- 1987** Founding of Immoconsult Leasinggesellschaft m.b.H., Chief Executive Officer
- 1990** Co-founder and Board Member of Volksbank Malta (remained on the board until 2001)
- 1994** Built up the Projekt Financing Department
- 1998** Head of Special Financing, Real Estate Leasing and Property Development divisions as well as moveable property leasing activities in Austria and abroad

since 2004

Member of the Managing Board of VBAG



CORPORATE GOVERNANCE AND ETHICAL PRACTICE

Guidelines for sustainable corporate governance

The Austrian Corporate Governance Code serves as a guideline for our standards in corporate governance. The objective of responsible corporate management and control that is focused on sustainable and long-term value creation is given priority in all decisions. This objective is also defined in the preamble to the Austrian Corporate Governance Code, which we will use as an ever more solid basis for our actions. VBAG is thus committed to upholding the legal provisions and to the highest standards of ethical conduct, while at the same time protecting the interests of our stakeholders. We also monitor global developments in best practice governance. To emphasise the significance of ethical practice for VBAG and to achieve increased clarity in daily activity, guidelines were developed as part of sustainability management. Each employee of VBAG is committed to the following basic principles. The full version of the guidelines can be found at www.verantwortung.volksbank.com.

Conflicts of interest

Avoiding conflicts of interest is particularly important for a company, and especially for a bank. We expect VBAG employees to avoid personal activities and financial interests that could bring them into conflict with their responsibility to VBAG or to its stakeholders.

Insider trading

Our employees are prohibited from using price-sensitive information that they obtain from companies (including VBAG) that is not generally available to make purchasing decisions regarding shares or securities.

Financial criminality

We take appropriate measures to prevent financial criminality.

Whistle blowing

Our employees have the opportunity to submit information anonymously to the compliance officer. All further steps are taken by the compliance officer.

Dealing with authorities

The most effective means of collaborating with authorities is by taking a cooperative approach.

Principles and practice of publishing corporate information

By reporting on our activities, we ensure transparency for the market and our stakeholders, and strive to uphold the Austrian Data Protection Act and other relevant legal provisions.

Transparency regarding pricing and marketing

We inform our customers of all relevant details regarding our products and services. This involves information on pricing, including fees and costs.

Stakeholder dialogue

We know from experience that dialogue with stakeholder groups enables us to recognise new developments and sensitive issues in good time.

Risk management

We foster a proactive risk culture to secure the sustainable success of our Company through early management of risks.

Accounting code of conduct

We provide a clear picture of our financial performance through our accounting practices.

Respecting human rights

We respect basic human rights in all that we do. We are thus committed to upholding the principles of the UN Global Compact (see UN Global Compact Progress Report, page 194).

No discrimination in our activities

Unlawful discrimination on the part of our customers, our employees or other groups associated with us is not tolerated.

Compliance framework

VBAG facilitates compliance with internal and external provisions by ensuring that provisions and processes exist that help employees to do the right thing. We also ensure that the business units are committed to handling and monitoring compliance with the provisions.

CORPORATE RESPONSIBILITY CHARTER



The triangles in the CR motif of VBAG represent the diversity of sustainable action: people (red for society), planet (green for ecology), profit (blue for economy)

Commitment to a sustainable corporate culture

We live responsibility

Volksbank AG (VBAG) as a central institution and the regional Volksbanks act according to cooperative principles. These values can be traced to the co-founder of the cooperative system, Hermann Schulze-Delitzsch. Part of our vision is a sustainable corporate policy based on the pillars of economy, ecology and social responsibility:

VBAG aims to be the most innovative and the best bank in every strategic business segment. As central institution for the Volksbank sector, VBAG is distinguished by its cooperative identity and by the sustainable implementation of its core values. At VBAG, all activities are centred around our customers, partners and employees. The Group stands for trust, reliability, competence and unmatched quality. We always strive to act in a way that is responsible, sustainable, entrepreneurial, rapid and flexible.



f.l. Kurt Kaiser
Head of Marketing & Communications
Mirjam Ernst
Head of Corporate Marketing
Chief Executive Officer Gerald Wenzel

Sustainable development is the modern implementation of the cooperative principles. This means finding modern answers to current economic, ecological and social challenges that include all stakeholders. VBAG is contributing in all three areas for a more rapid change to a sustainable society.

Sustainable development is forward-looking. It means adapting today to significant social, ecological and economic trends. We are therefore convinced that for VBAG, sustainable action is tied in the long term to economic success, as it

- opens new market opportunities and promotes product innovations,
- increases cost awareness, heightens risk awareness and saves ecological resources,
- strengthens partnership with its stakeholders, increases customer satisfaction and loyalty and creates a higher identity value for its employees and
- contributes to increased attractiveness for investors and institutional investors.



WE LIVE RESPONSIBILITY

Do sustainable economic activities increase attractiveness for customers, employees and investors? Do risks decrease over the long term, thus boosting enterprise value? The diverse effects and results experienced by VBAG when asking these questions are laid out in this, the second Corporate Responsibility Report. The publication of the report marks the third year of sustainability management at the Group. The importance of a sustainable management approach lies in solid acceptance. Examples of the balanced and responsible use of all company resources are increasing all the time.

Therefore, in the real estate segment we are committed to "green buildings" in new project developments, the Financial Markets business segment offers sustainable products in the area of asset management and the Corporates segment is committed to renewable energy in project financing. Other highlights can also be found in the signing of the Austrian "Diversity Charter" and in the design of the new Group headquarters.

Foundations based on values during structural changes

It is especially important in economically challenging times to be able to build on a solid basis of well-founded values. The aim has been and is still to interweave sustainability themes ever more strongly throughout the corporate policy and strategic goals of the VBAG Group. This project has been given more concrete shape through the support of the Managing Board.

The Sustainability Report deals primarily with VBAG in Austria from the viewpoint of all material economic, ecological and social influences. Structural changes within the Group have accordingly had an effect on the entire sustainability process.

Thus, Volksbank Wien AG, IMMO-BANK AG and the Bank für Ärzte und Freie Berufe AG are no longer included in the report, as these companies have been divested from the Group and integrated in the Volksbank sector.

In their place, Volksbank International AG, with individual projects, and VB Leasing Finanzierungsgesellschaft m.b.H. have been added to the corporate responsibility process. The sale of Europolis Gruppe has also resulted in a distinct shift of the system boundary. The reorganisation of the bank and the associated structural changes have similarly had an impact on the development of employment.

Managing corporate responsibility

The Corporate Responsibility project has been set up within the VBAG Group directly in the Managing Board as one of the most strategically important projects. The project is structured in such a way that all strategic business segments (Real Estate, Corporates, Financial Markets, Volksbank International AG and VB Leasingfinanzierungsgesellschaft m.b.H.), HR management, the works councils, facility management, IT, central purchasing, risk management, the compliance officer, the corporate governance officer as well as marketing and communication are involved in CR management.

They form what is known as the core team, which elaborates goals, measures and the CR programme.

Each member of the core team is networked within their division with key personnel from the different departments. Regular meetings ensure that information flows are developed to safeguard sustainable development. Through the close networking of this core team in virtually all areas of the Group, a comprehensive basis for the work is guaranteed. Appropriate controlling supports the process.

In addition, to that, a CR database project has been set up that simplifies the processing and updating of the CR data for all core team members.

Mastering challenges

The effects of the financial crisis can still be felt. The process of selling Volksbank International AG and VB-Leasing International Holding GmbH that has already begun is bringing further structural changes with it.

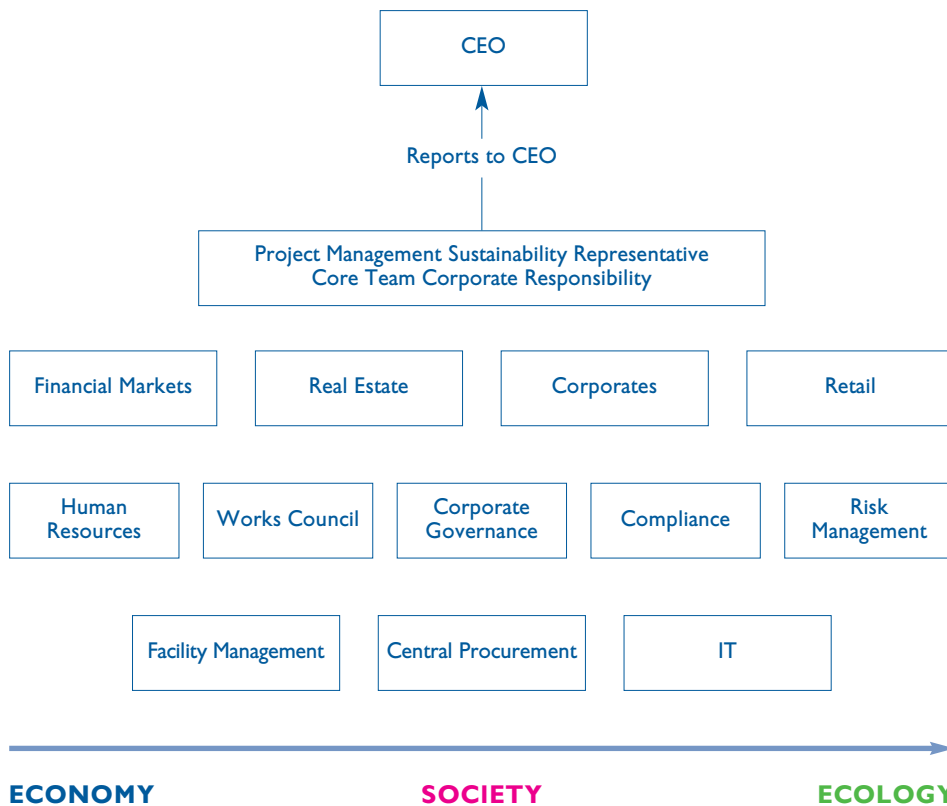
Ongoing HR management programmes ensure responsible dealings with employees.

The process of integrating VBAG and Volksbank AG – Investkredit has also proved challenging. Thanks to appropriate change management measures, the process is developing ever more promisingly.

The Diversity Project integrated in the sustainability management is having as positive an impact on changes as the CR core team, as it is made up of employees from all parts of the business and is therefore exerting a positive influence on the corporate culture.

1) Find the members of the corporate responsibility core team in chapter „Officers and Addressees“ on page 219.

Structure of CR management



Sending the right signals in society

Business mediation offers a new model for customers, partners and employees to improve cooperation, reduce the costs of conflict and achieve better business results. Internally, this special project means identifying conflicts early and dealing with them in such a way that takes account of the interests of all parties.

Sponsoring and cooperation projects are subject to a precise concept. Here, acting in a partnership is understood in the sense of a genuine “give and take”. Cooperation should generate lasting partnership projects characterised by more than the monetary relationship. Event management for VBAG means implementing exclusively “green events”.

The corporate responsibility team



1st line from left to right:
Mirjam Ernst, Manuela Eder, Thomas Skamljic,
Ulrike Schütz, Wolfgang Hütter, Sabine Oschabnig,
Johann Garstenauer, Hans Lang

2nd line from left to right:
Iris Rieglbauer, Michael Orter, Gabriele Bauer,
Michael Hirschler, Birgit-Maureen Martinek,
Angela Platzer-Reichmann, Dietmar König,
Petra Scherzer, Andreas Steyer

Distinction

VBAG's first Corporate Responsibility Report received the Austrian Sustainability Reporting Award (ASRA) after coming fourth in the category “Integrated annual and sustainability reports” in 2010. The report was ranked 9th at the Austrian Annual Report Awards.

In addition, VBAG has been certified as an ÖkoBusinessPlan company by the City of Vienna. This programme issues a site award for companies that have distinguished themselves by implementing environmental measures.

Initiative towards a sustainable future

Constant reflection is necessary to be able to take sustainable social, ecological and economic actions. It is only in this way that further development and reorientation is possible. VBAG has set its sights on a broad array of goals and measures for 2011.

A large role will be played for example by the increased number of stakeholder discussions that will be held, intensified commitment in the area of diversity, the expansion of business mediation and the continual processing of core themes within the strategic business segments and in the areas of the environment and our workforce.

Following that, we also intend to transport sustainability into the Volksbank sector using appropriate measures. In addition, internal communications on the topic of corporate responsibility will be strengthened.

Stakeholders

VBAG's stakeholders comprise private and corporate customers, owners (Volksbank primary banks), employees, authorities, interest groups, political representatives and the general public. 2010 saw customers and employers in particular integrated as part of the sustainability management. Details of this can be found in the chapters on the four strategic business segments as well as the chapter "Non-financial performance indicators" in the management report. With regard to communications with decision-makers setting the political framework, the following issues were relevant for VBAG in the year under review: reduction of the new bank tax, changes concerning participation capital as well as the introduction of Basel III. No external consultancy activities related to policy formation were undertaken to any noteworthy degree. VBAG does not employ any person who is assigned exclusively for lobbying purposes. Policy formation input is carried out through interest groups and by the management.

The market research institute GfK Austria has questioned 20,000 Austrian bank customers in a representative nationwide survey. In 2011, the Volksbanks were No. 1 in four of six areas of customer satisfaction.

Strong together

Sustainability also means working together to set priorities both internally and externally. Through targeted cooperation and memberships VBAG demonstrates its dedication and commitment.



UN Global Compact

The leading institution of the Volksbanks has been a member of the UN Global Compact since April 2010 and thus part of the worldwide Global Compact Network of companies and organisations that align with their corporate policy actively on internationally recognised values.



Österreichische Gesellschaft für Technik und Umwelt (ÖGUT – Austrian Society for Environment and Technology)

ÖGUT operates as a non-party platform for the environment, the economy and management. Its aim is to overcome barriers between the economy and ecology. VBAG as a member of this society, is involved in the task force Business Ecological Benchmarking and takes part in the initiative Turning the page – future dialogue 2035.



respACT – Austrian business council for sustainable development

VBAG advocates socially responsible action in its immediate environment. respACT is a valuable partner for implementing ecological and social goals in an economical way. respACT supports its member companies in achieving their ecological and social goals economically and on their own initiative.



Austrian Diversity Charter

VBAG was one of the first companies to sign the Austrian Diversity Charter. This initiative promotes a shift in awareness and a dialogue in companies with regard to the diversity of their human resources. Diversity is seen as a key factor for global competitiveness and economic growth. VBAG launched its own diversity management project back in 2009.



Oikocredit Austria

Oikocredit provides micro and project loans that are tailored especially to the needs of the poor. Microloans can help build a stable livelihood. The capital comes from around 36,000 investors. 17 million people worldwide are already reaping the benefits. VBAG actively supports Oikocredit as a cooperation partner in the implementation of projects.

EMPLOYEES

CORPORATE RESPONSIBILITY PRINCIPLE

Our employees are the architects of the social and organisational structure of the Group. Our aim is to give them space to optimally use their strengths and talents. Committed people who consistently follow their goals ensure sustainable success.

Training and development

- Our training measures support employees and management in carrying out their tasks and responsibilities.
- To achieve personal and corporate goals and to ensure the long-term success of the Company, our employees can access a wide range of training.
- Recognising and encouraging potential is a key component of long-term personal development.
- Employees and management staff are an active component of the training programme. WIN (Wissen intern nutzen (using knowledge internally)) is the comprehensive internal development programme in which our employees act as trainers. Numerous Volksbank Academy events and the continuous expansion of our external partners complete the offer.

Health and safety

- We support our employees to take part in sports. Team successes and the enjoyment of exercise offer a good balance to the daily routine and foster a culture of personal networks.
- We offer numerous inexpensive activities in various sports sections. We are expanding the programme with exciting and different types of sports.
- Taking responsibility for oneself and one's body also means taking responsibility for organisation and success. Ongoing medical support and focus campaigns (e.g. health checks, advice etc.) are essential components of our health programme.

Work-life balance

- We support our employees with a balanced ratio of work and leisure.
- We offer new and innovative options with flexible part-time models, sabbaticals and training leave.
- We believe that balance is the key to creativity and long-term "enthusiasm for work".

Diversity and variety

- We believe in the equal value of differences and difference as enrichment.
- We aim to recognise the needs of all groups of every nationality, religion, sexual orientation, disability, age or gender, and provide individualised solutions.
- We view the heterogeneity of employees as a strength and want to use this optimally for the benefit of all participants.
- The focus is not on the individual group, but on the workforce as a whole with their differences and similarities.

Freedom of interests

- We believe in equal rights among employees. A climate that allows constructive criticism and the opportunity to be actively involved is essential for this.
- Comprehensive employee representation through elected works councils is important to us.
- We do not treat our employees differently on the basis of membership or non-membership of particular interest groups.
- We view employer and employee representatives as partners for the sustainable development of corporate culture.



EMPLOYEES

>> Our commitment to diversity management reinforces our corporate strategy, as we consider diversity to be a resource. This conception of our identity is anchored in our cooperative values and leads to win-win situations for the company, its employees, its partners and its customers.<<

Gerald Wenzel, CEO

BEST PRACTICE

Diversity Charter signed

With a clear commitment to diversity, VBAG is one of the first signatories

The VBAG signed the "Diversity Charter" together with 10 other national and international companies on 26 November 2010. By pioneering this charter in Austria, the signatories clearly expressed the value they place on and the respect they have for diversity. The model for the charter was provided by countries that have been active in the European Union for several years: Germany, France, Switzerland, Italy and Spain. In France, more than 3,000 companies have already signed the "Charte Diversité".

The goals of the Diversity Charter are clearly defined and provide a guideline for the signatories. The principles raise awareness on the broad benefits of diversity in the economy and in society and promote discourse between the different interest groups. At the same time, they stand for the removal of taboos surrounding people and groups that have been and remain economically and socially disadvantaged. The signatories advocate an increase in mutual respect, tolerance and esteem with regard to diversity in the organisation. In addition, the Diversity Charter creates new networks and possibilities for cooperation.

Diversity management increases the motivation and commitment of employees and promotes creativity and innovation. By signing the Diversity Charter, VBAG has sent out a clear signal. This signal also has an impact internally. It has had a positive effect among many employees and has been interpreted by project staff as a sign that their work is valued.

The use of different corporate cultures took centre stage for the Group in 2010. Following the decision to merge VBAG and Investkredit Bank AG, a variety of dialogue-based formats – at both employee and management level – were initiated to promote exchanges as part of a professional and employee-orientated change management process.

It has been proven that the Diversity Project has laid a good foundation – many employees are already very familiar with the work and the use of differences. In return, the change measures, with their focus on creating a new, common corporate culture, are having a positive effect on the dimensions and the complexity of the themes associated with diversity. The relocation of the new customer service centre is a symbol of the successful merger of the two companies.

REPRESENTATION OF EMPLOYEE INTERESTS

The members of the works councils of Volksbank AG, Volksbank AG – Investkredit and Immoconsult Leasinggesellschaft m.b.H.

Sustainability is key to the success of a competitive enterprise and above all, an important instrument for reinforcing the confidence of employees in the company. Responsible action, as we as a works council understand it, leads to a comprehensive management strategy.

From these perspectives, the works council continues to make it its task to examine critically but also to encourage the sustainability of all measures that are under consideration or have already been implemented. Sustainability thus assumes that the employees are the focus of all considerations.

CORPORATE RESPONSIBILITY PRINCIPLE

The members of the works councils of VBAG, Volksbank AG – Investkredit and Immoconsult Leasinggesellschaft m.b.H.

- protect and promote the interests of the employees in the company as defined by employment law as well as their economic, social, health and cultural interests,
- embody and represent equal treatment,
- are partners in the sustainable development of the corporate culture,
- understand their role as representing the interests of all employees,
- provide support in situations of conflict with the goal of balancing the interests at stake and
- are committed to the representation of all employees in the group by elected members of the works councils.

In times of increasing, job-related stress, we provide our employees with support in pursuing good health and sporting and cultural interests with a view to achieving a stable work-life balance.

In addition, it is especially important to us in these challenging times to facilitate room for communication on social occasions away from the obligations of the job.

In 2011, the members of the works councils for the entire Group are planning to issue a joint invitation for an integration event for all employees in order to strengthen identification with the company. The goal is to represent and to support all employees in the best possible way as a coordinated works council.



BUSINESS MEDIATION

>> We believe in the future of business mediation
and its great benefits for the economy and companies.<<

Gerald Wenzel, CEO

Since 2008, VBAG is the first European banking group to focus on business mediation

The Volksbank Group has been committed to the use of business mediation for several years and has with that, has initiated an innovative Corporate Responsibility project. On account of the significance of the costs of conflict in companies, business mediation as a CR issue is directly related to the business of the Group and of the Volksbanks.

Benefits of mediation for banks and customers

On the basis of a successful pilot project, "Credit Mediation", launched by Volksbank Graz-Bruck, the multi-track development of expertise in mediation within the Volksbank Group is part of the Corporate Responsibility project. In 2010, VBAG was once again a partner of the International Summer School on Business Mediation, which addressed the topic "Crossing Borders". On the last day of this programme, experiences from and new developments in the alternative resolution of conflict to the benefit of the economy were demonstrated. Practical examples, projects and methods of applying business mediation in the banking sector were presented. Mediation, as the event argued, stands for an orientation towards the future, innovative solutions and the saving of direct and indirect costs. Mediation skills work in two ways: employees acquire the know-how to deal constructively with changes and stressful situations, while the external effect sees strengthening and enhancing customer loyalty and reducing risks as primary motives for financial service providers to use mediation.

Development of mediation skills

In 2010, VBAG launched a pilot course on "Business Mediation and Mediation Skills", which will provide mediator training for management staff. 14 executives are taking part in this internal course. Another three executives have begun a similar external course in 2011. Furthermore, two seminars on the subject of "Mediation Skills for Management Staff" have been offered as part of the change management process, with a total of 47 executives taking part.

The participants in the training sessions are strengthened as individuals in their management skills so that they can proactively structure relationships even in difficult situations. At the same time, the participants are supported as they initiate a learning and change process in their functions, through which a new form of dealing with differences is established. This change in the culture of conflict reduces the costs of conflict, allows greater flexibility in crisis situations and promotes sustainable relationships with customers and cooperation partners – it thus generates economic added value directly. For companies and organisations that recognise and make use of business mediation as a strategic opportunity, this represents a clear competitive advantage for the future.

In 2011, VBAG will present the study on "The Costs of Conflict in Family Businesses" that was commissioned from the Fakultät für Interdisziplinäre Forschung und Fortbildung (IFF - School of Interdisciplinary Research and commissioned by Advanced Education) of the University of Klagenfurt. Partners in this project are Ulrike Gamm, business consultant and mediator, and Mario Patera of the IFF at the University of Klagenfurt, who are the organisers of the International Summer School on Business Mediation and project leaders of the "Family Businesses" study.

SPONSORSHIP AND COOPERATION PROJECTS

Commitment leads to partnerships

It is important for VBAG that sponsorship activities increasingly lead to cooperation projects and partnerships. This means that commitment is understood as a partnership to which both sides contribute and from which both sides benefit. Taking responsibility and making a contribution to the common good is firmly anchored in VBAG's vision. It sees it as its task to support social and artistic institutions as well as sports associations in a constructive interaction of all participants. An important consideration here is long-term, integrated concepts that facilitate a more comprehensive support of activities.

Social and cultural responsibility and commitment to education

The Group supported a wide range of social institutions in 2010. A variety of cultural activities were organised in connection with the opening of the new Group headquarters at Kolingasse 14-16. The play "Die Pappenheimer oder Das O der Anna O" written by Franzobel was premiered in cooperation with the Schauspielhaus at the building's opening. A cooperation with the Burgtheater is currently being planned for 2011 in order to establish a stakeholder dialogue in the cultural environment of the theatre to the benefit of both partners. The Group worked together with the "Theater im Thalhof" in Reichenau an der Rax in the summer of 2010. In the area of visual arts, the Group's commitment aims to provide a window for expression for modern art. VBAG is a member of the association Freunde des Hauses der Künstler in Gugging ("Friends of the Gugging House of Artists") and in 2010 supported the arts and music festival "Gugginger Irritationen 2". The Group's 2010 Christmas cards featured a design by the Gugging artist Leonhard Fink. The Group is also a partner of the seedlingart platform, which promotes creative activities that bring artists and children together.

VBAG has been a premium sponsor of the Vienna Konzerthaus since 2008. A benefit of this is that customers and employees can enjoy preferential offers for selected events at the Vienna Konzerthaus. In education, VBAG supports the Wirtschaftsuniversität Wien (Vienna University of Economics and Business) and was a partner of the "International Summer School on Business Mediation". In cooperation with the charity of the Archdiocese of Vienna, the customer giveaways for World Savings Day were produced in the charity's workshops. Volksbank Consulting's second social day was conducted in cooperation with the "Am Himmel" charity facility. The targeted goal of attracting management staff of the Volksbanks to the social day found greater acceptance in 2010 than it did in 2009. VBAG started a cooperation project with Oikocredit Austria in 2010. As part of this project, an ideas competition for an Oikocredit corporate video with an international focus was launched. The Österreichisches Studienzentrum für Film (Austrian Center for Film Studies) of the Donau-Universität Krems (Danube University Krems) was successfully courted as a partner and producer for the film project. The project thus has a twofold effect: it encourages students on the one hand and supports Oikocredit on the other.

Many years' continuous support has also been provided for the Kinderschutzzentrum (child protection centre), which supports young people affected by violence. The Mirmo More association campaigns for peace, social integration, tolerance and international understanding, and was also sponsored last year. The cross-regional cooperation Kunst auf Rädern ("Art on Wheels") has set itself the task of planning and organising cultural events in Austrian retirement, care and nursing homes.

Volksbank International AG (VBI) plays an active role in the development of the regional environment. The quality of life of the local population is raised by donations and sponsorship. In 2010, VBI took part in campaigns involving social projects, such as the Mirmo More peace fleet and the "Am Himmel" charity facility. Volksbank Slowakei has for many years helped fund the Bijela Pastelka society for the visually impaired in Slovakia. In Ukraine, support was provided for the Easter festival in Lviv. Sustainable regional development is about more than just donations and sponsorship. Volksbank Ukraine took part in the Lviv regional meeting that was organised by the regional government and which discusses social issues and economic reforms. In addition, VBI presented sustainable possibilities for investment in infrastructure in Bosnia to 160 participants from 13 countries at the Vienna Economic Forum on "Meet Bosnia-Herzegovina in Vienna" in March 2010. The donation activities of VB Leasing Finanzierungsges.m.b.H. have focused on the SOS Children's Village. In addition to the actual donation work, collections for the SOS Children's Village are actively solicited at customer and employee events.

Sports sponsoring

The collaboration with the Austrian Ski Association ski jumping team, which is conceived as a long-term partnership, pursues the goals of image transfer, a strong brand presence and generating a rapport with target groups. VBAG appeared as a presenting sponsor at the Beach Volleyball Grand Slam¹⁾. A perfect combination of sponsorship commitments in winter and summer was thus successfully ensured. In total, VBAG, Volksbank International AG and VB Leasing Finanzierungsges.m.b.H. donated around EUR 0.9 million to social and cultural activities and to sports initiatives in the year under review.

1) Sports sponsoring is cross-regional sponsoring. The disclosed rate relates to the sponsoring rate of VBAG.



ENVIRONMENT – FACILITY MANAGEMENT AND IT

CORPORATE RESPONSIBILITY PRINCIPLE

Our services are designed to minimise negative environmental impact and to preserve resources. This is achieved as part of a continuous improvement process. As a mediator between companies and suppliers in the respective procurement markets, we have a responsibility to companies, customers and suppliers, the environment and society. We gain our colleagues as partners and encourage their ecological awareness.

We place great emphasis on the environmental soundness of cleaning products.

Cleaning the premises in no way contradicts protecting the environment and preventing water pollution. We define a scale for our cleaning services that is always adjusted to the existing requirements. We reduce cleaning and only use biological cleaning materials.

We focus on the reduction of waste volumes.

As part of our extensive waste management concept, in addition to numerous measures to optimise waste management, we focus on targeted restructuring in the social working environment which is aimed primarily at significantly reducing waste volumes.

We are reorganising the vehicle fleet and making a contribution to climate protection.

We emphasise fuel consumption and CO₂ emissions as primary decision criteria in purchasing new vehicles for the carpool, and actively reduce harmful emissions over the entire lifecycle by optimising our journeys.

We are improving energy efficiency and reducing energy consumption.

To improve our energy efficiency, we are reducing not only our energy consumption to a reasonable and essential level, but are also promoting the optimisation of our buildings through the increased and targeted use of renewable energy from sustainable sources.

We promote high quality in service and support.

We place a high value on the optimal support of the business process through technical and advisory support for daily work procedures. The implementation of optimal security standards is a central concern for us.

We aim for sensible optimisation of the IT infrastructure

We determine optimisation potential and find ways to make processes in companies better, more efficient and more economical with the help of suitable IT systems. We seek to provide state-of-the-art technology.

ENVIRONMENT – PURCHASING

CORPORATE RESPONSIBILITY PRINCIPLE

As a mediator between VBAG and suppliers in the respective procurement markets, we have a responsibility to the companies, to customers and suppliers, to the environment and to society. We also assume this responsibility for the procurement process.

Legal requirements

Laws create the framework for proper conduct.

- We comply with the applicable legal conditions in all our business dealings and decisions.
- We strictly separate business and private interests in dealing with consumers and suppliers. Actions and decisions are made independently of inappropriate considerations.
- We advocate fair competition. We observe the applicable laws that protect and promote competition.

Protection of basic rights

Respecting the basic rights of each individual is the basis of our conduct.

- We object to every form of child labour and forced labour, and demand that our suppliers also adhere to this guideline.
- We respect and support compliance with international human rights and expect the same attitude from our suppliers.
- We stand against every form of discrimination and also expect this from our suppliers.

Working conditions

Industrial safety regulations represent safety measures for employees.

- We expect our suppliers to maintain occupational health and safety in the workplace and
- to ensure fair working conditions and equal opportunities for their employees.

Environmental protection

The conservation and protection of our environment is a key issue for humanity.

- We feel obliged to protect the environment:
- by promoting suppliers who support the corresponding measures, and
- by promoting the purchasing of products in line with environmental protection and quality criteria.

Suppliers

We live responsibility through proper conduct with our suppliers.

- We view suppliers as partners and treat them fairly accordingly.
- We view it as our responsibility to optimally encourage the sustainable development of our suppliers.
- We recommend that our suppliers implement sustainable principles, and request the same of their suppliers.



>> The consistent application and implementation of green logistics requires a comprehensive strategic orientation of the company on sustainable and environmentally friendly economic activities, but also a high degree of personal commitment.<<

Peter Steiml, Head of Banking Logistics & Services Division, Back Office Service für Banken GmbH

BEST PRACTICE

VBAG retrofits properties with district heating

One of the key measures that can be taken to protect the climate is to reduce energy consumption. The heating requirement of the VBAG Group's office buildings represents one of the Group's major direct environmental impacts. The decision on what type of energy is used is of critical importance here. In Vienna, district heating is one of the most environmentally friendly forms of energy use.

By the end of 2010, the proportion of the Group's office space supplied with district heating had been successfully increased from 45% to 95%. By 2012, it will be possible to record the energy consumption data of all locations owned by VBAG and of the Group's new headquarters without any gaps.

Historical background: The Group's old headquarters as well as the properties in Renngasse and Wasagasse were already connected to the district heating network of Wien Energie AG. The way that the district heating pipelines were laid in Liechtensteinstraße, however, meant that the buildings at Kolingasse 15-19 and at Peregringasse 2 and 4 could not be connected to this network.

With the decision to convert and rebuild the Group's headquarters, a project to examine the infrastructure supply of the building site was initiated. The factors to be reviewed included the security of supply, environmental compatibility, sustainability – in terms of balancing social, economic and ecological goals from a long-term perspective – investment and operating costs as well as effects on and synergies for the rest of the neighbouring properties.

The stated goal: to supply all properties with district heating. To this end, a pipeline was laid from the main pipeline in Liechtensteingasse that goes through the new building and across Peregringasse to the building at Peregringasse 2. A converter station was erected by Fernwärme Wien GmbH here that supplies the new headquarters and the buildings at Peregringasse 2, Peregringasse 4 and Kolingasse 15-19. Pipelines to the boiler plants of the individual buildings then allowed these to be connected to the district heating supply in September 2010. Old, sometimes malfunctioning gas boilers were dismantled and disposed of. The proportion of the Group's own properties that are supplied with district heating now stands at around 95% for the winter 2010/2011 heating period. After the conversion works have been completed, it is planned to connect other smaller areas in the building at Kolingasse 17 in 2011, with the result that the upgrading will cover around 98% of the properties.

Thanks to this improvement, the targets that have been set for reducing CO₂ emissions and for simple, low-maintenance operations management will be met. And that is a situation which will increase the value of the properties.

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**>>WITH OUR STRATEGY 2015
WE HAVE SET THE COURSE
FOR A SUCCESSFULL,
SUSTAINABLE DEVELOPMENT.<<**

Gerald Wenzel
CEO and Chairman of the Managing Board

MANAGEMENT REPORT

Report on business development and the economic situation

Economic environment in 2010

Global trends

The global economic environment was characterised by robust growth in demand in emerging countries and a noticeable recovery in most industrialised nations. The development of exports was favourable in most of the core markets of Österreichische Volksbanken-AG, VBAG. The increased demand for raw materials led to a marked rise in raw material prices during the year. Prices for the various types of oil increased by more than 15%¹. Gold increased in price by almost 30%, mainly due to its role as "safe haven".² The prices of most other metals also grew significantly.

Discrepancies in euro

In the USA, the euro zone, Switzerland and Japan, consistently positive GDP growth rates were seen in the first three quarters. Although the unemployment rate remained high, the prospects on the US employment market improved, in particular in the second half of the year. This meant that consumer spending contributed significantly to growth in the USA. In the euro zone, growth was boosted above all by the export sector, which benefited from the temporary weakness of the euro and from stronger demand. Private and public spending also had a positive impact. However, the aggregate data hides a strong discrepancy in the euro zone: with 3.9% Germany achieved the highest annual growth rate since reunification.³ In Ireland, however, the annual growth rate in the third quarter was -0.7%, while in Greece it was -4.6%.³ Countries with high levels of national debt and/or previous property crises fell back sharply compared with the average and found themselves confronted with growing problems with the (re)financing of their budgets. A support programme worth euro 440 billion was set up for Greece in May in cooperation between the International Monetary Fund, IMF, and the European Union, EU. This was supplemented in June by a general aid programme (European Financial Stability Facility). The first and so far the only country to have made use of funds from this programme is Ireland.

Austria

Economic output in Austria stagnated at the beginning of the year, before gaining momentum from the second quarter onwards in the wake of Germany's powerful industrial sector. In the third quarter, Austria recorded growth of GDP in real terms of 2.5%, which was considerably stronger than growth for the euro zone as a whole (1.9%).³ Of the various factors involved, exports showed by far the strongest growth of 13.8%.³ Consumer spending also made a positive contribution to economic growth, while government spending and gross fixed capital formation were lower than in the same period of the previous year.

Industrial sector

There was a strong recovery in industrial production. In the euro zone, only production of consumer goods remained relatively weak, while intermediate consumption and energy rose year-on-year and capital goods even recorded substantial double-digit growth rates. The development of incoming orders was even more positive, with the order intake up around 15% year-on-year at the beginning of the fourth quarter.⁴ Construction output stagnated last year. With a growth rate of 7.4% (October 2010), Austrian industrial production corresponded more or less to the euro zone average at the beginning of the fourth quarter, while incoming orders were slightly stronger at +16.2% in October.^{5, 6}

Inflation and monetary policy

The annual inflation rate, which was around 1% at the beginning of the year, rose steadily over the course of the year and stood at 2.2% for both Austria and the euro zone in December.⁷ Once again, there was a sharp discrepancy between individual countries. Ireland continued to experience deflation of -1.8% (November), while Greece recorded an inflation rate of 5.2% in December.⁷ Only Estonia, which joined the euro zone at the beginning of 2011, showed stronger inflation of 5.4%.⁷ Inflation remained low in the USA, Japan and Switzerland, causing central banks to ease their monetary policy further. In contrast, the ECB cut back part of its "exceptional measures". This withdrawal, however was slowed down in view of the growing problems arising for the financial sector as a result of the debt problems of individual countries and the falling prices of bonds of these countries. The base rate remained unchanged at 1% and serves as a basis for the main refinancing transactions, which are still organised as volume tenders (rather than price tenders, as previously).⁸ The ECB maintained its 3-month refinancing transactions.

¹ 15%; Source: Bloomberg

² 30%; Source: Bloomberg

³ 3.9%; -0.7%; -4.6%; 2.5%; 1.9%; 13.8%; Source: Eurostat Press release 6/2010

⁴ 15%; Source: Eurostat Press release 12/2010

⁵ 7.4%; Source: Eurostat Press release 7/2010

⁶ 16.2%; Source: Eurostat Press release 12/2010

⁷ 1%; 2.2%; -1.8%; 5.2%; 5.4%; Source: Eurostat Press release 9/2010

⁸ 1%; Source: ECB

The European money market showed signs of normalisation in the course of the year, after the ECB allowed some of its exceptional monetary policy measures to expire. The 3-month Euribor rose to over 1% again.⁹ Longer-term bond yields fell during the year in both the “safe haven” of Germany and in the USA, but began to rise again towards the end of the year. The above mentioned support for Greece and the provision of the European Financial Stability Fund, EFSF, both of which are set to run until mid-2013, did not stabilise the European government bond market. Consultations about the course of action from 2013 onwards were stepped up towards the end of the year.

Uncertainty about public finances of individual member states placed a significant strain on the euro in the first half of the year. At the beginning of June, the exchange rate of the euro stood at USD 1.19, its lowest point since 2006.¹⁰ This was followed by a brief increase to USD 1.42, supported by the relaxed monetary policy of the FED.¹⁰ By the end of the year, the euro had declined in value by almost 7% in relation to the US dollar.¹⁰ The Swiss franc appreciated steadily during the year, a trend that was interrupted only in the third quarter. The franc reached a historic high of CHF 1.24 per euro at the end of the year.¹⁰ This represented an appreciation of more than 15% compared with the beginning of the year.¹⁰ Share prices moved sideways for large parts of the year. A significant rise in share prices was seen in the last quarter, which was attributable to the expected extension of the “quantitative easing” policy of the US central bank, to the fact that company results were predominantly good and to the publication of some positive economic data.

The Czech Republic, Slovakia and – with certain restrictions – Hungary also reported economic dynamism comparable to the core euro zone in the third quarter, albeit at very different levels. Ukraine, Serbia and Bosnia-Herzegovina benefited from the robust industrial sector both within and outside the euro zone, while some South-Eastern European markets emerged from the recession only slowly.

The individual countries:

Bosnia-Herzegovina

Despite a rise in exports, domestic demand and lending remained too weak to allow a powerful economic recovery. Nevertheless, low positive growth in GDP is expected for 2010. Public finances represent a major element of uncertainty, as so far no viable government has emerged from the parliamentary elections in October that could have approved a draft budget for 2011.

Croatia

After a continued decline in GDP in the first half of the year, an annual rate of just over 0% was recorded again in the third quarter, which was due in particular to a rise in net exports (starting from a low base).¹¹ At the same time, public spending and gross capital expenditure in particular fell year-on-year. Direct investments were down around 30% year-on-year in the first nine months.¹¹

Romania

The recession continued in the third quarter with negative growth of 0.7% compared with the previous quarter and 2.2% year-on-year, after positive quarterly growth was achieved at least temporarily in the second quarter.¹² The increase of five percentage points in value added tax, along with salary and pension cuts in the public sector, placed a strain on consumer spending, although they helped to achieve the national budget targets agreed with the IMF.¹² The Romanian currency declined further in value against the euro in 2010.

Serbia

The official end of the recession was confirmed by the data for the second quarter, which showed an increase in GDP of 2.0% year-on-year;¹³ driving factors were the export-oriented sectors of the manufacturing industry. Inflation increased and returned to a double-digit level, in December it was 10.3%.⁹ Despite repeated intervention by the central bank, the dinar noticeably declined in value against the euro in 2010.

Slovakia

Owing to its high level of openness, Slovakia has been hit harder than most other countries by fluctuations in the European economy. In the third quarter, the Slovakian economy continued its robust growth, with a quarterly growth rate of 1% and annual growth of 3.8%.¹² Growth was driven by the build-up of

⁹ 1%; 10.3%; Source: Thomson Reuters

¹⁰ USD 1.19; USD 1.42; 7%; CHF 1.24; 15%; Source: Thomson Reuters

¹¹ 0%; 30%; Source: National Statistical Office (via Reuters)

¹² 0.7% q/q; 2.2% y/y; 5 percentage points; 1%; 3.8%; 0.3% q/q; 1.7% y/y; 1% q/q; 2.1% y/y; 1% q/q; 2.8% y/y; 14%; 0.8% q/q; 1.7% y/y; Source: Eurostat

¹³ 2.0% y/y; Source: National Statistical Office (via Reuters)

inventories and, for the first time since the third quarter of 2008 and in the same way as for the Czech Republic, gross capital expenditure, while consumer spending fell compared with the previous quarter. The monthly data indicate further above-average growth.

Slovenia

Following relatively strong signs of recovery in the second quarter, the Slovenian economy continued its recovery in the third quarter. It was beginning to lose momentum, however, with growth of 0.3% compared with the previous quarter and of 1.7% year-on-year (second quarter: 1% growth compared with the previous quarter and 2.1% growth year-on-year).¹² The most important factors driving growth were net exports, while capital expenditure and construction output declined.

Czech Republic

The Czech economy remained on track for recovery in the third quarter. Economic growth accelerated to 1% compared with the previous quarter and 2.8% year-on-year, which represented the strongest growth since the second quarter of 2008¹². While the recovery was initially due mainly to net exports, gross capital expenditure rose by an annual rate of 14%.¹² However, the first monthly figures from the fourth quarter indicate that growth has slowed.

Hungary

The improved export results put an end to the recession in 2010. In view of the sharp decline in GDP in 2009 and the preceding period of economic weakness, however, the accelerated growth in GDP in the third quarter, which stood at 0.8% compared with the previous quarter and 1.7% year-on-year, cannot yet be regarded as a sign of strong growth.¹²

Ukraine

Following a powerful recovery driven by exports in the first half of the year, the Ukrainian economy lost momentum. The annual growth rate dropped from 5.9% in the second quarter to 3.5% in the third quarter.¹⁴

Outlook

Economic development in the markets of Österreichische Volksbanken-AG 2008 – 2011

| Real growth p.a. % | 2008 | 2009 | 2010e | 2011e |
|--------------------|------|-------|-------|-------|
| Austria | 2.2 | -3.9 | 2.0 | 1.7 |
| Germany | 1.0 | -4.7 | 3.7 | 2.2 |
| Euro zone | 0.4 | -4.1 | 1.7 | 1.5 |
| Bosnia-Herzegovina | 6 | -2.8 | 1.9 | 3.5 |
| Croatia | 2.4 | -5.8 | -1.8 | 1.5 |
| Romania | 7.3 | -7.1 | -1.9 | 1.5 |
| Serbia | 5.5 | -3.0 | 1.0 | 2.0 |
| Slovakia | 5.8 | -4.8 | 4.1 | 3.0 |
| Slovenia | 3.7 | -8.1 | 1.1 | 1.9 |
| Czech Republic | 2.5 | -4.1 | 2.4 | 2.3 |
| Ukraine | 2.3 | -15.1 | 3.8 | 4.5 |
| Hungary | 0.8 | -6.7 | 1.1 | 2.8 |

Source: EU Commission, Vienna Institute for International Economic Studies, IHS Global Insight

Sustainability trends

Corporate Financing

Internationally, a stronger trend can be seen towards the integrating social and ecological aspects in the assessment of financing. Sustainability due diligence checks and social and environmental impact assessments are increasingly forming part of checks on project financing.

Retail

The trend that is increasingly being seen in society towards a "lifestyle of health and sustainability" is also having a visible impact on the economy. Consumers are guided by ethical principles and social responsibility and focus on quality, health, organic products and fair trade. Banks in general need to catch up here: According to the "CSR Monitor 2010" study conducted by GfK Austria, the financial sector is not regarded as a sector that is typically socially responsible or sustainable. At the same time, this assessment offers the opportunity for pioneers to distinguish themselves.

¹⁴ 5.9%; 3.5%; Source: Estimates by the IMF and the Ukrainian government and Central Bank, published by Thomson Reuters

Real Estate

Sustainability was discussed as one of the key trends in the real estate sector in 2010. The various aspects such as energy efficiency, sustainable materials and re-use are combined in certification for buildings. At present, there are still many different certificates for sustainable buildings, such as LEED, BREAM, ÖGNI, DGNB, TQB and klima-aktiv. However, many of these are geared towards the concept of "blue buildings", combining social, ecological and economic aspects. In the paradigm shift from the green building to the blue building concept a development can be seen away from pure energy-efficiency towards a holistic sustainability. It is becoming apparent that sustainability certificates are increasingly enhancing the value of buildings.

Investments

Sustainability opens up new opportunities through the use of innovation and new market potential. In the current market environment, there is increased demand for sustainable corporate bonds. Taking into account social, environmental and ethical aspects when putting together sustainable investment products meets the demands of a growing group of investors who are guided by sustainable values. For this group of investors, it is vital that the corporate responsibility concept on which the investment product is based matches their own ideas of sustainability with positive and exclusion criteria. Internationally, institutional investors such as pension funds and staff provision funds in particular are paying more attention to these criteria. According to the Sustainable Business Institute, SBI, which set up the market platform www.nachhaltiges-investment.org, a total of 354 sustainable retail funds were approved for distribution in Germany, Austria and Switzerland at the end of 2010. As at 31 December 2010, the 354 funds had invested approximately euro 34 billion, showing that the growth of sustainable retail funds continued in 2010. According to Eurosif, European Sustainable Investment Forum, the volume of sustainable investments in Europe doubled in the years of the economic and financial crisis.

Combination of VBAG and Investkredit

In June 2010, the supervisory board of VBAG decided to combine Österreichische Volksbanken-AG and Investkredit Bank AG, a process that is set to be completed by mid 2011. In September 2010, the supervisory board of Investkredit Bank AG made the managing board team of VBAG responsible for both companies. Since this point, the Corporates segment (without VB Factoring Bank AG) as well as Investkredit Bank AG's real estate financing business have been operating under the brand name of Volksbank AG – Investkredit.

Business development

The positive trend evident in VBAG's quarterly figures continued in the annual result 2010. The result before taxes was euro 91 million and the consolidated result after taxes and non-controlling interests amounted to euro 55 million. Our expectations were therefore fulfilled.

Capital ratios also developed positively and improved compared with the previous year. At the end of 2010, the tier I ratio (in relation to credit risk) was 10.3% and the equity ratio (in relation to total risk) stood at 12.8%.

Results in detail

Net interest income is a driver of the good result, it increased by euro 180 million (or 30%) compared with 2009 and reached euro 776 million for 2010. The largest rise of net interest income took place in the Investment Book/Other Operations segment, where the interest rate elasticity, which depressed net interest income in the previous year (the adjustment to the fall in the level of interest rates took place more rapidly on the assets side than on the liabilities side), is having the greatest impact. In the Corporates segment, net interest income was still down year-on-year in the third quarter, but it grew in the fourth quarter resulting in a growth of euro 17 million for the year as a whole. The Financial Markets (euro +14 million) and Retail segments (CEE banks euro +9 million, leasing euro +2 million) also reported increases. In the Real Estate segment, the rise is due to the valuation at equity of the Vremena Goda property. After an impairment of euro 35 million in the previous year, the valuation for this property rose by euro 6 million in 2010.

In 2010, the result from sales activities of the trading department was reclassified from net trading income to net fee and commission income. The previous year's figures have been adjusted accordingly. Since both sales and trading activities generated record results in the previous year due to exceptional market conditions, both result positions remained below the previous year's figures. Net fee and commission income decreased by euro 34 million year-on-year and amounted to euro 167 million as of the end of the year. Sales results, as mentioned above, decreased and stood at euro 30 million. Due to the fall in demand

for loans, fee and commission from the lending business declined slightly to euro 28 million. A slight increase of euro 2 million in fee and commission income from securities businesses was generated, while income from payment and exchange rate transactions decreased somewhat by a total of euro 1 million.

At euro 40 million, net trading income dropped by euro 23 million compared to the previous year. This is mainly a consequence of the excellent performance in 2009, when outstanding net trading income was generated, in part due to the steep interest rate curve. The value at risk limit for the trading book was euro 3.9 million per day in 2010 and was not exceeded at any time. Average utilisation of the trading book limit in 2010 was 37.5 %, an indication of the very conservative risk strategy of VBAG Group. In the CEE banks segment, favourable currency developments led to an increase in the currency result.

General administrative expenses for 2010 amounted to euro 551 million, a rise of euro 13 million or 2.4% against the comparative period.

At euro 291 million, staff costs were euro 21 million above the level of the previous year which is due to personnel provisions. As a result of the lower level of interest rates, the interest rate for calculating long-term employee provisions was reduced from 5.25% to 4.25%. This meant that the corridor for pension provisions was exceeded by euro 6 million and recognised in income. Almost euro 9 million remained as actuarial losses not to be taken into account. In the previous year, a gain of more than euro 1 million was recognised due to the corridor for provisions for severance payments being exceeded. The previous year also saw a euro 5 million higher result from plan assets for pension provisions than in the 2010 financial year. The remaining increase in staff costs (euro 8 million) equates to a rise of 3.1%.

Since the end of 2009, the number of employees in the Group dropped by 209, with 7,531 members of staff now employed (adjusted for employees of the disposal group). The optimisation of the international sales network resulted in the number of employees declining from 6,307 to 6,115. At the same time, the number of international sales outlets has decreased by 35 since the end of 2009 to 548. The number of employees in Austria declined slightly by 17 to 1,416.

Other administrative expenses were reduced by euro 10 million from euro 230 million the previous year to euro 220 million. This is due to the utilisation of project cost provisions established last year with respect to the sale of Europolis in an amount of euro 10 million.

Operating result

| Euro million | 1-12/2010 | 1-12/2009 | Changes | |
|------------------------------------|--------------|--------------|-------------------------------|--------------|
| Net interest income | 776 | 597 | 180 | 30.1% |
| Net fee and commission income | 167 | 201 | -34 | -16.9% |
| Net trading income | 40 | 63 | -23 | -37.2% |
| General administrative expenses | -551 | -538 | -13 | 2.3 % |
| Operating result | 432 | 322 | 110 | 34.1% |
| Operating cost-income-ratio | 56.1% | 62.6% | -6.5 percentage points | |

The operating result increased by euro 110 million, or 34%, due to the rise in net interest income. The operating cost-income-ratio improved by 6.5 percentage points from 62.6% to 56.1%.

The other operating result decreased by euro 43 million to euro -22 million year-on-year. In the 2010 financial year, euro 8 million bank taxes incurred in Hungary were included in this position. In addition, a decision passed by the Supreme Administrative Court in Warsaw meant that back payments of value-added tax for 2004 to 2008 amounting to euro 15 million had to be recognised affecting income in the leasing business. Furthermore, the previous year saw increased contract terminations in the Leasing segment that were reflected in the result for the 2009 financial year with income of euro 6 million. The rise in the Real Estate segment is due to a repayment of supplementary capital in the Group and is balanced out by the decrease in the Investment Book/Other Operations segment. Impairment of euro 7.6 million was taken on the goodwill of Volksbank Ukraine in the 2010 financial year. The impairment tests carried out for all other goodwill did not result in any further impairment requirement.

In 2010, the economic environment was difficult in parts of Central and Eastern Europe. As a result, VBAG Group is still reporting increased loan loss provisions. However, there has been a significant decrease year-on-year. In the period under review, risk provisions of euro 364 million were recognised, euro 487 million (or 57%) less than the previous year. At euro 359 million, the greatest decline was recorded in the Corporates segment. Risk provisions also dropped in the Real Estate (euro 119 million), Investment Book

(euro 40 million) and Leasing area (euro 27 million). In contrast, the CEE banks saw an increase in loan loss provisions of euro 63 million. This can be attributed to Volksbank Romania, as the loan loss provisions of the other CEE banks have remained stable or, in the case of Volksbank Ukraine, decreased.

Income from financial investments amounted to euro 43 million for the 2010 financial year, increasing by euro 296 million year-on-year. In 2009, income from financial investments was severely depressed by impairments on participations (euro 224 million) as well as impairments and valuations of derivatives in the structured credit portfolio (euro 103 million). In the 2010 financial year, impairments of euro –16 million were recorded in total (impairments and write-ups netted); of which euro –20 million relate to participations, whereas with respect to securities a write-up was recorded.

The sale of VB Linz+Mühlviertel was closed on 6 August 2010. The result for the period from 1 January to 6 August and the deconsolidation result are presented in the result for a disposal group.

Furthermore, negotiations regarding the sale of Europolis Group were concluded with the signing in June 2010. Closing of the transaction was on 31 December 2010, the buyer of Europolis, CA Immobilien Anlagen AG, acquired the shares as of the end of 31 December 2010. The deconsolidation therefore took place on 1 January 2011. The result for the disposal group includes the operating result of Europolis Group for the 2010 financial year as well as the valuation of the Group's assets and liabilities with regard to the purchase price to be achieved. This means that the deconsolidation is only expected to have a minor impact on the result in the 2011 financial year (as a result of changes in contingent consideration).

Income taxes for the 2010 financial year amounted to euro –31 million. These include an adjustment of deferred tax assets in respect of unutilised tax loss carryforwards to the amount of euro –9 million. In the previous year, income taxes were impacted by high adjustments on deferred tax assets.

Non-controlling interests also declined sharply. This can be attributed to the decrease in the results of the CEE banks and the balanced result for Europolis Group.

Statement of financial position and own funds

As at 31 December 2010, total assets amounted to euro 46.5 billion, which signifies a decrease of euro 2.7 billion or 5.5% year-on-year. Adjusted for the assets of a disposal group, total assets decreased by euro 2.2 billion, or 4.7%.

As at the end of 2010, loans and advances to customers amounted to euro 23.6 billion, remaining below the level of the previous year by euro 0.5 billion or 2.2%. This is primarily due to declines in the Corporates segment (euro 0.8 billion). In the Real Estate segment, the return of the banking licence of Europolis AG means that the refinancing of the Europolis Group is now presented in loans and advances to customers, rather than in loans and advances to credit institutions. The consequent increase of euro 0.5 billion compensates the decrease in other real estate financing. Lending has also continued to fall in the Leasing area. Loans and advances to customers rose by euro 0.4 billion for the CEE banks.

At euro 16.1 billion as at 31 December 2010, debts evidenced by certificates decreased by euro 1.2 billion, or 7%, against the end of the previous year as a result of scheduled redemptions and repayments within the Group, which were only partly compensated by new issues.

Amounts owed to customers declined by euro 0.2 billion to euro 7.3 billion. Increases in the Corporates segment (euro 0.3 billion) and in CEE banks (euro 0.2 billion) offset decreases in the Real Estate (euro 0.5 billion) and Financial Markets segments (euro 0.1 billion).

As at 31 December 2010, VBAG Group had eligible own funds of euro 3.6 billion. The tier I ratio (ratio of core capital to the assessment base for credit risk) reached 10.3% (previous year: 10%). At the end of 2010, the tier I ratio (in relation to total risk) was 9.4% (31 December 2009: 9.2%). The equity ratio in relation to total risk amounts to 12.8% (31 December 2009: 12.5%). Eligible own funds exceed regulatory requirement by more than euro 1.3 billion or 59.7%.

Non-financial performance indicators

Sustainability management

Sustainability management was established at VBAG in 2009. The first sustainability programme for the strategic business segments (Corporates, Retail, Real Estate, Financial Markets), Facility Management, IT, Purchasing, Marketing, Compliance, Risk Management, Human Resources and the Works Council was drawn up for 2010. In the area of Financial Markets, the certification of the funds VB-Ethik-Global, VB-Mündel-Rent and Spar Garant Klassik with the Austrian ecolabel was commissioned, for example. In project financing, new business worth over euro 50 million was generated in the field of wind and photovoltaics. In the field of International School Financing, KfW Bankengruppe provided funds worth euro 60 million in 2010 in order to finance long-term investment projects at over 130 German schools abroad. In the Real Estate segment, green building pre-certification was anchored in project developments of PREMIUMRED Real Estate Development GmbH during the course of the projects. In the Retail segment, Volksbank International AG was included in corporate responsibility management on a project-oriented basis in 2010.

Environment¹⁵

The following presentation of the direct environmental impacts relates to the activities of the VBAG Group in Austria. The Group plans to participate in the ECOPROFIT programme of the city of Vienna in 2011.

Heating

95% of office space
heated by district heating

The heating requirement of the VBAG Group's office buildings in Austria represents one of the Group's major direct environmental impacts. The key factor here is the type of energy that is used. In Vienna, district heating is one of the most environmentally friendly forms of energy use. By the end of 2010, it had proved possible to increase the proportion of office space supplied with district heating from 45% to 95%. In addition to that, it is planned to connect the building at Kolingasse 17 to the district heating supply in 2011, with the result that the progress status will reach 98% once the expansion has been completed. The recording of energy consumption data has been successively expanded over the past few years.¹⁶ By 2012, recordings will seamlessly cover all locations owned by VBAG and the new Group headquarters.

Energy consumption

| | Unit | 2008 | 2009 | 2010 |
|--------------------------------------|------------------------|-----------|-----------|-----------|
| Natural gas consumption | kWh | 2,036,475 | 2,855,240 | 1,889,950 |
| District heating consumption | kWh | 456,820 | 812,370 | 1,920,960 |
| Total heating requirement | kWh | 2,493,295 | 3,667,610 | 3,810,910 |
| Heating requirement per square metre | kWh per m ² | 95.53 | 121.71 | n/a* |

* The heating requirement per square metre is not presented for 2010 as a result of the relocations during the year. Presentation of the figure will resume from 2011.

Electricity

The recording of electricity consumption has been successively extended to other locations in the past few years¹⁷. The table therefore shows an increase in consumption, while the construction and relocation activities have also contributed to higher consumption values. As a result of the move to the new Group headquarters and the shutting down of other locations, the indicator for electricity consumption per square metre can provisionally not be presented for 2010.

Electricity consumption
reduced

Several measures enabled the electricity consumption of an average workplace to be reduced in the previous year. The most important success was the halving of the number of printers at VBAG Austria. Printer pools replaced individual machines at the workplace in the new Group headquarters. Energy-saving machines were the focus during the purchasing process. Cooling devices and dishwashers for the new headquarters are labelled Energy Class A+.

Employee awareness

The energy-saving virtualisation for servers is an ongoing process. Each time a server which is operated by the data processing center of VBAG is replaced because of its age, a check is carried out to see whether it can be virtualised. The boot-up of the workplace in the morning has also been shortened in order to motivate employees to switch off their PCs in the evening. Awareness was promoted in 2010, with energy-saving tips included in the Corporate Responsibility employee calendar. In future, new employees will be

¹⁵ Corporate Responsibility Program „Environment“ 2010 and 2011 see page 196.

¹⁶ 2007 included the data on the heating consumption of the department locations of the VBAG Group headquarters (excluding Saturn Tower), the headquarters of Volksbank Wien AG, Back Office Service für Banken GmbH (excluding Logistics), VB-Leasing International Holding GmbH and the headquarters of VB Leasing Finanzierungsgesellschaft m.b.H. Vienna (Kolingasse 12). Investkredit Bank AG, excluding Renngasse 5 and 6-8 as well as Kohlmarkt 8-10, was added from 2008. Recordings from Immoconsult Leasing GmbH, PREMIUMRED Real Estate Development GmbH and the VB Leasing Finanzierungsgesellschaft m.b.H. Vienna headquarters (Wasagasse 2) were added from 2009 onwards.

made aware of the energy theme on their first day at work (CheckIn event, welcome mail). It is also planned to measure the electricity consumption in a department before and after a short training session on energy-saving measures in order to highlight and communicate potential savings.

The new photovoltaic system, covering an area of 351 square metres on the roof of the new Group headquarters, was given a trial run in mid 2010. The plant has now been supplying green electricity since 15 November 2010. 536.47 kWh was generated in the period from 15 November 2010 to 31 December 2010. Because it was operated in winter, the volume is still small; the first full year of electricity production will now be 2011.

Active photovoltaic system

Electricity requirement

| Energy consumption | Unit | 2008 | 2009 | 2010 |
|--|------|-----------|-----------|-----------|
| Electricity generation from company's own photovoltaic plant | kWh | – | – | 536 |
| Electricity consumption | kWh | 3,089,797 | 3,305,031 | 4,903,711 |
| Electricity consumption per square metre | kWh | 101.45 | 95.83 | n/a* |

* The energy consumption per square metre is not presented for 2010 as a result of the relocations during the year. Presentation of the figure will resume from 2011.

Business travel

Both the kilometre output and the fuel consumption of the VBAG pool cars increased in the past year. The new business travel guideline was not able to reduce the number of business trips made by car at least in the short term. On the other hand, the efficiency of the trips did increase slightly: The average diesel consumption per 100 km decreased in comparison to the previous year to 6.63 litres. The purchase of new software to record kilometre output and fuel consumption of company cars was postponed.

Diesel consumption reduced

The composition of the vehicle fleet remained unchanged. The average CO₂ emissions per kilometre of the pool cars (based on the stated manufacturer's specifications) were already 139 grams in the previous year. A reduction in the quantity of the CO₂ emissions per kilometre based on factory standards is not planned; however, the most efficient technologies are selected when cars are purchased for the pool (e.g. VW blue motion). Video conference rooms have been installed at the headquarters with the goal of reducing business travel.

A new measure involves recording air miles for business trips. This data is provided together with the related CO₂ emissions by the newly commissioned travel agency. The CO₂ calculations fulfil the strict Atmosfair standard (www.atmosfair.de). The recording of rail miles, however, has been deferred.

Pool car use

| | | 2008 | 2009 | 2010 |
|--|----------|---------|---------|---------|
| Kilometres driven by pool cars | km | 390,963 | 328,496 | 400,311 |
| Fuel consumption of the pool cars | l Diesel | 24,013 | 22,616 | 26,556 |
| Average diesel consumption of pool cars (l/100 km) | l/100 km | 6.14 | 6.88 | 6.63 |

Flights

| | | 2008 | 2009 | 2010 |
|---------------------------|----|------|------|-----------|
| Air miles (in kilometres) | km | n/a | n/a | 2,854,000 |

Waste and cleaning

Data waste consists of paper that has to be disposed of separately for reasons of confidentiality. Ultimately, however, it is sent for recycling just like any waste paper. While some data waste was still added to the residual waste in the previous report, it is now allocated to the category comprising waste paper and cardboard. This entails that the figures can only be partly compared with those of previous years. The below presentation will be continued in the coming years. The amount of waste increased due to the relocation in 2010. In 2009 the amounted total weight of waste was yet 358,299 kg, this value increased to 626,289 kg in the year under review. After the resettlement a significant reduction in the amount of waste is to be expected in 2011. At the same time, reduction measures were implemented. The new canteen switched to reusable containers in 2010. What's more, a campaign to collect private mobile phones was launched for the benefit of the Integrationshaus project.

¹⁷ In 2007, the recording of electricity consumption covered the locations of the departments at the VBAG Group headquarters (excluding Saturn Tower), the headquarters of Volksbank Wien AG, Back Office Service für Banken GmbH, VB-Leasing International Holding GmbH, the headquarters of VB Leasing Finanzierungsgesellschaft m.b.H. Vienna (Kolingasse 12) and Europolis AG. These locations were expanded to include Investkredit Bank AG (excluding Renngasse 5) from 2008. Immoconsult Leasing GmbH, PREMIUMRED Real Estate Development GmbH and the VB Leasing Finanzierungsgesellschaft m.b.H. Vienna headquarters (Wasagasse 2) were added from 2009.

Waste

| | | 2010 |
|--|-----------|----------------|
| Residual waste | kg | 140,626 |
| Waste paper (data waste) and cardboard (in kg) | kg | 280,026 |
| Other waste excluding paper/cardboard | kg | 204,327 |
| Harmful or special waste | kg | 1,310 |
| Total waste | kg | 626,289 |
| Waste costs | EUR | 105,530 |

Paper

Printing pools and duplex printing

Paper is one of the main raw materials for operating an office. In 2010, consumption per employee was 8,607 sheets and thus higher than the previous year's figure. The switch to machines that allow duplex printing has been implemented. The attention of employees has been drawn to this possibility in the new calendar, for example. The measure to program "duplex printing" will be proofed. The standard settings were successfully switched to black-and-white printing back in June 2010. Since the change, colour print-outs have been reduced to 14% of all print-outs.

The goal that half of the purchased printing and copying paper should have an independently certified eco label was not achieved. It is therefore planned to switch over completely to eco label paper in the course of 2011.

Consumption of printing and copying paper*

| | | 2008 | 2009 | 2010 |
|--|-------|------------|------------|------------|
| Printing and copying paper | sheet | 14,971,577 | 12,748,635 | 11,749,057 |
| Printing and copying paper | kg | 74,858 | 63,743 | 58,745 |
| Printing and copying paper per employee (full-time equivalent) | sheet | 8,154 | 7,237 | 8,607 |
| Printing and copying paper per employee (full-time equivalent) | kg | 46 | 40 | 43 |

* VBAG Group in Austria

Purchasing

Sustainable purchasing

Tips on how to save on office supplies were printed on the Corporate Responsibility calendar for employees. The central management in purchasing should allow environmental aspects to be introduced and reinforced for all of VBAG's purchasing. The re-evaluation of suppliers was extended to 2011/2012. As before, it is planned to incorporate sustainability criteria in the supplier database. Reference is already made to sustainability in the current tender invitations, however. The Mondial travel agency was selected in 2010 because the services it offers can carry the eco label for sustainable travel. Further integration in tender invitations is planned for 2011. Promotional items and cleaning should also meet minimum social and ecological criteria in the tender process.

Corporate carbon footprint

89% of purchased electricity from renewable sources

The VBAG Group published the CO₂ emissions from its activities in Austria for the first time. The corporate carbon footprint provides information on how much CO₂ is emitted at the company. Lifecycle emissions, as they are known, are calculated. The following table shows the calculated CO₂ equivalent emissions for 2010 in tons in the areas involving flights, pool cars, heating (natural gas and district heating) and electricity.¹⁸ Overall, around 89% of purchased electricity comes from renewable energy sources.¹⁹ The high proportion was achieved thanks to the fact that in 2010 a majority of the locations switched to a new electricity tariff that consists of completely renewable energy sources. The rest of the locations should also follow from 2012. A further reduction in the CO₂ emissions from electricity consumption will be possible as a result.

In total, around 2,154 tons of CO₂ equivalent emissions result for 2010 in the specified areas.

¹⁸ CO₂ equivalent emissions: These are understood to be the combined climate change emissions weighted in relation to CO₂ based on the climate impact of the individual substances CO₂, CH₄, N₂O, etc.

¹⁹ The available stated electricity proportions of the relevant electricity products of the energy supply companies have been used to calculate the CO₂ equivalent emissions and the overall proportion of the renewable energy sources in the volume of purchased electricity.

CO₂ equivalent emissions of VBAG in Austria in 2010²⁰

| | 2010 t CO ₂ equivalents |
|--|---------------------------------------|
| Flights ²¹ | 705 |
| Pool cars | 79 |
| Heating (natural gas and district heating) | 864 |
| Electricity | 506 |
| Total CO₂ equivalent emissions | 2,154 |

Human Resources²²

This chapter primarily describes the activities of the VBAG Group in Austria. Some human resources aspects of Volksbank International AG are also taken into consideration in the topics involving employment development, employee representation and diversity. All information on the topics of pension provision, health and safety, work-life balance and further training relate to the employees in Austria.²³

Employment development

We worked consistently on the reorganisation of the bank in 2010. The "Strategy 2015" that was presented in December put the future focus very clearly on the core business. The initiative commenced in 2008 and 2009 to exploit synergies through an efficiency programme and corresponding cost management was continued in 2010. This strategy, along with the beginning of the combination between Österreichische Volksbanken-Aktiengesellschaft and Investkredit Bank AG and the sale of Europolis AG, led to a reduction in the number of employees at the Group to 7,531 as at the end of 2010. Of this total, 1,416 were in Austria and 6,115 abroad.

Reduction in the number of employees

Employees in full-time equivalents at year end*

| | 2008 | 2009 | 2010 |
|---------------------------|-------|-------|-------|
| Total number of employees | 8,255 | 7,740 | 7,531 |
| Austria | 1,502 | 1,433 | 1,416 |
| Outside Austria | 6,753 | 6,307 | 6,115 |

* All data on the number of employees has been adapted by the disposal groups for the purposes of comparison.

HR management continued to play a key role in the Group-wide cost-cutting initiative. A large part of the savings target will be realised here through natural leaving (replacement only after consistent examination of the necessity) and by encouraging internal transfers. The internal job market is actively used by employees and executives, and the internal job exchange is the central platform for these efforts. Once again, considerable attention was paid to staff retention, particularly in times of general instability. With success: despite the measures cited – cost-efficiency programme – employee turnover was stabilised at 12.3% Open-ended employment contracts are generally the rule at the VBAG Group.

Stable fluctuation rate

Turnover rates

| | 2008 | 2009 | 2010 |
|------------------------------------|-------|-------|-------|
| All persons leaving incl. retirees | 15.0% | 12.4% | 12.3% |

VBAG Group in Austria

The process of selling Volksbank International AG and VB-Leasing International Holding GmbH, which was begun in 2010, will require a certain amount of unbundling in the human resources area as well as further structural changes once it is completed. The initiatives already commenced for strategic succession planning and staff retention are to be continued and expanded. A Group-wide trainee programme is also to be relaunched in 2011.

Change Management: Active management of the combination

As part of the combination of VBAG and Volksbank AG – Investkredit, a cross-departmental change process was put in place in order to guarantee the success. While the process is being supervised throughout the Group, smaller, individual Group units additionally receive professional back-up in their own change processes from Human Resources in the shape of an internal change team and support from external change experts.

Change process is accompanied

²⁰ Data sources for emission factors: Atmosfair GmbH, GEMIS Austria database 4.5, Umweltbundesamt (Environment Agency Austria) Report BE 275, Ecoinvent database 2.2

²¹ Considered here is a Radiative Forcing Index of 2.7 RFI: The IPCC (Intergovernmental Panel on Climate Change) metrics measures the impact of air transport effects such as condensations trails and the formation of ozone.

²² Corporate Responsibility Report Program „Human Resources“ 2010 and 2011 see page 198.

²³ Employees in Austria belong to the following companies in addition to the VBAG Group in Austria: Immo Kapitalanlage AG, VB Management Beratung GmbH and VB IT-Services. Employees abroad belong to the VBAG Group abroad.

So that they can also play an active part in shaping the company reorganisation, the employees are very closely involved in the change process. Employee surveys, employee dialogue and large group events are held on a regular basis. In addition to existing services such as "professional coaching" and "team development processes", tailor-made training courses have been conducted, for example on "managing in challenging times" and on strengthening mediation skills.

In the summer of 2010, around 600 employees moved into the redesigned Group headquarters, which was officially opened in autumn. The headquarters is a place for meeting customers and business partners as well as colleagues. The new building is distinguished in particular by a bright and attractive atmosphere as well as an informed art concept and spatial design.

Employee representation

The freedom to negotiate and the right to collective bargaining are guaranteed in every country in which the VBAG Group has branches. In Austria, the interests of 88.4% of all employees are currently represented by elected works councils (2008: 92%; 2009: 96%). The reduction in this percentage can be attributed to a change in the make-up of the employees. The works councils of VBAG, Volksbank AG – Investkredit and Immoconsult Leasinggesellschaft m.b.H. can be contacted by all VBAG Group employees and are ready to help with questions relating to employment law.

Pension fund

A pension fund has been set up at VICTORIA-VOLKSBANKEN-Pensionskassen AG, a subsidiary of Österreichische Volksbanken-AG, and at VICTORIA-VOLKSBANKEN-Versicherungs AG to provide a pension for the employees of VBAG and of the majority of the companies in the Group (or at ÖPAG Pensionskassen AG for long-serving employees of Volksbank AG – Investkredit). This is available to all employees whose length of service in the company is five years. The employer pays a minimum of 2.7% (in accordance with the regulations of the collective bargaining agreements or of the appropriate works agreements) of the pension assessment basis into the pension fund per year and per employee. The Volksbank pension scheme also offers employees the opportunity to make their own contributions to the fund. These voluntary contributions can match a quarter to as a maximum the whole amount of the employer's contribution.

Health and safety

It proved possible not only to maintain but also to expand the health programme in Austria in 2010. Vaccinations, consulting and support for sporting activities, as described in last year's report, continue to be offered. The sports sections of VBAG are supported through various measures, such as the financial support of competitions. Many activities will be held in the new health centre, which will be built by the middle of 2011. Originally only planned as a multipurpose room, the centre will be totally dedicated to health. Special fitness and health services with professional support, infrared cabins, consultations, etc., are planned. In addition, cycle parking places and showers will be provided at the new Group headquarters. Employees' attention will be drawn especially to this healthy and environmentally friendly travel arrangement at the start of the spring.

Pension fund

Health center from mid-2011

| | 2008 | 2009 | 2010 |
|--|------|------|------|
| Participants in medical examinations | 0 | 502 | 418 |
| VBAG Group in Austria | | | |
| | 2008 | 2009 | 2010 |
| Sick days per employee at VBAG in Austria* | 7.4 | 7.0 | 9.1 |
| Sick days per employee at Volksbank AG-Investkredit* | n/a | n/a | 9.5 |

* The figures for VBAG and Volksbank AG – Investkredit have ultimately been shown separately on account of a technical change to the system. Integrated reporting will also be ensured here from 2011 by the switch to a common accounting system (SAP-HR).

The safety of buildings, fire prevention, first aid, emergency exits, the ergonomics of workplaces and occupational health support is guaranteed by workplace evaluations. These are carried out by the employer's safety committee, the works council and human resources management. Each workplace is inspected at least once a year.

There were eight work-related accidents in Austria in 2010. Four occurred while the employee was on their way to or from work, the other four on stairs in the building. 2009 saw three accidents, in 2008 there were 12. As VBAG does not operate any retail branches in Austria, no training on how to act in the event of a raid is necessary.

Work-life-balance

The achievement of an individually successful work-life balance is a key consideration of the VBAG management and is supported by a number of targeted measures. All employees have access to the Coaching Pool. The work of the company doctor and of the company psychologist is important here, and they can be contacted directly. Support in difficult situations related to work or in an employee's private life can help reduce personal stress. The flexible working time model (flexitime) and the high proportion of part-time employees plays an important role here. In addition occasionally employees are also able to telecommute. Use of this option is agreed together with the employee's superior and Human Resources after examination of a criteria-catalog and completion of a special agreement. To support employees with families, VBAG has assumed, since the introduction of free kindergartens in Vienna, half of all other costs of kindergartens of the Kindercompany, including contributions for handicrafts, boarding and multilingual support.

The reduction of carry-over leave promotes a work-life balance and potential savings. At the beginning of 2010, the target was set of reducing the average carry-over leave per employee to five days by the end of 2010. The management has reached a mutual agreement with employees on the current utilisation of vacation days. As at 31 December 2010, the number had been reduced to 11.5 days. On account of the ongoing challenging projects, it was decided to implement the reduction in stages.

Reducing the average carry-over leave

Carry-over leave and overtime per employee in days*

| | 2008 | 2009 | 2010 |
|---|------|------|------|
| Carry-over leave at the VBAG Group in Austria | 16.0 | 13.0 | 11.5 |
| Carry-over leave at Volksbank AG – Investkredit | n/a | n/a | 19.5 |
| Overtime at the VBAG Group in Austria | 12.9 | 11.2 | 16.7 |

* The figures for "carry-over leave" for VBAG and Volksbank AG – Investkredit can ultimately only been shown separately and the figure for "overtime" for Volksbank AG – Investkredit cannot be shown on account of a technical adjustment to the system. Integrated reporting will also be ensured here from 2011 by the switch to a common accounting system (SAP-HR).

The increase in the number of part-time employees can be explained for the most part by the increased use of the statutory parental part-time work regulation.

Part-time employment

| | 2008 | 2009 | 2010 |
|-------------------------------|-------|-------|-------|
| Proportion of part-time staff | 13.6% | 12.1% | 15.1% |
| Number of full-time staff | 1,267 | 1,324 | 1,351 |
| Number of part-time staff | 199 | 183 | 240 |

VBAG Group in Austria

Training

In percentage terms, the training budget for 2010 remained just as high as in previous years. This is to be continued in 2011. In the VBAG Group, around 3.4 training days per employee were used on average in Austria. The figure was 3.9 days for management and 3.3 days for non-management staff.

Alongside the Volksbank Akademie, the central training provider, the majority of bookings were also concentrated in 2010 on the free internal training initiative WIN (Wissen Intern Nutzen – Using Knowledge Internally) as well as on services at external training providers and customised in-house training courses. The WIN training programme has for many years represented a central component of staff development and will continue to be enhanced in line with demand.

Systematic professional development

The training programme has been constantly adapted and expanded to meet current requirements. The trainer pool, service provider, terms and conditions, contents etc., are tailored to requirements. The emphasis in 2010 was on training in the field of change management and mediation. As well as training and continuing professional development for junior managers, the specialist and personal development of all employees constituted a key focus of the training measures in the VBAG Group. Options for financial support from the Wiener ArbeitnehmerInnen Förderungsfonds (waff – Vienna Employment Promotion Fund) and of the Arbeitsmarktservice Österreich (AMS – Public Employment Service Austria) have been more intensively utilised.

Contrary to the original plans, the possibility of training leave was not pushed, so that the energies of our employees could be concentrated on the challenges in the company. Career planning, however, was extended in line with targets. In the course of the annual feedback discussions, all employees in Austria receive regular Career Development Reviews. The international branches have also started to roll these

out. Skills management will also form part of the project involving the continuing combination of VBAG and Volksbank AG – Investkredit in future. A career path concept will be drawn up. In addition, a pilot project entitled Wissensroadmap (“Knowledge Roadmap”) has been started at VB Investments, which contains variously configured training and skill requirements for individual job descriptions.

Training

| | 2008 | 2009 | 2010 |
|---|-------|-------|-------|
| Training days per employee | 5.8 | 5.9 | 3.4 |
| Training days per management staff | n/a | n/a | 3.9 |
| Training days per non-management staff | n/a | n/a | 3.3 |
| Proportion of management staff who have pursued a training course | 40.6% | 28.0% | 26.4% |
| Proportion of non-management staff pursued a training course | 30.4% | 22.9% | 19.8% |

VBAG Group in Austria

The decline in training days is a result of the omission of the employees of Volksbank Wien AG – retail training is very time-intensive especially in the first few years (customer advisor training at the Volksbank Akademie), while university-trained specialists are more frequently required at VBAG.

Diversity charta

Diversity and equal opportunity

The managing board is clearly committed to the principles of diversity management. As part of this diversity management, on 26 November 2010 VBAG became one of the first companies to sign the “Diversity Charter” of the Austrian Chamber of Commerce. By signing this charter, VBAG committed itself to respecting the stakeholders that it deals with – irrespective of their gender, skin colour, nationality, ethnic origin, religion or ideology, disability, age, sexual orientation and identity (further information can be found at www.charta-der-vielfalt.at). In order to measure diversity and to identify possible discrimination, the set of indicators has been expanded.

At the turn of the year, 855 women and 736 men were working in the Austrian section of VBAG. One reason for the change was the integration of Volksbank AG – Investkredit as well as the spin-off of the Europolis Group and Volksbank Wien AG. Turnover is the greatest by some distance among young employees under 30.

Turnover

| | Unit | 2008 | 2009 | 2010 |
|--------------------------------|------|------|------|------|
| Turnover total | % | 15.0 | 12.4 | 12.3 |
| Turnover among women | % | n/a | n/a | 5.0 |
| Turnover among men | % | n/a | n/a | 7.3 |
| Turnover among under 30s | % | n/a | n/a | 7.4 |
| Turnover among 30-50 year olds | % | n/a | n/a | 2.1 |
| Turnover among over 50s | % | n/a | n/a | 2.8 |

VBAG in Austria/headcounts

Female employees younger

The reason for the increase in the average age and in length of service can also be found in the spin-off of Volksbank Wien AG, which had a very young age structure. Although the average age of employees may have increased, women employed at VBAG Group in Austria are clearly younger than their male colleagues.

Age of employees at VBAG Group in Austria

| | 2008 | 2009 | 2010 |
|------------------------------------|------|------|------|
| Average age in years | 36.4 | 37.0 | 38.6 |
| Average length of service in years | 7.1 | 7.1 | 8.2 |

VBAG Group in Austria

Age ratios

| | 2008 | 2009 | 2010 |
|-----------------------------|-------|-------|-------|
| Employees under 30 | 27.4% | 28.2% | 18.2% |
| Employees between 30 and 50 | 62.3% | 61.2% | 69.2% |
| Employees over 50 | 10.4% | 11.0% | 12.6% |

VBAG Group in Austria

The number of women in management positions (ratio to management staff in total) – defined as a managerial function from group leader upwards – has increased slightly. The measure specifically to encourage women to pursue management careers was not successfully put into practice. The goal of increasing the proportion of women management staff to 25% in Austria by 2012 has had to be deferred to a later date.

The measure to appoint a diversity officer was also postponed to 2011, as was the creation of a comprehensive catalogue of measures for projects dealing with the various aspects of diversity. Two cases of discrimination were reported in 2010. A mutually agreed resolution was quickly produced in one case, while discussions on reaching an agreement are continuing in the other.

The number of training days undertaken by women declined less sharply than those undertaken by men. For the first time, women have used more time for training than men. The number of part-time employees rose both among women and men. The ratio of university graduates is around 40%.

Gender aspects at VBAG in Austria

| | 2008 | 2009 | 2010 |
|---|-------|-------|-------|
| Proportion of female employees | 46.9% | 48.1% | 53.7% |
| Women at VBAG | 687 | 725 | 855 |
| Men at VBAG | 779 | 782 | 736 |
| Proportion of women in management positions (%) to total management staff | 21.0% | 21.0% | 21.9% |
| Training days undertaken by men | 6.03 | 5.68 | 3.22 |
| Training days undertaken by women | 5.59 | 6.04 | 3.64 |
| Proportion of part-time female staff | 22.9% | 21.6% | 26.0% |
| Proportion of part-time male staff | 3.3% | 2.0% | 2.5% |

VBAG in Austria/headcounts

The continuation of the trainee programme is a special focus of the managing board. Its commencement has been set for September 2011 with an eye on the combination of VBAG and Volksbank AG – Investkredit. The apprenticeship programme will be continued by Volksbank Wien AG.

In an international company, openness to different cultures is a basic requirement for good cooperation. In the new Group headquarters, a great deal of attention has been paid to the concept of diversity. Some targets have had to be postponed to the second half of 2011 as a result of the integration process as well as cost-efficiency measures. For example, the free German lessons for employees whose mother tongue is not German have not been started yet. In order to arrange a mentoring programme for employees of different nationalities, diversity within the workforce was recorded in 2010 for the first time.

Nationality of employees

| | |
|--|-----------|
| Australian, Chinese, Bosnian, Luxembourg, Dutch, Swedish, Slovenia | 1 of each |
| Danish, Canadian, Spanish, Turkish, Ukrainian | 2 of each |
| French, Serbian | 3 of each |
| Bulgarian, Italian, Rumanian, Russian | 4 of each |
| Bosnian, Croatian | 5 of each |
| Slovakian, Czech, Hungarian | 6 of each |
| Polish | 7 |
| German | 48 |
| Austrian | 1,469 |

VBAG Group in Austria, calculated based on headcounts

VBAG is fully committed to human rights irrespective of sexual orientation. Registered partners have been entitled to all company benefits (employee conditions, works council gifts, etc.) since 2010. An equal footing has also been guaranteed in terms of the regulations of collective bargaining agreements. The unconditional implementation of all the special administrative laws for registered partnerships in question has been actively communicated in the Group as a clear commitment through the electronic staff magazine:

Equality of all employees

- recognition of compassionate leave
- leave for civil partnership ceremony
- inability to attend work when the partner is due to give birth or in the event of death
- recognition of company pension entitlements in accordance with collective bargaining agreement
- allowance from the works council in the event of civil partnership ceremony similar to wedding

From 2008 to 2010, 1% of the employees in the VBAG Group in Austria were people with disabilities. As a result, the statutory ratio cannot be met. A slight reduction in the corresponding equalisation payments was possible. In-house, a start has been made on raising awareness in order to dispel fears associated with reporting a favoured status. The new headquarters features disabled access.

Organisation/IT

Important IT projects

Complete merger of systems

After the core banking system of Volksbank AG – Investkredit was successfully replaced by VBAG's system at the end of 2009, Volksbank AG – Investkredit and VBAG are to be merged completely in summer 2011. This will allow a series of procedures to be streamlined in processing and administration and will enable redundant IT systems to be replaced – intensive preparation work has been underway since autumn 2010. The first extensive tests were carried out in December 2010.

The combination project will lead to further savings for VBAG through the optimisation of processes; above all, however, market presence will be strengthened through closer cooperation between the various divisions, united within one company.

Regulatory requirements were tightened in terms of both quality and quantity in 2010. This required further investment in risk management systems (particularly for credit and liquidity risks) and in reporting systems. At the same time, the quality of data was improved, which reduced the own funds required.

In the Financial Markets segment, one is working intensively on the replacement of the entire system, from the front office to risk management to the back office, by an integrated system covering all product classes (Murex). The first phase is to go live in 2011.

One project that is important to the financial centre and that will serve to reduce risk and minimise liquidity in national interbank payment transactions is the creation of Clearing Services Austria under the overall control of the National Bank of Austria. VBAG provided important input for the project from an early stage and was one of the first banks to commit itself to participation in the system.

The organisational units of VBAG oversee the Austrian association of Volksbanks in addition to the VBAG Group. A particular focus is the implementation of an electronic standard credit process throughout the Volksbank sector that is tailored to the needs of the Volksbanks and supported by workflows. The first modules were put into practice at two Volksbanks in July 2010 in a joint project with Österreichischer Genossenschaftsverband, ÖGV, and Allgemeines Rechenzentrum GmbH, ARZ. This was followed by commercial use in phase 2 in November. A third phase, which is to be implemented in May 2011 for the pilot banks, will involve the finalised application for an average-sized Volksbank.

Infrastructure measures

Infrastructure measures for the new Group headquarters have been actively pressing ahead. A first-rate cabling system has been implemented, video conference rooms were set up to reduce travel costs and the telephone communication systems were modernised. As part of the cost-cutting initiative, work has started on dismantling the old printer network and implementing an efficient printer output concept, which will allow printing costs to be made variable.

Reinforcement of the internal communication

Press relations & internal communications

Successful change requires the commitment of all employees. Internal communications have therefore been reinforced significantly in view of the restructuring and repositioning of the VBAG Group. Employees are to be closely involved in this "change process" and kept informed on an ongoing basis. The communication tools used in this process include employee dialogue, in which employees have the opportunity to speak with the entire Managing Board, workshops, surveys, mailings and information provided on the intranet.

However, open and credible communication is essential not only within the company and in connection with stakeholders, but also in dealings with the media. This style of communication has been an important principle during difficult phases in particular, as the changes within the VBAG Group attracted significant attention and feedback from the media.

Direct cooperation with the ÖGV and the regional Volksbanks, along with their support in public relations work, remain important pillars of communication.

Events of particular importance occurring after the balance sheet date

As set out in the VBAG "Strategy 2015", a process has been initiated for evaluating the sale of Volksbank International AG and VB-Leasing International Holding GmbH. The data rooms were opened at the start of February for this purpose.

The planned combination of Österreichische Volksbanken-AG and Investkredit Bank AG is still in progress and is set to be completed by the middle of 2011.

In the first quarter of 2011, Immoconsult Leasing GmbH was merged with PREMIUMRED Real Estate Development GmbH. The merged companies will operate under the name VB Real Estate Services GmbH in future. This change in legal form will not affect the consolidated financial statements.

Report on the company's expected development and risks

Economy and financial markets

Internal prospects for the current year are slightly more cautious for most countries than the external sources pictured in the chart in chapter economic environment. This is due to the expected impact of the consolidation of national budgets, uncertainties on the government bond market and in the financial sector, the increase in the cost of raw materials and energy and the expiry of the inventory cycle. These effects will lead to increased inflation rates, particularly in the first half of the year. While this has already resulted in the raising of interest rates by central banks in emerging countries and some Central and South-Eastern European countries, monetary policy is not expected to be tightened in the USA, the euro zone, Switzerland and Japan until later in the year. In the described economies money and capital market interest rates should tend to rise slightly in this climate. The development of these economies has been largely parallel, therefore strong shifts in the exchange rates of the respective currencies are not expected. Progress in overcoming the debt crisis would increase the risk appetite of market participants and would help the euro to recover. However, setbacks in this process entail the corresponding downward potential, particularly in relation to the Swiss franc. The stock and corporate bond markets were hardly affected by the increased risk aversion in the last few months, prices developed positively at the beginning of 2011.

The asynchronous recovery in exports and domestic demand (consumption and capital expenditure) is likely to have had a slight negative impact on the growth potential of the CEE/SEE region, but the growth potential there nevertheless remains higher than in the "old EU". Moreover, for countries with high foreign and/or national debt, new risks arose in 2010 from the tense situation on the financial markets. While the necessary national consolidation should prove beneficial in the longer term, growth prospects for 2011 remain muted in the CEE/SEE region. Assuming that there is no escalation of the unstable development on the market for government bonds and that there are no other burdens on the international economy, the recession should be overcome throughout South-Eastern Europe this year. Croatia's planned accession to the EU in 2012, the fact that Serbia is approaching the EU, positive growth rates in bank deposits and loans in Romania, continued IMF support and an imminent revival in direct investments indicate that the region can catch up again in 2011.

According to Euroconstruct forecasts, increased construction activity can be expected in most countries and sectors from 2011/2012 onwards, with very strong growth anticipated in Central European markets this year.

Recovery continues

South-Eastern Europe catches up

Real estate

Construction activity in individual countries and in the entire region

(real increase or decrease in % compared with previous year's figure)

| | | | | Estimate | Forecast | Forecast | Outlook |
|--------------------------|------|-------|-------|----------|----------|----------|---------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Austria | 1.6 | 1.6 | -6.0 | -3.0 | 0.7 | 0.8 | 1.0 |
| Germany | 0.4 | 2.5 | -0.9 | 3.4 | 1.3 | 1.6 | 1.7 |
| Ireland | 1.4 | -5.4 | -35.0 | -28.3 | -10.7 | 0.2 | 3.9 |
| Spain | 2.9 | -19.1 | -24.6 | -16.1 | -13.6 | -2.3 | 1.3 |
| UK | 1.9 | -0.3 | -10.4 | 3.1 | 0.2 | 1.5 | 2.0 |
| Czech Republic | 7.3 | 2.7 | -1.3 | -10.0 | -3.2 | 0.2 | 3.1 |
| Poland | 12.7 | 11.4 | 4.3 | 4.0 | 12.7 | 12.4 | 5.9 |
| Hungary | -4.5 | -3.4 | -9.0 | -3.8 | 5.2 | 7.5 | 10.1 |
| Slovakia | 6.0 | 11.0 | -12.7 | -6.3 | 6.2 | 2.5 | 3.1 |
| Euroconstruct countries* | 2.3 | -3.4 | -8.8 | -3.3 | -0.1 | 2.0 | 2.5 |

Source: Euroconstruct

* All pictured countries and Belgium, Denmark, Finland, France, Italy, Netherlands, Norway, Portugal, Sweden and Switzerland.

Business performance

As set out in VBAG's "Strategy 2015", the company will focus on its defined core business in future. This encompasses its role as the central institution of the Volksbank sector, corporate customer business and real estate business. The core regions for these activities are Austria and the neighbouring countries. Options are currently being examined for activities and participations outside the core business. In this context, a process has been initiated that evaluates the possibility of a sale of Volksbank International AG and VB-Leasing International Holding GmbH. Accordingly, steps are to take place over the coming months – supported by the mandated consultants – and may lead to the sale of these two participations.

In order to optimise the Group's structure further, the supervisory board of VBAG decided in June 2010 to combine Österreichische Volksbanken-AG and Investkredit Bank AG. A first step in this direction is the change of the managing board of Investkredit which was resolved by the supervisory board of Investkredit in September 2010. From this date, the managing board team of VBAG has been responsible for both companies. The remaining steps in this consolidation process should be completed by mid 2011. All these and future measures are targeted at redeeming the participation capital held by the Republic of Austria in tranches as planned from 2011 onwards. From today's viewpoint, VBAG as a single entity will achieve a turnaround in the 2011 financial year and return to profitability, as a result it is expected that distributions on government participation capital as well as on all other profit-related instruments can be resumed.

In accordance with the contract with the Republic of Austria, at least euro 300 million of government participation capital is to be redeemed in 2011.

Material risks and uncertainties

Risk management

Risk management is the responsibility of the Chief Risk Officer, CRO, who is a member of the managing board and is not involved in any market activities. The duties, competencies and responsibilities that make up the risk management process are clearly defined and specified at all lower levels. This ensures that risk-bearing organisational units (front office) are kept functionally separate from those organisational units that are responsible for the monitoring and communication of risks (mid office), up to the level of the Managing Board. Furthermore, this organisational structure also guarantees the separation of the front office and mid office functions as required by the regulatory authorities.

The quantification of risk and capital for risk coverage as well as the management of risk are performed centrally by the organisational units for strategic risk management, operational risk management, Group risk control, international mid office and their sub-organisational units, which are independent of the front office functions. The subsidiaries of VBAG are actively involved in the ongoing development of methods and processes within the risk management system. This makes it possible to establish a common understanding of risk and efficiently utilise existing expertise within the Group early in the process. At the same time, the basis for consistent risk measurement and management within the VBAG Group is provided.

The ongoing economic and financial crisis had a strong impact on the risk management activities of VBAG in 2010. These activities focused on further developing the methods and content of the risk management processes. The extension of the risk policy guidelines, new risk committees and newly regulated credit processes helped to speed up the decision-making process while simultaneously improving the quality of decision-making tools even further.

These activities were supported by additional quality assurance processes that were used to ensure data quality in the long term as well as for RWA optimisation measures. Mapping of transactions relevant to credit risk in IT systems was improved with regard to minimising RWA burden. At the same time, the Basel II calculation engine was calibrated in coordination with the Austrian Supervisory Authority to optimise RWA.

For further details on risk management, see the risk report in the Notes.

Compliance

VBAG is subject to the provisions of the Austrian Regulation on Compliance for Issuers. On this basis, the internal Compliance Code was issued and a compliance organisation was established headed by a Compliance Officer. The Compliance Office reports directly to the Managing Board of VBAG. In organisational terms, it is integrated into department 1 of Chief Executive Officer Gerald Wenzel. It defines and monitors the necessary processes and procedures for compliance with external and internal regulations in the areas of securities compliance, management of conflicts of interest and prevention of money laundering and financing terrorism.

Prevention of money laundering

In 2010, VBAG Group further expanded the bank's internal array of instruments for preventing and combating money laundering. Additional IT programs were implemented to check and stop prohibited or unwanted transactions. This significantly reinforced the cooperation of the compliance and money laundering officers of the subsidiary banks of VBAG Group. As a result, working methods and procedures were coordinated and standardised and a uniform security level has been ensured throughout the Group. The technical infrastructure was also adapted in 2010 to meet continuously evolving monitoring requirements and was thus improved on an ongoing basis.

In addition to technical measures for the prevention of money laundering and financing terrorism and to combat fraud, comprehensive and ongoing training for bank employees in these areas constitutes a key element in raising their awareness. In addition to "face-to-face" sessions, electronic learning programs on workstations give bank employees basic training and raise awareness. Employees are also informed regularly via a proprietary compliance database about current issues involving the fight against money laundering and fraud. This ensures in the best possible way that VBAG Group complies fully with the regulatory requirements in this area.

Combating fraud

Since 2004, combating economic crime – particularly fraud affecting banks, their employees and customers – has been one of the tasks of the Compliance Office at VBAG. As the central point of contact for authorities, customers and employees for issues such as the prevention of internet, wire or document fraud, the Compliance Office has significantly improved the efficiency of measures for preventing fraud at VBAG Group.

Report on research and development

The company is not involved in research and development in the classic sense. However, VBAG Group supports the research activities of other organisations the Group focuses in particular on the development of innovative products and services.

For many years, Österreichische Volksbanken-AG Group has supported the Rudolf Sallinger Fund which aims at the promotion of scientific publications on medium-sized companies. The fund supports both young scientists and SMEs, which benefit from the results of university research. In the 25 years since it was created, the Rudolf Sallinger Fund has awarded prizes to over 400 young academics for their outstanding scientific work.

Since 2007, VBAG has been dedicated to business mediation. In view of the diverse benefits of business mediation for society, the Volksbank sector, corporate customers and employees, VBAG has commissioned the first basic scientific study into the cost of conflict in family businesses. The study offers

Transparency and efficiency

a fundamentally new approach to the analysis of the effects of conflict on family businesses. The results of this study will be available during the course of 2011, owing to a delay that can be attributed to the complexity of the study's design. Family businesses are a core target group of both Volksbank AG – Investkredit and the regional Volksbanks. In order to ensure that the results of the study can be implemented by the businesses, events for corporate customers are being planned as part of the Corporate Responsibility programme.

In addition, VBAG Group has repeatedly supported university and college students with their theses.

Report on key characteristics of the internal control and risk management system with regard to the accounting process

The purpose of the internal control system is to support management so that it is in a position to ensure effective internal controls with regard to accounting. The managing board is responsible for setting up and structuring an appropriate internal control and risk management system for the accounting process.

The internal auditing department also independently checks compliance with internal regulations in the field of accounting on a regular basis. As a department, auditing is assigned directly to the Managing Board and its head reports directly to the chairman of the managing board, as well as providing a quarterly report to the supervisory board.

Environment for controlling

The internal control system is a system for documenting all control activities that have been carried out and builds on all controls that have already been actively implemented within the organisation (operational controls/management controls).

In the Group guideline for internal control systems, the managing board sets out a Group-wide framework for the implementation of the internal control system, whereby responsibility for implementation within VBAG Group has been assigned to process and guideline management at Österreichische Volksbanken-AG.

For the preparation of the consolidated financial statements, processes were set up that ensure that the data provided by Group subsidiaries is correctly transferred and processed. The data delivered firstly undergoes plausibility checks, both through comparisons with previous periods and through the analysis of typical transactions. The data is processed using consolidation software into which automatic checks have been integrated to ensure that the data has been recorded and processed in full. The results are monitored and plausibility checks are carried out by means of various reports. The monitoring and plausibility checks are based on the principle of dual control and are subject to further review by the department managers.

Risk assessment

Risks relating to the accounting process are recorded and monitored by the process managers. The focus here will be on risks considered significant.

For the preparation of the financial statements, estimates must be taken regularly in areas for which there is an intrinsic risk that future development may deviate from these estimates. This particularly applies to the following items on the consolidated financial statements: impairment of financial assets, risks to the banking business, employee benefits and the outcome of legal disputes. In some cases, publicly available sources will be used or external experts will be consulted in order to minimise the risk of misjudgements.

Control measures

Control measures are used in ongoing business processes to ensure that potential errors are prevented and that any discrepancies in financial reporting are discovered and rectified. These control measures range from the inspection of the various results for the period under review by management to the specific reconciliation of accounts and items and an analysis of ongoing processes in Group accounting. A distinction is made between two types of controls.

Operational controls include manual controls, which are carried out by employees in specific steps, automatic controls, which are carried out with the aid of IT systems, and preventative controls, which have the aim of preventing errors and risks in advance through the separation of functions, the regulation of competencies and access authorisation.

Management controls serve to ensure, on the basis of spot checks, that managers are complying with operational controls. The final scope of the complete control plan for Group accounting has already been drawn up and is currently being implemented. The periodicity of checks is determined by the relevant manager (head of division, head of department), in accordance with the level of risk. The spot checks are documented in the control plan in a way that is comprehensible to third parties. The results will be reported at half-yearly intervals as part of management reporting.

At the companies included in the consolidated financial statements, the respective managing board and management staff are responsible for setting up and structuring an internal control and risk management system for the accounting process that meets the requirements of the company in question. They are also responsible for compliance with Group-wide guidelines and regulations in connection with this in the final instance.

Information and communication

Guidelines and regulations relating to financial reporting are regularly updated by management and communicated to all employees concerned.

Employees in Group accounting are also trained on an ongoing basis with regard to international accounting reforms, so that risks relating to unintentional errors in reporting can be identified at an early stage. Reforms in international accounting are also relayed to employees involved in accounting at the respective subsidiaries.

A management report is produced twice a year. It contains declarations about the completeness, comprehensibility, active implementation and effectiveness of the control system with regard to the accounting process.

Monitoring

Top management receives regular summarised financial reports, such as quarterly reports on the development of the respective segments and the key financial figures. Financial statements that are to be published undergo a final check by management-level employees in accounting, the management of the division and the managing board before they are forwarded to the responsible committees. The respective heads of department and group leaders are also in charge of monitoring the corresponding areas. Controls and plausibility checks are carried out at regular intervals.

The results of monitoring activities with regard to the accounting processes are reported within the management report. The report will contain a risk assessment of the processes on a qualitative basis. The report will also document how many controls are being carried out in relation to control guidelines.

The internal auditing department also performs monitoring and supervisory functions.

Disclosures on capital rights, ownership interests, voting rights and rights of control and related obligations

For the composition of the share capital of Österreichische Volksbanken-AG, please refer to the explanations in note 35 Equity in the notes to the consolidated financial statements.

As at 31 December 2010, the main shareholders are Volksbanken Holding e.Gen. (59%), DZ PB-Beteiligungsgesellschaft mbH (23%), ERGO Group (9%) and Raiffeisen Zentralbank Österreich AG (6%). As the preferred shares do not carry voting rights, the voting rights were distributed as follows as at 31 December 2010: Volksbanken Holding e.Gen. (57%), DZ PB-Beteiligungsgesellschaft mbH (25%), ERGO Group (10%) and Raiffeisen Zentralbank Österreich AG (6.1%). As a preferred shareholder, Volksbanken Holding e.Gen. had undertaken to DZ PB-Beteiligungsgesellschaft to waive its right to exercise its voting rights from the preferred shares until further notice.

For existing authorisation for the managing board to acquire treasury stocks and to carry out capital increases, please also refer to note 35 Equity in the notes to the consolidated financial statements.

Vienna, 10. March 2011

Gerald Wenzel
Chairman of the Managing Board

Michael Mendel
Deputy Chairman of the Managing Board

Martin Fuchsbauer
Member of the Managing Board

Wolfgang Perdich
Member of the Managing Board

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**>> INDIVIDUAL FINANCIAL
SOLUTIONS FOR OUR CLIENTS
ARE THE FOCUS
OF OUR ACTIVITIES<<**

CORPORATES SEGMENT

Investkredit Bank AG, Investkredit Investment Bank AG, Invest Mezzanine Capital Management GmbH and VB Factoring AG are responsible for servicing corporate customers of Österreichische Volksbanken-AG Group.

On 14 September 2010, en route to the combination of Österreichische Volksbanken-AG, VBAG, and Investkredit Bank AG the supervisory board of Investkredit Bank AG mandated the managing board team of VBAG with the management of Investkredit Bank AG as well. Since this point, the Corporates strategic segment (without VB Factoring Bank AG) as well as Investkredit Bank AG's real estate financing business have been operating under the brand name of Volksbank AG – Investkredit.

The primary aim of Volksbank AG – Investkredit is to provide optimal customer support. A wide range of financial services is offered to corporate customers and an approach based on partnership forms the foundation for stable and profitable customer relations.

The activities of the classic corporate customer business in Austria are concentrated in the Commercial Business division:

Aims of Corporates segment

The department Medium-Sized Companies focuses on SMEs and on risk sharing with the primary banks within the framework of syndicated financing. Corporate customers of the regional Volksbanks generally are serviced in cooperation with the regional banks; in some cases – depending on the offered product – they are serviced directly.

The Corporate Banking department manages Volksbank AG – Investkredit's own account business with a clear focus on medium-sized Austrian companies, which are mostly managed by owner families with a long-term orientation.

In Austria and in several Central European markets (e.g. Germany, Poland, Czech Republic), companies and financial investors are offered specialised corporate finance services. The focus here is on project financing (infrastructure and above all renewable energy), acquisition finance, mergers and acquisitions, M&A, consulting, private equity and loan financing in Central and Eastern Europe.

The range of services provided by Volksbank AG – Investkredit is rounded off by Cash Management, Debt Capital Markets, Corporate Treasury as well as factoring by VB Factoring AG.

Performance over the business year

A substantial improvement of the result was achieved by the Corporates Segment, profit before taxes reached euro 46 million in the fiscal year 2010. The main driver of the good result is the considerable reduction of risk provisions in 2010. Despite decreasing business volumes, net interest income as well as net fee and commission income could be raised compared to last year.

Visible recovery of companies

The first few months of the year under review were characterised by considerable uncertainty regarding the length of the economic crisis, with the second half of the year demonstrating a stabilisation in economic development. Despite the – in many cases unexpected – robust recovery experienced by many corporate customers of Volksbank AG – Investkredit, great restraint was still exercised in release of impairments.

Measures to increase profitability

In order to strengthen profitability, a thorough analysis of business connections was performed and corporate customers were classified into three categories according to their risk and return profile (as customers with a very satisfactory risk and return profile, customers with considerable intensification potential and customers for which a new cooperation approach is required). This classification clearly facilitates the day-to-day work of customer advisors.

Lending business

Demand primarily from large companies

In the first half of 2010, a large proportion of the loans requested was aimed at securing liquidity and covering restructuring costs. Since the spreads remained very high for corporate bonds and corporate customers were still unwilling to make larger investments, demand tended to be for working capital facilities. Spreads and refinancing costs gradually normalised in the second half of the year, which meant that government aid packages for crisis-related liquidity measures were not used to the extent expected. Demand for investment and acquisition finance increased again, primarily from large companies.

Since the success of restructuring measures implemented by companies will only become apparent in the balance sheets for the 2010 business year, Volksbank AG – Investkredit was still confronted with high risk costs during the year under review. Risk provisions for 2010 were moderate compared with the previous year which is due to the cautious risk policy based on an understanding of customers' business models and to the relatively high amount of risk provision formed in 2009.

Moderate risk provisions

>> The planned combination of Volksbank AG – Investkredit with VBAG during the course of 2011 will enable us to remain a strong partner for our corporate customers in terms of their financing requirements. <<

(Reinhard Hönig, Head of Product Placement)

2010 also saw a concentration on core customers, who were successfully provided with the liquidity required, and also on core business in corporate finance and project financing. The lending volume for these corporate customers therefore fell about around euro 657 million to a total of around euro 4.7 billion.

Syndicated financing

Servicing Volksbanks remains Volksbank AG – Investkredit's key area of business in terms of VBAG's function as a central institution. The economic strength of the primary banks is deemed to be closely connected with Volksbank AG – Investkredit. The Bank regards it as its task to boost the market position and profitability of the Volksbanks optimally through joint marketing, contributing economic and technical expertise and through the sharing of risk via syndicated financing.

>> Our main concern is strengthening the position of and supporting the Volksbanks in the commercial small and medium-sized sector. <<

Successful cooperation with Volksbanks

(Gerfried Brunner, Head of Medium-Sized Companies)

Volksbank AG – Investkredit cooperates with the regional Volksbanks in case of growing volumes of loans required by their corporate customers. In this way, Volksbank AG – Investkredit together with the Volksbanks accompany their customers in growth processes. More specifically, this means supporting Volksbanks in the acquisition of medium-sized companies, cooperating in the structuring of financings and contributing comprehensive management of subsidies and financial engineering.

The experienced team in the syndication department is familiar with the business model of the Volksbanks. The team advocates working in partnership and long-term customer relations, both in full conformity with the co-operative service mandate. The focus here is on jointly identifying solutions for the customer, exploiting the advantages of the decentralisation of the Volksbank sector and on creating added value for all parties involved.

>> In syndication business, we combine the strengths of the regional Volksbanks in daily business with the range of services provided by Volksbank AG – Investkredit, particularly in terms of corporate financing and subsidies. <<

(Judith Nowak, Deputy Head of Medium-Sized Companies)

The success of the cooperation with the regional Volksbanks is confirmed by good results in 2010.

Subsidies and trade finance

Despite the difficult economic climate, Volksbank AG – Investkredit benefitted from its expertise in the area of corporate subsidies.

Smaller project volumes for subsidies

In 2010, corporate subsidies were one of the central topics in servicing Austrian core customers of VBAG Group. Subsidised financing was requested – independent of company size – primarily for smaller projects. This was due not least to the consequences of the economic crisis, which manifested themselves in the reluctance of Austrian companies to make investments, either at home or abroad. With 23 new contracts and a lending volume of around euro 20 million, Volksbank AG – Investkredit supported its corporate customers and the customers of the Volksbanks with long-term financing at favourable interest rates as part of the ERP loan programme of Austria Wirtschaftsservice GmbH, aws. With 83 new lending transactions (volume of around euro 4 million), the ERP small loan programme in particular enjoyed an increase in demand, especially from customers of the Austrian Volksbanks.

Demand for the Austrian government's support programmes for large companies, which aimed at strengthening liquidity as part of the Austrian Enterprise Liquidity Support Act (ULSG), did not live up to initial expectations, partly due to an upswing in the banking industry and the bonds market. Volksbank AG – Investkredit used this financing model to support six customers with a total volume of around euro 100 million. The programme expired at the end of 2010.

>> Volksbank AG – Investkredit is the only bank in Austria that has an in-house team of engineers. Together with this team it is evaluated if projects are eligible for subsidies and applications for subsidies are prepared for our customers. <<

(Stefan Tauchner, Head of competence center Subsidies and Trade Finance)

In the Export Finance department, Volksbank AG – Investkredit can build on expertise and experience in advance export financing, factoring and transaction-linked loans. In the area of trade finance, the bank concentrates predominantly on documentary business such as letters of credit and guarantees.

In 2010, export financing witnessed an increased demand for customer financing in the form of transaction-linked loans, including soft loans. Of the eight export credit lines with a total volume of euro 34 million made available by Oesterreichische Kontrollbank AG, Volksbank AG – Investkredit made use of credit lines in an amount of euro 4.3 million in the period under review. In the area of direct foreign investments, it supported Austrian production companies in their expansion projects into Slovakia and Russia.

In light of the concentration on the bank's Austrian core customers and the restrictive risk policy, Volksbank AG – Investkredit reduced its business with letters of credit and international guarantees by around a third compared to the previous year.

Corporate Finance

Corporate Finance offers structured financing for large companies, larger medium-sized enterprises and professional financial investors such as project sponsors and private equity funds. The range of services offered encompasses structuring and settlement of complex financing transactions in connection with corporate acquisitions and divestitures, as well as comprehensive services with regard to succession issues. Large-volume transactions are arranged by the Syndication department together with established bank partners in the form of club deals.

Leveraged finance

2010 saw the Leveraged Finance department experience a constant upward trend. Following the great challenges presented by the financial and economic crisis, the number of transactions increased.

Increasing number of transactions

While Merger & Acquisitions activities in Austria remained below earlier levels, Central and Eastern Europe presented numerous opportunities for transactions, some of which have already been realised over the past few months. In addition to classic M&A business, Volksbank AG – Investkredit provided innovative solutions for its customers, for example with respect to the special topic of leveraging funds.

In Germany, the main customer groups in 2010 were once again small and medium-sized companies as well as professional financial investors. The Frankfurt branch played a leading part in the structuring and implementation of complex financing for corporate acquisitions in particular. Classic corporate lending products such as promissory notes and loans from programmes of the German development banks were also offered.

In the year as a whole, the recovery of the German market and associated rises in companies' revenues led to the normalisation of impairments compared with the crisis year 2009. The deal flow experienced a significant upturn in the course of the economic recovery, allowing a series of transactions with both private equity funds and strategic investors to be realised, particularly in the second half of 2010.

Project finance

The market environment for project finance slowly normalised during 2010. While the situation has not yet returned to pre-2008 levels, the "appetite" of banks for project financing increased considerably. There was particular demand for investments in both traditional and renewable energy. The discussions in various European countries regarding the retrospective change to legally guaranteed electricity feed-in tariffs driven by budgetary constraints are forcing banks to proceed especially cautiously when dealing with issues of legal certainty in the countries affected.

>> As we come ever closer to grid parity (electricity production to market prices) for renewable energy, sunny countries have particular reason to hope that this segment will become competitive in a few years' time, even without state subsidies. <<

(Johannes Seiringer, Head of Project Finance)

2010 was a successful year for project finance. The agreement between the Austrian Federal Ministry of the Interior and the state of Styria regarding the setup of the TETRON communication network for public safety organisations is an important step towards an Austria-wide solution. The team at Volksbank AG – Investkredit was leading the financing and demonstrated its expertise in the structuring of complex transactions.

In the Czech Republic, the team succeeded in financing photovoltaic projects before the tariff was lowered. Even with the new, much lower tariff, the Spanish market remains attractive for the activities of Volksbank AG – Investkredit. The first ever project in Poland was also realised: together with six other banks, financing was arranged for a large wind park.

**First energy project
in Poland**

The commitment of Volksbank AG – Investkredit in financing plants that generate energy from recycled raw materials expresses the expectation that there will always be a need for innovative forms of energy production.

Financing of international schools

Volksbank AG – Investkredit was the only bank worldwide to conclude a global loan with a volume of euro 60 million with KfW Bankengruppe to finance German schools abroad. The loan will be used over the next few years to finance long-term investment projects at more than 130 schools. Loans for financing expansion projects were granted to various American and other international schools.

KfW global loan

Financing models tailored to the specific needs of the schools, supplemented by currency and interest rate hedging instruments, meet the conservative mandate of the education authorities, most of which are organised as associations.

>> The thematic leadership in this market segment is part of VBAG Group's sustainability strategy – it underlines our commitment to issues for the future such as youth and education. <<

(Michael Smutny, Head of International Projects)

Investkredit Investmentbank AG (IKIB)

As a 100% subsidiary of Volksbank AG – Investkredit, IKIB is responsible for M&A consulting and manages the private equity activities of the Group. The private equity business encompasses private equity fund investments and direct investments. In terms of M&A, IKIB – in accordance with the bank's overall strategy – concentrates on advising medium-sized companies on their transactions in Austria and selected countries in Central and Eastern Europe.

Three M&A projects were concluded in Austria in 2010, with two further consulting mandates currently being negotiated. In the Private Equity division, the focus was on developing the existing portfolio and on adapting companies to the changed economic conditions. One further co-investment was entered into in 2010.

Cash management

Increase in
current accounts

The Cash Management division of Volksbank AG – Investkredit was responsible for short-term financing, money market transactions and payment transactions products. In the year under review, it was possible to expand noticeably the traditional core business – above all with existing customers of the bank – which helped to improve the income structure further. An area of particular significance was the short-term deposits business, which far exceeded short-term lending.

A high degree of automation, systems that can be used by multiple banks and the successful implementation of systems for cross-border payment transactions (such as SEPA applications) ensured smooth operations, a high level of customer satisfaction and a rise in the number of current accounts to more than 1,500.

During the combination of VBAG and Volksbank AG – Investkredit in 2011, further streamlining steps will be implemented in the Cash Management department and its tasks distributed to existing structures within the Group. The aim here is offer core customers smooth, cost-effective payments transactions with the basic products and further increase net interest income from short-term business.

Debt capital markets

Involvement in more
than half of all new issues

In 2010, the capital market reflected the recovery of the financial and real economies with lively issuing activity – underpinned by the positive reaction of investors. This meant that the year closed with a record volume of euro 2.3 billion in new corporate bond listings on the Vienna Stock Exchange. Volksbank AG – Investkredit also increased its involvement in issuing syndicates compared to the previous year: the bank held senior co-lead and co-lead positions in seven new issues, more than half the new issues on the regulated market.

At the end of the year, it succeeded in obtaining a mandate for the arrangement and lead management of an SME bond which was placed in February 2011.

Corporate treasury

Long-term securing
of low interest rates

In 2010, the focus was on securing low interest costs for the long term by hedging interest rate risks, primarily through plain vanilla hedging with instruments such as interest rate swaps, caps or simple, structured products such as interest rate collars. Transparent treasury products have contributed to a further increase in the quality of customer relations and form the basis for the bank's integral flow and margin business with corporate and real estate customers. At the same time, organisational and process-related conditions were created to ensure that commodity-hedging and -optimisation can be offered with the same level of expertise as the hedging of interest rates and foreign currencies.

VB Factoring Bank AG

VB Factoring Bank, a 100% subsidiary of VBAG, recently celebrated its 30th anniversary. Specialising in factoring, the banking institution passed a revenues milestone in 2010. By the middle of the year, a year-on-year increase of more than 5% had been achieved. As at 31 December 2010, revenues had surged by 12% thanks to successful new business and growing business with existing customers. In 2010, assets were purchased to the tune of euro 1 billion, while the bank held a 13% share in the Austrian factoring market.

Significant rise in turnover in anniversary year

Outlook for the Corporates segment

Volksbank AG – Investkredit plans to gradually reduce the volume of lending and thus of total assets in order to strengthen its equity ratio. The bank will concentrate on profitable core customers and offer them the required products. This means in turn that certain corporate financings with terms which are no longer in line with the bank's standards will be allowed to expire. This will enable Volksbank AG – Investkredit to provide financing for core customers in the long term.

Concentration on defined core customers

In line with the "Strategy 2015", supporting medium-sized companies together with the regional Volksbanks remains an important factor. For this reason, 2011 will see the syndicated financing department continue to work very closely with the Volksbanks and offer their customers an extensive range of financing and subsidy services.

Further expansion of syndicated financing with primary banks

Corporate demand for loans for investments in Austria and abroad had already started to increase at the end of 2010. Demand was driven primarily by companies which offer products and services on markets that have already recovered. Volksbank AG – Investkredit has seen credit lines for working capital become a means of securing a company's liquidity rather than a way of financing crisis-related measures.

Corporate Finance anticipates a further sustained improvement in general conditions over the next few quarters. The number of transactions in Austria and Eastern Europe is expected to increase in 2011, allowing Volksbank AG – Investkredit to demonstrate its expertise in structuring and implementing financing solutions in close cooperation with customers. In addition to classic corporate acquisitions, special solutions continue to be required. The Leveraged Finance department is well positioned to meet the challenges of an attractive transaction market in Central Europe successfully.

Opportunities on Central European markets following recovery

Germany is and will remain an important core market. A further significant upturn in the deal flow is expected in 2011 for both LBO and corporate finance. Club deals will continue to dominate, although an increase in underwriting is also likely. In the classic corporate customer business, the bank will realise cross-selling potential on the basis of existing customer relations. It will also strive to attract new customers on a selective basis.

Project finance will press on with its aim of realising financing for renewable energy throughout the whole of Europe. Infrastructure financing is characterised on the one hand by savings programmes from public authorities and on the other hand by the need to finance investments in the long term. A forecast regarding the trend of infrastructure financing, which is mainly dependent on the state's willingness to invest, will be possible only after reliable analyses of the development of government budgets have been performed.

Europe-wide financing of renewable energy

In 2011, International School Financing will provide financing for the investment projects of an increasing number of international schools abroad on the basis of the KfW global loan and in cooperation with the Federal Foreign Office in Berlin as well as the World Federation of German Schools Abroad.

Loans for German schools abroad

In 2011, Investkredit Investmentbank AG will redouble its efforts to acquire new M&A consulting contracts. In the private equity business, IKIB anticipates a rise in investment opportunities and an improvement in the exit environment.

The capital market will remain attractive to companies in 2011. New issues came on the market at the start of the year, enjoying high demand from investors. One example is the Voest Alpine AG bond with an issue volume of euro 500 million, in which Volksbank AG – Investkredit was successfully involved in a senior co-lead role. Debt Capital Markets witnessed significant demand from the Volksbank sector for the KNAPP bond placed in February. At the same time, corporate customers are also expected to be interested in alternative forms of financing such as ABF transactions, which offer additional flexibility in liquidity management.

Numerous new issues and strong demand from investors

**Focus on energy and
raw material management**

In 2011, Corporate Treasury will mainly focus on dynamic energy and raw material management for the bank's corporate customers. The very attractive entry levels in the area of foreign currency offer interesting opportunities for intelligent optimisation strategies on the capital market. Anti-cyclical, risk-adjusted activity will lead to long-term success for corporate customers.

**Factoring more important
due to Basel III**

Although the financial crisis had a slight restrictive effect on the factoring business model, VB Factoring Bank AG anticipates further growth during the period of economic recovery. The importance of factoring will increase as a result of Basel III.

SUSTAINABILITY IN THE CORPORATE SEGMENT

CORPORATE RESPONSIBILITY PRINCIPLE

Our focus in this segment is orientated in many respects to the sustainable economic activities of enterprises. For companies, sustainable development means a longer-term conception horizon. Sustainably operating companies make essential contributions to the viability of the economic system.

Sustainably operating companies as customers

The expression of our attitude is the focus on long-term financing to satisfy the longer horizons of sustainably operating companies. These customers include companies who have had business relationships with Volksbank AG – Investkredit for decades.

We live close business relationships with family businesses

Another expression of our attitude is our close business relationships with family businesses as a key customer group. Family businesses think in terms of generations and not in terms of quarterly balance sheets – they are orientated towards long-term viability, not to short-term profit. In many cases, they assume responsibility for the regions in which they are based. Our financing criteria are not exclusively orientated to the monetary return on investment, but also to their sustainable contribution to society. That means that for every financing decision, we analyse in detail whether the company's business model represents a sustainable benefit for the company's customers. We also examine how the company provides its services (e.g. dealing with uncertainty).

We are strengthening our expertise with corporate subsidies

A large number of European and Austrian public subsidy programmes are orientated to sustainable objectives. Our specific expertise in the area of corporate subsidies strengthens the focus of the bank on sustainable economic activities. In particular, each subsidy programme where we provide advisory services in the context of financing fulfils economic sustainability aspects (creation of investments and jobs).

Sustainable energy generation

As a bank for corporate customers, we make a substantial contribution to the expansion of renewable energy. We therefore also support the objectives of European climate policy.

We contribute to emissions trading

We also provide Austrian industry with emissions certificates, which lead to a reduced output of harmful emissions in relevant countries. We thereby support an ecologically orientated sharing of burdens between the economic regions from a global perspective.



>> Private education is a sustainable growth market. Volksbank AG – Investkredit has been active in this field for many years. The business segment is distinguished by high social benefits – investment in youth and education are central themes of our company.<<

Michael Smutny, Head of International Projects

BEST PRACTICE

Financing of international schools

Volksbank AG – Investkredit can boast more than 10 years experience in the financing of private international schools. 19 successful school projects have been implemented in more than 9 countries, from Vienna to Washington, from Brussels to Berlin, from London to Ljubljana and Warsaw to Munich. Target clients are above all: international German and American schools, schools with an institutional background (UN, embassies) and schools with a commercial or religious orientation. These schools – mostly organised as associations – finance their income on the one hand through the annual school fees of the students and on the other hand through subsidies or grants from their sponsor organisations. Many of the schools are also state-recognised supplementary schools, which cover up to 30% of their running costs from guaranteed taxes. Through that, the students not only gain internationally recognised school-leaving certificates but also school qualifications that are accepted in the respective state. Benefiting from social changes and the current media debate about the quality and efficiency of the state school system, the demand for private school education continues unabated at home and abroad.

New global loan from the KfW

With the involvement of the German Federal Foreign Office in Berlin and the Weltverband Deutscher Auslandsschulen (World Federation of German Schools Abroad) in Berlin, Volksbank AG – Investkredit became the only bank in the world to conclude a global loan dedicated to the financing of international schools when it signed an agreement with the KfW banking group for EUR 60 million in the spring of 2010. The new global loan will be used to finance long-term investment projects (new buildings and extensions, sports and leisure facilities, science centres, etc.) at more than 130 German schools abroad over the next few years. Volksbank AG – Investkredit will take on the necessary credit assessment of the respective end borrower and, when the credit rating is positive, grant long-term borrowed funds that are refinanced by the KfW banking group at subsidised interest rates. In the first three months after the agreement was signed, direct contact with 20% of all schools was established, project volumes of EUR 136 million were discussed and a loan volume of EUR 35 million was offered. Financing of EUR 10 million has already been concluded.

A project already up and running at the German School Washington D.C.

The first financing in this project – a construction loan for a new science building – has already been concluded with the German School in Washington D.C. in cooperation with the KfW banking group. The total investment costs amount to USD 8,000,000, of which Volksbank AG – Investkredit is providing USD 6,000,000 on a long-term basis. The extension is being built according to LEED standards ("Leadership in Energy and Environmental Design" of the "US-Green Building Council") and has been awarded the programme's silver certification.

This assessment system defines precise standards in the areas of site concept, water and energy consumption, building materials and environmentally friendly interior construction. Founded in 1961, the German School Washington D.C. is the largest institution for German-speaking international students on the East Coast of the USA. More than two thirds of the pupils come from German, Austrian or Swiss families. The school, at which over 600 pupils are taught, offers an education programme that concludes in the 12th grade with the American High School Diploma and the German Abitur.

Investment in youth and education

The large demand and the earnings potential make this market segment extremely attractive for Volksbank AG – Investkredit. The refinancing at favourable interest rates by the KfW and the market advantage that results from the cooperation will make a decisive contribution to the expansion of this business segment. The thematic leadership in this market segment forms part of the sustainability strategy of the V BAG Group – as does the commitment to the issues of the future such as youth and education.

SUSTAINABILITY FINANCIAL REPORT – CORPORATES

Corporate lending

The lending business is a core service of Volksbank AG – Investkredit. Long-term customer relationships exist, particularly with family businesses. While the regional Volksbanks specialise in SMEs, the Corporates segment focuses on large enterprises. For the presentation of the sizes of enterprises, the EU definition was dispensed with and the standard classification used in Group-internal credit risk reporting was selected. A large enterprise is understood here as one with an operating output of over EUR 50 million; for SMEs, operating output is up to EUR 50 million, while small enterprises additionally have an exposure of less than EUR 1 million. According to this definition, the proportion of large enterprises in the year under review was 68.85% and thus constituted the overwhelming majority. The proportion of medium-sized enterprises in 2009 was 29.57%, while small enterprises made up 1.58% of the total. The changes from the previous year result from a change in the operating output of certain customers. As a result of that, these customers migrated from medium-sized to large.

From the perspective of lending volume by sector, it is apparent that more than half of the volume in 2010 is allocated to the three largest sectors: (financial) services, consumer goods and intermediate consumption as well as retail and wholesale trade. In comparison with the previous Corporate Responsibility Report, the sector classifications have been revised in the overview. The classifications that have now been selected correspond to the ÖNACE 2008 sector codes (Austrian Statistical Classification of Economic Activities).

In the Corporates segment, business loans with high ecological benefits are issued. This financing was provided in the following sectors (based on ÖNACE): energy supply, water supply, sewerage, collection, treatment and disposal of waste, remediation of environmental damage and other waste disposal, manufacture of electrical equipment, manufacture of machinery as well as research and development. Enterprises have been identified within these sectors that manufacture equipment or components with ecological benefits. The financing provided by Volksbank AG – Investkredit to these companies has been defined as "Loans with high ecological benefits". Even though loans with high ecological benefits currently only account for a small proportion, their significance is growing. They accounted for only 3.4% of all corporate lending in 2009, but this figure rose to 5.6% in 2010. In absolute figures, the volume of these eco-loans increased from EUR 342 million (2009) to EUR 361 million (2010).

Business loans with high ecological benefits

| | Unit | 2008 | 2009 | 2010 |
|--|-------------|------|--------------------|------|
| Business loans with high ecological benefits | EUR million | 249 | 342 ¹⁾ | 361 |
| Proportion of business loans with high ecological benefits in the total volume of business loans | % | 2.29 | 3.35 ¹⁾ | 5.64 |

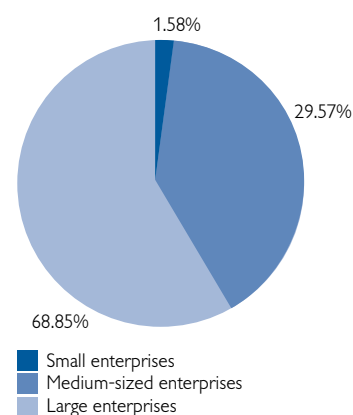
In addition, the portfolio also contains business loans with high social benefits. Volksbank AG – Investkredit is a specialist in financing international private schools. 19 schools in 9 countries are customers of the school financing competence centre. In absolute figures, the lending volume in the area of international school financing amounts to EUR 80 million. In addition, financing focuses on spas, hospitals and sanatoriums, while the helicopters of the air rescue service of the ÖAMTC (Österreichischer Automobil-, Motorrad- und Touring Club – Austrian automobile association) are also financed. In 2011, emphasis will be placed on attracting new customers for the financing of international schools.

Preparatory work is currently underway that will enable business loans with particularly high ecological and social benefits to be presented on a system-supported basis in future. This is being carried out as part of the updating of the database systems. The objective is for loans that serve a particular ecological or social purpose – irrespective of the sector – to be reported in 2013 on a system-supported basis. This kind of recording will not be applied to loans for family businesses, however.

Project financing

Project financing is required where traditional corporate financing cannot be applied. Typical cases are projects where the size exceeds the financial possibilities of an individual company or that have to be financed "off balance sheet". The overwhelming majority of the project financing provided by Volksbank AG – Investkredit is associated with high ecological or social benefits.

Lending volume by size of enterprise 2010



Allocation of lending volume by sector²⁾

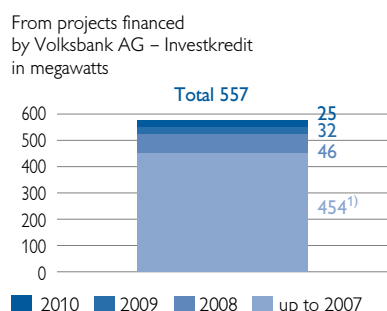
| Sector | Volume in % |
|--|-------------|
| (Financial) services | 25 % |
| Consumer goods and intermediate consumption | 20 % |
| Retail and wholesale trade | 11 % |
| Mechanical and plant engineering | 8 % |
| Mining and energy | 8 % |
| Construction | 7 % |
| Forestry and paper | 7 % |
| Media including information and communication technologies | 3 % |
| Tourism | 3 % |
| Transport | 3 % |
| Others | 5 % |

1) Database 2009 only from 01.01 to 30.09 on account of system changes.

2) At 31.12.2010



Installed electrical output of renewable energy



An important area of activity is the financing of investment projects in the areas of renewable energy and waste and water recycling. At the end of 2010, around 80% of all project financing could be allocated to these ecological areas. Of this, project financing in the area of renewable energy accounts for a volume of over EUR 400 million. A wide range of projects involving the energy of the future are primarily financed here: wind power plants, small hydropower plants, photovoltaic plants, biomass power plants and biogas systems. In total, the portfolio of plants and systems for renewable energy currently held by Volksbank AG – Investkredit produces an output of 557 megawatts of power. 25 megawatts were added in 2010 – 20 of which came from newly installed photovoltaic plants alone. The total renewable energy generated in 2010 by all plants that have been financed by Volksbank AG – Investkredit in previous years covers the energy requirements of around one million people. The aim for 2011 is to provide financing of around EUR 100 million for wind and photovoltaic power plants. To achieve this, more intensive co-operation is planned with the manufacturers of these systems and plants as well as with funds and customers. A new market (Italy, Sweden) in another European country will also be accessed for Volksbank AG – Investkredit to finance renewable energy. Some project financing features a high social benefit for society. Of particular note here is the financing of the Tetron emergency services radio network, which saw a standardised radio network installed for the emergency services (the loan was increased to finance the expansion of the network in the federal state of Steiermark on 11 February 2011). With a financing volume of EUR 30 million, it accounted for 6% of the total volume of all project financing in 2010.

Contrary to what had been announced, a sustainability analysis for a sample sector was not carried out in 2010. Instead, instead we will examine whether project financing should in future be reviewed in accordance with the sustainability standard of the Equator Principles. This will identify projects with ecological and social risks, which can then be avoided by initiating appropriate measures.

International trade in climate protection certificates

Volksbank AG – Investkredit acts as trustee for Austrian companies from the electricity and mineral oil sector as well as from the glass and brick industry that have invested EUR 7 million in the KfW banking group's climate protection fund of around EUR 83 million. This project purchases emission certificates for fund participants from climate protection projects that reduce greenhouse gases, known as JI/CDM projects²⁾. This enables CO₂ certificates from a foreign wind farm to benefit Austrian industry, for example. By the end of 2010, around 121,000 of these emission certificates from the KfW climate protection fund had been allocated to Austrian companies via Volksbank AG – Investkredit. One certificate corresponds to the emission of one tonne of carbon dioxide equivalent. The annual allocation depends on the mode of operation of the plants that generate emission certificates and is therefore subject to fluctuations.

Active participation in the international trade in CO₂ certificates

| | Unit | 2008 | 2009 | 2010 |
|---|---|--------|--------|--------|
| Climate protection certificates transferred via Volksbank AG – Investkredit | 1 certificate = 1 tonne carbon dioxide equivalent | 23,219 | 14,754 | 13,732 |

Sustainable investment of Volksbank AG – Investkredit

Volksbank AG – Investkredit has its own investment portfolio of shares in companies that have a specific environmental focus. These investments are predominantly in the area of energy clearing and renewable energy settlement and clearing. Volksbank AG – Investkredit is a joint owner (10%) of APCS, Power Clearing and Settlement AG, the corporate objective of which is a liquid and seamlessly functioning balancing energy market. It also holds 20% of the shares in AGCS, Gas Clearing and Settlement GmbH. As a clearing centre for the East Control Zone, AGCS determines the balancing energy for all market participants in the Austrian gas market on the basis of planned network feed-ins and withdrawals. This makes a contribution to sustainable supply security. Volksbank AG – Investkredit is also joint owner (12.6%) of OeMAG, Abwicklungsstelle für Ökostrom AG. The main tasks of OeMAG are include acceptance of renewable energy at the prices determined by the Ökostromgesetz (Austrian Green Electricity Act), calculation of the renewable energy quotas, daily allocation of renewable energy to power traders based on renewable energy quotas, management of the newly created subsidy contingents and processing of subsidy applications. Finally, Volksbank AG – Investkredit holds shares (12.5%) in ECRA, Emission Certificate Registry Austria GmbH. The main task of the Austrian register service centre in the emission certificate market is to operate a standardised and secure registration system in the form of an electronic database that tracks the issue, ownership, transfer and cancellation of emission certificates. The book value of all these investments amounted to EUR 1.3 million at the end of 2010.

1) The difference in 2007 in comparison with the previous sustainability report results from the fact that some loans have been returned and the portfolio has thus been reduced.

2) Clean Development Mechanism (CDM) and Joint Implementation (JI)

Österreichische Volksbanken-AG is active in the Retail segment both in Austria and in Central and Eastern Europe. The Austrian retail subsidiary is VB Leasing Finanzierungsgesellschaft m.b.H. Two subsidiaries operate in the CEE countries, Volksbank International Group and VB-Leasing International Holding GmbH.

Retail in Austria

VB Leasing Finanzierungsgesellschaft m.b.H. (VBLF)

VBLF was founded in 2001 and is a wholly owned subsidiary of Österreichische Volksbanken-AG. It is in charge of VBAG's Austrian leasing activities together with two subsidiaries and two sister companies. VBLF has a strong regional focus; its distribution network consists of nine branches across Austria. Apart from selling its own products, VBLF is primarily a service provider to the Austrian Volksbanks for all activities related to the leasing business.

**Competence centre
for leasing activities
in Austria**

VBLF provides services for a large and diverse customer base. This means that the company has to develop individual financial solutions tailored to the needs of each customer group. For this reason, in addition to creating individual financial solutions, VB Leasing also offers tailor-made services. VBLF services its customers in the business areas of cars, transportation, office automation and machinery. With its extensive expertise in all types of lease financing, VBLF is well positioned on the Austrian leasing market. VBLF completes its service range through its intensive cooperation with banks and financial service providers, as well as dealers and manufacturers in the capital goods industry.

Record year 2010

Since its formation, VBLF Group has aimed for a granular portfolio structure and has followed an approval policy based on balancing risk and return. Thanks to a stable margin situation coupled with a downward risk trend, VBLF posted a record result in the year under review. In 2010, VB Leasing Finanzierungsgesellschaft m.b.H. recorded a new business volume of euro 300 million, corresponding to 17,000 new contracts.

**Best result
in VBLF's history**

>> We provide our customers and their diverse projects with tailor-made financial solutions and services. This means that VBLF can position itself as a reliable leasing partner on the Austrian market on a sustainable basis. <<

(Peter Stanzer, Managing Director)

Positive development was seen in all areas of business. The number of new contracts was the highest in VBLF's history. The spread on the Euribor was very satisfactory, particularly at the beginning of the year. It fell slightly by year-end due to fiercer competition. In view of the difficult economic situation, the need for impairment was only moderate. Furthermore, there were unexpectedly high repayments from doubtful debts from the year 2009.

Retail abroad

Volksbank International Group (VBI)

Thanks to its strong positioning, VBI held its own in the challenging environment of 2010 and increased the operating result of the Group.

Ten banks in nine countries

The VBI network consists of ten VBI banks in nine Central and Eastern European countries (Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Romania, Bosnia-Herzegovina, Serbia and Ukraine) as well as the Vienna-based Volksbank International AG. Since its foundation in 1991, VBI Group has pursued a conservative risk policy and a strategy of focussing on business with retail customers and small and medium-sized companies, SMEs. In the future, Volksbank International AG plans to anchor its business with micro-enterprises more firmly in its business model.

Another core activity at VBI is its referral business for corporate customers of its Austrian, German, French and Italian partner banks.

Österreichische Volksbanken-AG is the majority shareholder in VBI with a 51% interest. Since 2004, the German cooperative banks DZ BANK AG and WGZ BANK AG as well as Banque Populaire Caisse d'Epargne (BPCE), France, have each held a 24.5% interest in VBI.

Operating result increased again

Operating result increased again

In the 2010 financial year, VBI generated an operating result (before risk) of euro 231 million, representing a year-on-year growth of 7.1%. In spite of the squeeze on margins and flagging new business, net interest income made a large contribution to the result with euro 417 million. This represents a 2.1% increase on 2009. While net fee and commission income did fall behind expectations, it rose nonetheless by 1.5% to euro 81 million.

Risk provisions up significantly

VBI's core target groups, retail customers and SMEs, were particularly affected by the economic crisis during 2010 (e.g. higher unemployment and more bankruptcies). For this reason, the Group had to raise risk provisions significantly. At the end of the 2010 financial year, risk provisions stood at euro 237 million, a year-on-year increase of 35.8%. Two thirds of this figure are attributable to Romania.

>>For 2011, a stabilised economic environment is anticipated. For this reason, we expect that the result will return to pre-crisis levels. <<

(Friedhelm Boschert, Chairman of the Managing Board)

Focus on qualitative development

Sound business model proves a success

Focusing on qualitative development has proved a success in strategic terms. The subsidiary banks of VBI focus on traditional retail business with private individuals and small and medium-sized enterprises. VBI's robust and conservative business model, and consistent implementation of the latter, continued to prove successful, even against the difficult backdrop of 2010.

Only slight fall in total assets

Total assets down slightly

VBI's total assets as per 31 December 2010 stood at euro 13.7 billion. This represents a slight decrease of 0.9% against the previous year. Volksbank Romania has the largest share, with total assets of euro 4.8 billion, followed by the banks in the Czech Republic (euro 2 billion), Hungary (euro 1.8 billion), Slovakia (euro 1.3 billion) and Croatia (euro 1 billion).

Retail increases

Retail business resilient in the crisis

VBI's retail business in the CEE region remained extremely robust in 2010, especially in view of the challenging market conditions. Total returns in the Retail segment – consisting of net interest, net fee and commission income – increased by 1.6%, from euro 300 million in 2009 to euro 305.6 million in the period under review.

Nine banks record profit

The Retail result made an important contribution to the success of the VBI Group in what remained a difficult environment. Nine of the banks recorded a profit. Only the Romanian bank posted a negative result, due to non-recurring items. However, Volksbank Romania achieved a positive operating result.

New positioning of Volksbank Romania

Over several years, Volksbank Romania has positioned itself as a reliable partner in the area of mortgage lending. Although, as a universal bank, it offers the full range of banking services, Volksbank Romania's customers perceive it to be primarily a lender. The bank is currently working to recreate its image, by communicating more strongly the entire range of products on offer and working on its positioning as a full-service bank. One key product focus is the acquisition of salary accounts and promotion of savings products.

Corporate business

The lending volume in the corporate business of the VBI Group stood at euro 4.3 billion as at the end of 2010, while the deposit volume totalled euro 1.9 billion. 26.5% of the total lending volume or euro 1.1 billion is attributable to the Volksbank in the Czech Republic, which further improved its successful positioning as a bank for SMEs. Of the total corporate lending volume of the VBI banks, approximately 51% is attributable to loans to small and medium-sized enterprises, 28% to real estate project financing, 16% to large customers and 4% to public finance.

VB-Leasing International Holding GmbH (VBLI)

In spite of economic stagnation in some VBLI countries, combined with dramatic slumps on the leasing markets in Central and Eastern Europe, the strategic orientation of VB Leasing Group not only had a stabilising effect on the performance in 2010 – it actually served to increase growth slightly. In the financial year just ended, VBLI generated new business of euro 925 million, which corresponds to some 38,000 contracts.

The subsidiaries in Slovenia, Bosnia-Herzegovina, Serbia and Romania recorded slight increases in new business volumes. New business grew in both the Czech Republic and Poland thanks to a policy of selected large-scale transactions with stable partners known to VBLI for many years.

However, like others, VBLI was unable to escape unscathed from the profoundly changed conditions on the leasing markets. Investment activity in Croatia remained cautious, meaning that the performance of this local leasing business lagged behind expectations. Nonetheless, there was a slight upswing in the last quarter of 2010, allowing us to hope for positive developments in the 2011 financial year. In Slovakia, a crash in the automotive and transport sector at the beginning of the year acted as a drag on growth. This was clearly reflected in the new business volumes recorded at VB Leasing Slovakia. The sector has begun to bounce back since the second half of 2010. The experts at VB Leasing are thus confident that leasing business will gain momentum in 2011.

Growth rates increased despite crisis

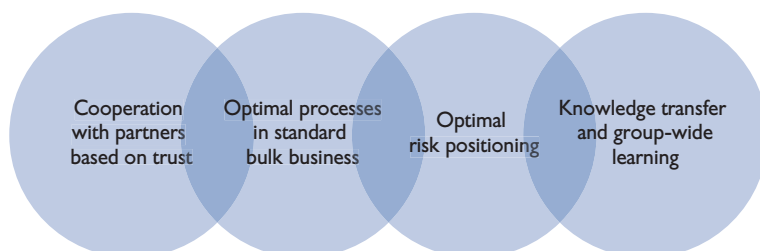
>> We weathered the crisis thanks to the long-term orientation of our business model and outstanding customer relations. We are perfectly positioned to exploit growth opportunities on recovering markets. <<

(Manfred Wolf, Managing Director)

Creating value. Securing growth.

Investing in customer relations is synonymous with investing in the countries where VBLI has a presence. This also serves to secure the long-term existence of the VB Leasing Group. Inspired by the loyalty of partners and customers, it was precisely in times of crisis that VB Leasing intensified customer relations, while concentrating on actively managing both existing and potential vendor partners. The success of VB Leasing is based on the following parameters:

Intensification of customer relations



Leading vendor financier

In the 2010 financial year, VB-Leasing International worked to achieve a deliberate and reliable increase in new business volume.

Leading vendor financier

Since 2009, VB Leasing has been focussing more intently on acquiring new vendor partners, while providing high quality services to existing partners. The group-wide vendor concept rests on two pillars: transactions are managed centrally at the Vienna competence centre, while the operational business is carried out on a decentralised basis directly in the country concerned.

VB Leasing's partners benefit from efficient internal processes which guarantee a high quality benchmark for each and every transaction, comprehensive local market and sector expertise, and considerable influence on the secondary market.

Leading leasing provider in CEE

The network

VB-Leasing International was founded in 1994, Österreichische Volksbanken-AG and the Germany-based VR-LEASING AG each hold 50%. The step-by-step expansion of the powerful network in eight Central and Eastern European states has made VB Leasing one of the most successful leasing providers in the CEE region. The Group has eight local subsidiaries in the Czech Republic, Slovenia, Croatia, Poland, Bosnia-Herzegovina, Slovakia, Serbia and Romania, and has held an interest in the Hungarian market leader Lombard Lízing since January 2009.

The structure and processes of the entire Group are based on three business areas: Car Lease & Services, Construction & Transport and Machinery. This specialisation in movable goods leasing, together with a structure based on business fields, forms a solid foundation for comprehensive, transnational sector and product expertise.

As a service provider, VB-Leasing International is responsible for uniform process structures, procedures, concepts and the long-term image of the entire Group. It also harmonises the different regional identities with the strategic orientation of the Group as a whole.

Outlook for the Retail segment

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

The CEE states are still characterised by pent-up demand in various different areas – from the housing situation to salary levels, from account usage to insurance products, building society contracts and sophisticated deposit products. For this reason, Volksbank International Group has an optimistic view for the future.

After two years in a state of economic emergency, it is clear that VB LI has chosen the right path. VB LI's traditional strategic orientation towards standard, small-volume bulk business, coupled with broad diversification of risks, has steered the group safely through stormy seas. For this reason, one key planning aspect for the coming years will be steady growth of new business.

On 7 December 2010, Österreichische Volksbanken-AG announced that it was examining the possibility of divesting Volksbank International AG and VB-Leasing International Holding GmbH, and starting the respective process. The group is currently taking exploratory steps which may lead to the sale of these two holdings.

SUSTAINABILITY IN THE RETAIL SEGMENT

CORPORATE RESPONSIBILITY PRINCIPLE

We promote society, living space and the environment in the regions. As a “local bank” and leasing company, we take into account the individual needs and financial conditions of our customers. Easily understandable and transparent products are the basis of an equal partnership with our customers.

Responsibility to our customers and partners

We embody responsibility through products and services that meet our customer needs.

As a bank and leasing company, we take on responsibility and a commitment to the region.

- We show our customers particular respect,
- immediately address our customers' complaints,
- attend to our customers efficiently and ask for feedback.

Comprehensibility of our products

We embody responsibility when explaining products and services.

- We ensure that our customers understand our products and services,
- and we offer simple structures and transparency in our products and services.

Fair communication of products and services

We embody responsibility when marketing our products and services.

- We formulate advertising messages truthfully and can prove these with facts,
- train our employees,
- survey and pay attention to the needs of our customers, collect market feedback on products and services and establish measures to implement these findings,
- and we comply with statutory and government data protection guidelines.

Fair dealings with our customers in financing solutions

We embody responsibility in corporate lending.

- When granting loans, we ensure that customers can afford the repayments, and
- we emphasise gentle restructuring with intensive support for customers faced with repayment difficulties.

Data protection

We embody responsibility when dealing with the privacy of our customers and partners.

- We inform our customers and partners about the responsible handling of their data,
- do not pass any information on to third parties without the consent of customers (unless required by law) and
- comply with statutory data protection guidelines.

Ecological/social products

We embody responsibility when it comes to promoting ecological and social products.

- We establish measures to raise interest in ecological and social products and
- offer customers packages that include ecological and social products.

Strengthening the economic development of the region

We embody responsibility by making a contribution to the economic development of the region.

- We create growth by financing and promoting companies in the region
- as well as jobs in which well-trained employees are motivated to serve and support these customers,
- make sponsoring commitments and donations to local associations, companies and organisations and
- take a stand against money laundering and corruption.



>> New Markets. New Opportunities. It is all very well to say this, but in particular for SMEs, crossing borders entails considerable efforts. This is where the "House Bank" comes in, knowing the client, its strengths and its needs. We have bundled our initiatives in the CEE UNLIMITED approach, thus offering our partner banks, their corporate clients and our subsidiaries in the CEE countries a real win-win-win situation.<<

Friedhelm Boschert, Chairman of the Board Volksbank International AG

BEST PRACTICE

Volksbank International AG (VBI) – committed to people and the environment in our regions

VBI embodies the principle of the primary bank in Central and Eastern Europe

As a "local bank with a cooperative identity", VBI offers its customers the familiar standard of comprehensive service and product packages in the spirit of a "primary bank" in Central and Eastern Europe. International and local customers have access to individually tailored product packages. We define these product packages using the CEE UNLIMITED marketing initiative, which includes an Internet platform, and through our employees on the international desks of the VBI banks. For local customers, VBI offers special microfinance services and corporate centres located throughout the countries.

Primary bank service on the Web – CEE UNLIMITED

VBI consolidates the offer available to the customers of our partner banks under the keyword "CEE UNLIMITED". Since the online launch of these specialised VBI websites in 2007, the number of users has continually increased. The service platform thus represents an important information tool as far as bank services in Central and Eastern Europe are concerned and acts as a multiplier for the CEE service of the VBI Group. The appearance and navigation were modernised in 2010 and the information presented in a compact and clear layout in order to appeal to end target customer groups.

Primary bank service for international customers – international desks

Small and medium-sized enterprises are typical customers of the Volksbanks, and VBI makes it easier for them in particular to take the step across the borders. Care for customers continues to be provided by the tried and trusted local bank, while the multilingual VBI employees on the international desks accompany them into VBI countries step-by-step, from the opening of a CEE account to the settlement of the day-to-day business and financing.

The customer relationship managers of the VBI partner banks also receive information on the economic and legal conditions prevailing in the CEE countries, as before a customer can start their own business activity, bureaucratic hurdles have to be crossed and legal questions clarified. Through its network, VBI is able to provide the necessary contacts and information for the customer in an efficient manner and in good time.

Primary bank service for local customers: microfinance and corporate centres

Depending on the geographic and economic conditions in the individual countries, VBI offers tailor-made service packages locally for small and large corporate clients. In addition to the customer relationship managers in the branch offices, specific corporate centres in the larger cities of the respective VBI country also provide support for SMEs. Moreover, VBI is launching special service packages for SMEs in several countries. For micro-enterprises, this will take place in particular in cooperation with the French partner Coop-Est in order to strengthen the backbone of the economy in Central and Eastern Europe in a sustainable way.

SUSTAINABILITY FINANCIAL REPORT – RETAIL

Volksbank International AG

Sustainability in the core business of Volksbank International AG

As a bank that comes from a cooperative background, Volksbank International AG (VBI) endeavours to make a contribution with its financial services to the sustainable development of the regions in which it is active. One focus here is provided by renewable energy projects. They already comprise up to 10% of the total corporate loan volume in selected VBI countries.

Migrants and their families constitute a special target group. In many countries in Eastern Europe, remittances from migrants to their relatives are a crucial component of the family income. Moreover, they form a substantial part of the foreign currency earnings of the respective country. Together with VBAG and partner banks and institutions, a product line called "Connecting Families" was successfully developed in 2010 that is aimed at migrants in Austria whose families live in Central and Eastern Europe. The product will be launched on the market in the first half of 2011.

The backbone of the regional economy are sole proprietorships and small and medium-sized enterprises. Microfinance products have been offered since the end of 2011 in cooperation with CoopEst. The credit volume varies strongly by geographic region. According to the EU definition it can be up to EUR 25,000. These products can be offered to micro-enterprises in a more cost-effective manner thanks to public subsidies on the part of international organisations.

VBI provides its customers with an international network of partners. This helps corporate customers from Western Europe gain a foothold in Central and Eastern Europe. VBI began providing an expanded form of the Internet platform CEE UNLIMITED in October 2010.

VBI offers a comprehensive service approach to guarantee customers' satisfaction. The primary bank principle, which focuses on both private and corporate customers, states: "A one-stop service, tailored products and conditions". This guarantees individually tailored product packages and personal access for customers. VBI is the primary bank for more than 30% of its customers in four countries.

Communication for VBI employees

Employees of VBI can choose from a variety of training programmes. Training for basic service advisors and customer advisors is offered in the national language and combines e-learning with training days. Management Development CEE is a programme that trains junior staff. The three-year Network Career Programme serves to fill positions in top management. Train-the-Trainer is used to develop the skills of an instructor. In the future, the average number of training days per year for various employee categories will be recorded centrally.

Successful internal communication begins at the individual level. Reviews for employees are already conducted. In 2011, these reviews will be further anchored in selected VBI Banks, with each employee being invited to individual orientation meetings more than once a year. Independent exchanges will be promoted via communication platforms. This will also extend to the topic "Sustainable Banking" in future. From spring 2011, the VBI Banks will be able to access a knowledge platform and an interactive ideas exchange on the subjects of Network Development, Cooperation, Sustainable Banking and Corporate Responsibility.

Diversity at VBI

Around two thirds of all employees at VBI are women (based on full-time equivalents). The proportion is especially high in Bosnia-Herzegovina (3 out of 4 employees are women). The proportion of women employees is also above the VBI average in Banja Luka and Rumania. Around one third of the employees at VBI's group headquarters in Vienna are women.

The environment at VBI

The total operating costs of all main buildings in the countries where VBI is active¹⁾ amounted to around EUR 3.5 million in 2010. The majority of the costs – around 70% – can be attributed to the consumption of energy and water as well as to waste disposal. Electricity consumption is an especially weighty factor here. Electricity consumption makes up a good half of the total operating costs. Heating systems and natural gas constitute slightly more than 10%. Water and waste play only a subordinate role²⁾.

Overall, the operating costs from 2009 to 2010 have remained roughly stable, only a slight rise of 0.6% has been recorded. Higher costs were primarily registered for the heating systems. Increased efforts will be made in 2011 to reduce energy costs. All employees of VBI AG and the VBI Banks will receive an

1) The VBI branch network and location in Austria is not included. The headquarters of VBI in Austria has already been dealt with through the joint location in the chapter "Environment".

2) No details on the composition of the operating costs are available for Ukraine and Banja Luka.



"energy-saving primer". The Green IT Hub will also help reduce energy consumption. The consolidation of important IT functions in the VBI Group in a joint computer centre should be concluded in 2011. This will generate savings of around 1,800 tons in CO₂ emissions every year from 2011. Overall, VBI's goal is to save 5% of its energy costs.

Our commitment to our environment also goes beyond energy consumption to include the sparing use of resources. A catalogue of measures on avoiding paper is planned for employees of VBI AG and the VBI banks. The goal here is to reduce paper consumption by 5%.

VB Leasing Finanzierungsges.m.b.H.

Promotion of ecological mobility

Sustainable consumption is key for sustainable development. The important factor here is supporting consumers in their decision to choose products that leave a small ecological footprint. VB Leasing Finanzierungsges.m.b.H. (VB Leasing) can make a contribution to this.

In 2010, lorries compliant with EURO 3 emissions standards were no longer financed. In contrast, VB Leasing concluded cooperation projects with car manufacturers such as Toyota, Honda and Subaru as financing partners in the marketing area. This will create the basis for positioning the company as a financing partner for private cars with low CO₂ emissions in 2011. The goal is successively to reduce the specific CO₂ emissions of the cars financed by leasing. A database is to be created in 2011 in which the manufacturer's specifications on the CO₂ emissions of all cars financed by leasing will be recorded using EDP systems. In addition, a bonus model will be developed for financing hybrid and electric vehicles.

Recycling solution for old hardware

VB Leasing has established itself over almost 10 years as one of the largest Austrian financing partners in the areas of office automation and information technology. One of the key ecological challenges in the sector is the growing volume of old equipment and electronic waste. In 2011, VB Leasing will offer each IT customer the possibility of recycling its old hardware. The recycling partners will be selected based on ecological criteria.

REAL ESTATE SEGMENT

The Real Estate segment encompasses the real estate financing operations of Investkredit Bank AG, the lease financing operations of Immoconsult Leasinggesellschaft m.b.H., the real estate development activities of PREMIUMRED Real Estate Development GmbH and real estate asset management by Europolis Group (which was sold at the end of 31 December 2010). Customers in Austria as well as in CEE and SEE countries are serviced by the segment. Based on the philosophy of "excellence in real estate", VBAG Group offers professional expertise and a full range of services relating to commercial real estate.

On 24 June 2010 the decision was reached that Investkredit Bank AG and Österreichische Volksbanken-AG will be combined. Since then, Investkredit Bank AG's real estate financing business has been operating on the market under the brand name of Volksbank AG – Investkredit.

2010 was marked by major redimensioning measures, most notably the successful sale of Europolis AG to CA Immobilien Anlagen AG. The deal was closed on 31 December 2010.

In terms of real estate financing, Volksbank AG – Investkredit has been involved in the long-term financing of commercial real estate projects in Austria and CEE countries for many years.

**Strategic focus of
Real Estate segment**

With a total of six branches in Central and Eastern Europe, Immoconsult operates in the area of real estate leasing. The regional offices are located in Poland, the Czech Republic, Slovakia, Hungary, Romania and Croatia. Container leasing is offered as a niche product to the shipping industry.

PREMIUMRED is the competence centre for international real estate project development, covering the entire product cycle of a property. The product cycle ranges from project acquisition and development, planning, construction, letting and property management through to selling to final investors.

Europolis is one of the most important investors and asset managers in the CEE, SEE and EE countries and has offices in Prague, Warsaw, Budapest, Bucharest and Moscow. The portfolios held by Europolis and its co-investors Union Investment Real Estate GmbH, AXA Investment Managers Deutschland GmbH and European Bank for Reconstruction and Development, EBRD, are among the highest quality portfolios in the region.

Work is currently underway on the organisational consolidation of the real estate activities of VBAG Group under a single management team and with a uniform market presence.

>> We are convinced that the reorganisation of the Real Estate segment, bundling of our expertise and focus on our core markets will optimally position real estate financing for the future. <<

(Ingrid Hofstetter, Deputy Head of Real Estate Financing department)

Performance over the business year

Compared to the previous year, a considerable improvement of the 2010 segment result was achieved. This improvement is due to decreasing risk provisions and to the fact that the 2009 result was heavily affected by impairments of investment property assets at Europolis Group. Profit before taxes in the period under review amounted to euro 19 million.

Real estate financing at Volksbank AG – Investkredit

In the Real Estate Financing department, Volksbank AG – Investkredit concentrates on both financing for property development and refinancing of existing properties in the areas of office, retail, logistics and hotels. The bank has many years of experience in this segment in Central and Eastern Europe and enjoys stable customer relations with renowned real estate companies in Austria and Europe.

In 2010, risk costs were reduced significantly compared with 2009. The economic situation on the bank's geographical markets remains extremely varied and difficult in some areas. The Czech Republic and Poland were much less affected by the crisis than South-Eastern European countries; although investing activities decreased in those two countries, they were not disrupted to the extent experienced in Romania, for example.

Promoting new business

In light of this situation, Volksbank AG – Investkredit increased the volume of new business in 2010 and financed development projects in well-established locations in Warsaw.

Immoconsult Leasinggesellschaft m.b.H.

As a specialist in real estate leasing, Immoconsult concentrates on business in Austria, with special attention paid to the cooperation with the Austrian Volksbanks. In the Central and Eastern European core markets, the focus is on major international customers. They are serviced by the office in Vienna as well as by the local subsidiaries in the Czech Republic, Slovakia, Poland, Romania, Croatia and Hungary. In addition to real estate leasing, Immoconsult successfully offers a niche product in the form of large-volume equipment leasing (particularly for containers).

No change in portfolio volume

In the 2010 business year, new business in an amount of euro 44.6 million was concluded. Due to the expiry of leasing contracts and premature contract terminations and the consequent sale of properties, the volume of the portfolio did not expand.

PREMIUMRED Real Estate Development GmbH

PREMIUMRED is the specialist for international project development of real estate within VBAG Group. The portfolio contains office buildings completed or renovated in 2008 and 2009 in Warsaw, Budapest and Bucharest. Due to the continuingly tense situation on the target markets, no new projects were initiated. Despite the challenging economic conditions, approximately 90% of the total usable office building space (approximately 57,000 m²) is let. Valid planning permission was recently received for the "Horizon Offices" project in Prague (rentable space around 23,000 m²) and it should be granted for the "Salomea Business Park" in Warsaw (rentable space around 28,000 m²) in 2011.

Higher level of letting

Largest sale transaction in 2010

Europolis AG

In 2010, the new strategic focus of VBAG Group laid the foundations for the sale of Europolis. Following a bidding process conducted in accordance with international standards and handled by a well-known investment bank, the Austrian company CA Immobilien Anlagen AG was selected as the best bidder for the purchase of Europolis in the middle of the year. The contract was signed in June and the sale was closed as planned at the end of 2010. With a real estate volume of around euro 1.5 billion, the sale was the largest transaction conducted in Central and Eastern Europe in 2010.

In the Real Estate Investment division, the "Amazon Court" project development in Prague, which was completed in 2009, was presented with the "Best of Realty Award" for the best office building in the Czech Republic on 16 November. Europolis AG did not implement any development projects in the period under review.

In the Asset Management division, total space of around 195,000 m² was newly let or re-let. The extension of the contract for "Lipowy Office Park" in Warsaw was particularly pleasing; the tenancy agreement with Pekao SA Bank for 39,212 m² was extended for a further seven years. However, the inclusion of the vacancy rates of two new logistics halls in Poland meant that the total vacancy rate increased from 19% to 22%.

In the Real Estate Financing division, the loan portfolio held by Europolis AG was transferred to Volksbank AG – Investkredit to achieve greater concentration of real estate financing within VBAG Group and to separate Europolis AG's roles as owner and lender prior to the sale.

Outlook for the Real Estate segment

Increasing profitability

For 2011, plans are underway to focus the loan portfolio in Real Estate Financing more strongly on the future target markets of Volksbank AG – Investkredit from a geographical perspective. More specifically, the number of countries in which financing is offered will be reduced, with the bank's historic core markets weighted more strongly. This portfolio optimisation will also result in increasing profitability.

In real estate leasing, one point of focus will be the management of the existing portfolio and the servicing of regular customers. Due to the high level of competition, achievable margins are expected to decrease further, along with a lower level of investing activity. Consequently, the aspect of profitability will have priority with respect to new business.

**Concentration on
existing portfolios**

In the 2011 business year, PREMIUMRED will focus more intensively on its role as workout unit for impaired real estate financing within VBAG Group. Project development activities will be resumed in the defined core markets – on the condition of favourable market development and successful letting.

**Selective new
project developments**

>> Bundling know-how, generating synergies, one branding as well as new quality in products and processes, transparency for our clients and also quick and efficient decision-taking – these are the elements behind our new slogan ‘Passion for Quality’. <<

(Andreas Steyer, Head of Real Estate division)

In terms of organisation, 2011 will see all real estate activities of VBAG Group combined under a single management team and with a uniform market presence. This will help to increase quality in processes significantly, but will primarily offer customers clarity and transparency with regard to the extensive range of products and services provided.

Realignment of segment

SUSTAINABILITY IN THE REAL ESTATE SEGMENT

CORPORATE RESPONSIBILITY PRINCIPLE

The Real Estate segment is guided primarily and decisively by the ongoing value of the respective property in its development, investment and financing decisions. Sustained value is secured if the respective property meets the needs of current and future tenant and investor generations, and minimises as far as possible the negative impact on the environment.

Sustainable location

We select the location of our real estate so that the transport and infrastructural conditions give expectations of a positive development of the realised asset value in relation to the intended purpose. At the same time, we ensure that the environment is developed sustainably and that by choosing the right location, the individual traffic caused is potentially minimised through the offer of high-quality public transport.

Suitability for third-party use

We deem it highly important that the building structure, the design, the technical equipment, and the space provided for the respective type of use is state-of-the-art and allows the most flexible use or subsequent use.

Impeccable image

We only select real estate that has an impeccable image. This naturally excludes properties categorised as "gambling" or "red light", and the like.

Energy efficiency

We are aware that operating costs and particularly energy costs are a significant cost factor in the lifecycle of real estate. CO₂ emissions also impact the environment. We thus place high value on the energy efficiency of buildings and intend that the highest possible percentage of newly constructed buildings is in the energy efficiency class A. For our own developments, we are increasingly implementing alternative energy forms to reduce negative environmental impact as much as possible. When we manage existing properties, it is very important to us to minimise both waste and water consumption. In addition, we create the opportunity using investments and financing to reduce the energy consumption of existing properties.

Creating a pleasant environment for the occupant

We create a pleasant environment for the occupant with our real estate. When making investment and financing decisions, we therefore ensure that high-quality standards are maintained in lighting, ventilation, noise reduction and security in the buildings.

Procuring the right use

We are conscious of the example we set, and procure the right use of real estate for our customers so that we can guarantee sustainable use.

Long-term profit for all stakeholders

We aim for long-term, profitable and fair partnerships, both for ourselves and for our customers. Our business focus thus centres on long-term tenant retention and the long-term investment/financing of real estate, and not short-term trading. A sustainable property is more important to us than a short-term higher return.

>> Sustainability encompasses the entire life cycle of a property.
 When we talk about sustainable properties, they therefore have to
 be assessed based on 'economic, ecological and social' categories.
 Properties can make a significant contribution to the fulfilment
 of global sustainability goals.<<

Andreas Steyer, Head of VB Real Estate Services

BEST PRACTICE

Corporate Responsibility-Real Estate Dialogue

The first "Corporate Responsibility-Real Estate Dialogue" took place on 11 October 2010. It marked the launch of a series of events designed to promote and provide new impetus for the exchange of information on the subject of sustainability. The dialogue on the benefits of sustainable properties was initiated as part of CR management by the CR core team.

**Sustainability management pursues several goals
 with the concept of the CR dialogue events:**

- to learn about the experiences, opinions, ideas of employees
- to harness know-how
- to make strengths and weaknesses of the sustainability strategy of the business segment transparent
- to initiate longer term communication processes
- to involve employees in the sustainability strategy

More than 50 staff from the Real Estate Financing department of Volksbank AG – Investkredit, Immoconsult Leasinggesellschaft m.b.H. and Premiumred Real Estate Development GmbH seized the opportunity to take part in this first discourse on sustainability.

As the initiator of the CR project, CEO Gerald Wenzel opened the event with an introductory address. Mirjam Ernst, Sustainability Representative at ÖVAG, spoke on the subject of "managing corporate responsibility". The management of the real estate subsidiaries, Brigitte Fruhstorfer (Immoconsult) and Leopold Deufl (Premiumred), Klaus Scheitz, Head of Real Estate Financing at Volksbank AG – Investkredit, and Alexander Bosak of the real estate core team all highlighted the significance of the topic for the real estate sector in their speeches. Karl Resel and Clemens Rainer, CR experts from Denkstatt GmbH, reported on "Eco-housing and sustainable management".

The public were offered the opportunity to take part in the discussion during a round table on "Sustainability – spin, or an integral part of corporate strategy?" The essence of the remarks was that sustainable development is in its early days in the real estate sector, but that the existing potential for development is recognised by all those involved here. This assessment is confirmed by a current survey¹⁾ of actors in real estate management in Germany, Austria and Switzerland. Sustainable real estate is considerably more valuable: 73% of builders and investors and 86% of tenants are prepared to accept higher costs for this.

1) Study on "Sustainability in Real Estate Management",
 Roland Berger, April 2010

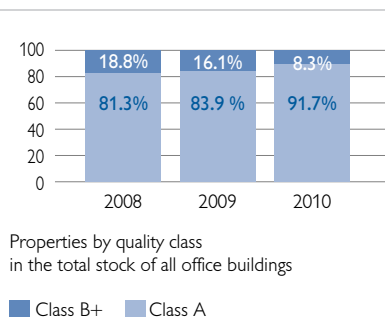


SUSTAINABILITY FINANCIAL REPORT – REAL ESTATE

Sustainability in the real estate segment

The structural changes within the Group have had an impact on the real estate segment. Thus IMMO-BANK AG is no longer included in the report, as the company has been divested from the Group and integrated in the Volksbank sector. IMMO-CONTRACT Maklergesellschaft m.b.H. is no longer a subject of the report on account of the system boundaries that are adapted to the Group Report. The Europolis Group company was sold at the end of 2010 and is similarly not included in this report. At the end of the 2010 financial year, all the real estate activities of the V BAG Group were bundled together as an organisation under uniform management in the division and under the brand "VB Real Estate Services". This segment now encompasses real estate loan financing, real estate funds, real estate leasing and project development. In the first quarter of 2011, PREMIUMRED Real Estate Development GmbH and Immoconsult Leasinggesellschaft m.b.H. were amalgamated into "VB Real Estate Services GmbH" and thus expanded as the central service platform. The restructuring of the VB Real Estate Services segment will have been completed by the middle of 2011. VB Real Estate Services sees itself as a financing, project development and investment partner. In 2010, large parts of the business in the real estate market lay fallow. This trend had an effect on the real estate segment of the V BAG Group, particularly when it came to the generation of new projects.

The properties that make up the VB Real Estate Services project development are exclusively Class A and Class B+



Design and operation of sustainable office buildings

Project development at "VB Real Estate Services" (formerly PREMIUMRED) involves the purchase, design, construction, operation, leasing and sale of office buildings. As design is already one of the responsibilities of project development, it is possible to exert a great influence on the sustainability of the new buildings. VB Real Estate Services has high-quality office buildings. The quality of offices can be measured using the classes defined by the Warsaw Research Forum. Some of the requirements relating to the best quality classes are also relevant from an ecological perspective: a central location obviates the need for transport; suitability for third-party use reduces expenses for future adaptation; high-quality fixtures obviate the need for repairs; daylighting increases wellbeing and reduces the electricity requirement.

As in the previous year, the division that was formerly PREMIUMRED also currently has three Class A offices and one Class B+ office. Slight changes in the proportion of the Class A properties in the total stock of all office buildings have emerged as a result of adjustments in the building evaluations. As agreed in the previous sustainability programme, all properties have held energy certificates since 2010. The demonstrated average energy consumption of all office buildings stands at 190.27 kWh per m² per year. Efforts will be directed at further improving this average value through the construction of new properties in the coming years. The goal is also to reduce the current running costs of the properties being operated. In order to increase efficiency in electricity consumption and heating, the energy audits originally scheduled for 2010 will now be conducted in 2011. There are currently two office buildings in the planning stage. The "Horizon Offices" project in Prague has been assessed and registered in accordance with the LEED sustainability certificate. The aim is to reach the "LEED Gold" standard as a minimum. Pre-certification is to be carried out in 2011 together with the developers. The "Salomea" project in Warsaw intends to obtain LEED Silver as a minimum. The Green Building Standard is the goal for both projects. The measure to adapt the Tenant Manuals can first be implemented when the two projects just before mentioned have been completed.

As part of the efforts to progress towards "energy-neutral buildings", planned EU standards and two technologies have been tested in the past year: geothermal and photovoltaic energy. VB Real Estate Services is setting up a task force in 2011 that will meet regularly to assess other future technologies for their current potential for application. VB Real Estate Services will be audited in 2011 for registration as a Green Building Partner. Further networking with regard to sustainable building in Austria will be carried out through membership of ÖGNI, the Austrian Sustainable Real Estate Management Council, and its sustainable building certification programme.

Real estate financing

The volume of the leasing financing of VB Real Estate Services (formerly Immoconsult) has declined over the past two years as a result of the economic crisis. For this reason, neither of the objectives from the 2010 sustainability programme have been achieved. On the one hand, the financing of solar plants, small hydropower plants, retirement homes and other projects with an ecological or social focus failed to meet expectations. On the other hand, the two financing products "Building and Renovating with an Energy Efficiency Guarantee" and "CO₂-free single-family houses" have not yet been launched on the market. These two innovative leasing products are now to be set up in 2011 by the "Energy-neutral buildings" task force described above. The objective to "increase the proportion of Class A and energy efficiency class A properties" of the real estate financing department of Volksbank AG – Investkredit could not be achieved under the given economic conditions on the real estate market. In 2010, the Corporate Responsibility guideline on "Real Estate" was integrated in the risk policy guidelines for the business division VB Real Estate Services Real Estate Financing of Volksbank AG – Investkredit.

SEGMENT FINANCIAL MARKETS

In addition to strategically important staff departments, the Financial Markets segment consists of two customer-oriented organisational units which are Group Treasury and Volksbank Investments.

Providing support and services to the Volksbank sector is one of the key tasks of the Financial Markets segment. In addition to the Austrian Volksbanks, institutional clients, corporate clients as well as foreign and domestic banks are serviced. Within VBAG Group, Financial Markets is responsible for all treasury services such as securities and foreign exchange trading and the management of interest rate and currency risks. Volksbank Investments acts as an innovative product supplier for the association of Volksbanks and offers a range of products, from traditional funds, certificates and alpha investments to funds and asset management.

**Strategic focus
of Financial Markets**

Performance over the business year

The 2010 financial year was highly successful for the Financial Markets segment. Net interest income developed particularly positively in the period under review, with an increase of euro 14 million on last year's performance to euro 37 million. At euro 29 million, net trading income decreased compared with the previous year. However, this is primarily due to the exceptionally good performance in 2009. Overall, the Financial Markets segment significantly improved on last year's result and concluded 2010 with a profit before taxes of euro 71 million.

**Financial Markets 2010
pre-tax result
of euro 71 million**

Group Treasury

The core element of Group Treasury's strategy is to provide support and services to the Volksbank sector; institutional clients, corporate clients, foreign and domestic banks are also among its group of customers. Customer-induced trading of currency, commodity and interest rate products is carried out by Group Treasury.

**Focus on supporting
the Volksbank sector**

The range of services offered encompasses the management of regional Volksbank's balance sheet structures, supporting them in their own and customer business, the implementation of hedging strategies for corporate clients as well as the placement of capital market issues. The product range comprises traditional interest and currency products, derivatives and structured products tailored to customers' specific requirements.

**Extensive range
of services**

In Group Treasury, the 2010 financial year was characterised by the optimisation of the organisational structure. The new structure focuses on trading, consulting and sales. This structural optimisation has helped to streamline processes, bundle competences, generate the highest possible profitability and ensure a consistent market presence.

**Optimisation of
organisational structure**

The fiscal year 2010 was very successful for Group Treasury. Its process and cost efficiency is underpinned with a cost-income-ratio of 27.3%.

>> Our business is based on the multi-faceted product and customer requirements from the Volksbank Group. The organisational structure and our product expertise enable us to offer tailored solutions for all our customers. <<

(Franz Schleifer, Head of Group Treasury)

Trading

Fixed Income & Derivatives

Despite the PIIGS crisis, the Fixed Income & Derivatives department achieved stable returns by optimising currency, interest rate and volatility management of the trading books. 2010 was characterised by country risks and the resulting uncertainties on the markets.

Stable earnings

OTC commodities developed positively, products offered with respect to base metals and oil products were expanded to include swaps with periodic compensatory payments. In 2010, the focus was on less complex bonds such as floaters, step-ups and min/max floaters.

**Positive development
of OTC commodities**

Foreign Exchange & Money Markets

Depreciation of the euro

Negative news from the PIIGS countries maintained a tight hold on the currency markets throughout 2010. Fears of liquidity crunches, of the default of individual states and even of the collapse of the euro zone meant that the euro lost ground against all major currencies. Despite massive intervention on the part of the Swiss National Bank, the euro dropped to an historic low against the Swiss franc. FX proprietary trading remained on track, even in light of these difficult market conditions.

Renaissance of gold

The price of gold continued the upward trend of the past few years. An increasing number of investors – including retail customers – protected themselves against the turbulence on the financial markets. Physical gold deliveries in the form of bars and coins experienced a renaissance. The money market was characterised by a surplus of short-term liquidity in 2010.

>> Close cooperation with Liquidity Management formed the basis for the activities on the money market. <<

(Sergej Jachimow, Head of Foreign Exchange & Money Markets)

Precise balancing of short-term peaks in liquidity contributed to a stable liquidity position at the short end over the period under review.

Consulting

VB Treasury Services

T4U simplifies processing of derivative transactions for primary banks

Derivative transactions for interest rate hedging were largely concluded via Treasury4You, T4U. T4U is an application developed by VBAG that enables the regional Volksbanks to offer their customers treasury products for interest rate and foreign currency hedging. In the fourth quarter of 2010, T4U was extended to include a FX order tool which makes the automatic management of orders possible, thereby reducing operational risks.

In 2010, foreign currency business was characterised primarily by the fluctuations of the Swiss franc. Currency options were successfully deployed as an alternative to stop-loss orders for hedging foreign currency risks.

Interest rate and currency hedging for the sector

A strong focus was placed in 2010 on interest rate hedging products in the retail and SME business. Overall, a volume of euro 575 million was achieved in the area of derivative interest rate and currency hedging. This resulted exclusively from the retail and SME business of the Volksbank sector.

Rising demand for third-party products and the increasing importance of issuer diversification also were central topics in 2010. With respect to third-party funds, experience was shared within the regional Volksbanks based on the principle of best practice.

Information service for regional Volksbanks

The Volksbanks were also supported through the organisation of events (preferred partner days) and an extended information service. This led to increasing sales of funds and a rise in the order volume, resulting in considerable growth of net fee and commission income.

VB Consulting

>> Maturity transformation strategies to increase net interest income of regional Volksbanks were key factors driving success. <<

(Lars Fuhrmann, Head of VB Consulting)

These strategies were implemented on the one hand via the investment book – there was a trend here for products with fixed interest rates at the start of the term and variable money market interest rates at the end of the term – and on the other hand through the use of derivatives in the context of asset-liability management. Furthermore, international bank and corporate issues were offered to the Volksbanks to extend their investment spectrum.

Increase in net interest income at Volksbanks

In the second quarter of 2010, VB Consulting arranged conferences on “A-Depot” securities (securities on bank’s own accounts) for managers and treasurers that proved very popular, with nearly all Volksbanks participating.

The ongoing optimisation of the Portfolio Illustrator software, which serves to provide information on securities to customers of the Volksbanks, also continued in 2010. An important factor here was implementing a performance report for customer portfolios.

Optimisation of Portfolio Illustrator

To further support the Volksbanks in their customer securities business, the “Planning Workshop” first held in 2009 was expanded and successfully repeated. The “Financial Education” project for retail customers is being developed in cooperation with the Group marketing department. Furthermore events were organised in the second quarter where more than 350 customer advisors from the Volksbanks were informed about the current market situation. A key topic at the end of the year was capital gains tax, information on this topic was prepared for advisors and customers.

Support for Volksbanks through information events

Sales

Corporate Treasury Sales

Corporate Treasury Sales consults corporate clients regarding the management of all capital market risks. In 2010, the focus was on securing low interest costs for the long term on the basis of interest hedges, primarily through plain vanilla hedging with instruments such as interest rate swaps, caps or simple, structured products such as interest rate collars.

Long-term securing of low interest costs

At the same time, organisational and process-related preconditions were created to ensure that commodity-hedging and -optimisation can be provided at the same level of expertise as hedging of interest rates and foreign currencies.

>> Simple and transparent treasury products have helped achieve a new level of quality in customer relations and form the basis of the bank’s important flow and margin business with corporate and real estate customers. <<

(Erich Hüttmair, Head of Corporate Treasury Sales)

Fixed Income Sales

During the year, the team gained numerous financial and corporate mandates for the placement of issues (10 co-lead or senior co-lead mandates, five each for corporates and financials).

Numerous issuance mandates

Activities also focused on placing the company’s own issues to third-party customers, the customer and investor basis is concentrated in Austria and Europe.

>> The policy of providing sustainable customer services for institutional clients continued in 2010, the focus remains on providing comprehensive and well-founded information to investors. <<

(Anton Steurer, Head of Fixed Income Sales)

Numerous events and meetings (investor dialogues) intensified customer relations and further strengthened the basis of trust.

Focus on retail products

New Issues

There were 192 issues in 2010 with a total volume of euro 1.8 billion. At euro 1.3 billion, the biggest share related to bonds, followed by structured products at euro 0.4 billion. The focus continued to be on retail business.

Comprehensive information for retail customers

In addition to the existing international prospectus (Debt Issuance Programme) for institutional clients, the New Issues department successfully made available a prospectus aligned to retail customer requirements in the third quarter of 2010. This general prospectus is clearly beneficial to customers as well as to customer advisors: the products offered are described in the prospectus in an easily comprehensible and transparent way. Furthermore, risks which can arise with the purchase of the various product categories are clearly stated. It is of great importance to Österreichische Volksbanken-AG that qualified and competent customer advisors make the prospectus available to retail customers and provide them with optimal information.

>> The New Issues department is an important service provider for the primary banks. <<

(Elisabeth Sölkner, Head of New Issues)

Standardised products and terms and conditions are offered to the Volksbanks for their issues, allowing the sector to benefit from legal certainty, flexibility and economies of scale. In this way, New Issues is making a significant contribution to the generation of liquidity.

Volksbank Investments

Following intensive preparatory work, the final milestones in the restructuring process were set in 2010, meaning that a clear structure has been implemented in the areas of private pension plan products and asset management.

Services for the Volksbank sector

Volksbank Investments provides numerous services for the Volksbank sector, including, for example, sales support for the primary banks in areas such as structured investments, pension plan products and asset management. Furthermore, customer advisors at the regional Volksbanks are offered targeted specialist and sales training.

>> As the only provider on the Austrian market, Volksbank Investments combines the possibilities of the traditional world of funds with certificate technology, thus achieving a pronounced improvement of portfolio efficiency. <<

(Friedrich Strobl, Head of Volksbank Investments)

Increase in assets under management

Volksbank Investments provides a range of asset management products to the Volksbank Group. The importance for the entire Volksbank sector is shown by the development of assets under management. The euro 8 billion mark was passed in 2010, with assets under management reaching euro 8.2 billion as at 31 December 2010. Although some of the products were launched only during the course of the year, the previous year's result was exceeded by almost 4%.

With the launch of the VB Asset Navigator (in a security- and growth-oriented variant) in the first half of 2010, the new company philosophy has been applied consistently across all areas. The Asset Navigator is a fundamentally new, systematic investment process that realises earnings opportunities in all market phases and allows for performance even in falling markets. It involves a unique definition and combination

of asset classes that develop independently of one another. This new diversification "made by Volksbank" represents a quantum leap in improving portfolio efficiency. Numerous national and international awards have confirmed that Volksbank Investments is on the right track.

Another key area for Volksbank Investments in 2010 was furthering developing bond expertise. In addition to the fixed income side with alpha interest rate modules, a completely new building block concept was developed for institutional investors that will be launched on the market in 2011.

The certificates business continued to develop very successfully. With a market share of more than 40%, Volksbank Investments was able to consolidate its position as market leader. Volksbank Investments also has the largest market shares in the subareas of guarantee certificates and bonus products. A considerable recovery in the volume of structured interest rate products meant that the Austrian certificates market grew significantly in 2010, with the total market volume rising by 12.1% to euro 13.9 billion.

**Market leadership
in certificates business**

In addition to the dominating guarantee certificates, Volksbank Investments also experienced greater demand for instruments that offer loss protection while simultaneously exploiting positive trends to an optimal extent. This applies particularly to partial protection products, which are attractive to risk-averse investors because of their substantial safety cushion and have done well on rather directionless capital markets. Volksbank Investments is able to offer products that are in line with the relevant market opportunities and are consistent with the Volksbank Investments slogan "We create opportunities".

**Partial protection
products for
risk-averse investors**

In the fourth quarter, "Energy – the currency of the future" was introduced as the new focus topic in the field of certificates.

>> The current product range for this area allows investors to profit not only from increasing global demand for energy but also from the expansion of alternative energy sources. <<

(Alexandra Baldessarini, Head of Advisor Solutions)

As at 31 December 2010, the certificates volume for equities and commodities at Volksbank Investments was euro 2.5 billion. This represents a slight upturn on the high level of previous years which could be achieved despite the fact that the market became more difficult during the year.

In 2010, the selective portfolio of equity funds again received an array of both national and international awards. As in the year before, the expertise built up by Volksbank Investments with respect to Asia was confirmed through the Lipper Awards for Austria, Germany and Europe. Numerous further national and international awards prove the competitive strength of the equity funds.

Asia expertise confirmed

With a total volume of euro 145.3 billion (+6.2%), the funds market in Austria experienced a slight recovery in 2010. However, there was a net inflow of funds only in the special funds area. Discussions regarding capital gains tax in the last quarter resulted in a certain degree of uncertainty among retail investors, which led to somewhat restrained demand for retail funds despite the positive environment for equities.

As part of Volksbank Investments, Volksbank Invest Kapitalanlage AG, VB Invest KAG, had a total of 70 funds in its product range at the end of 2010. At euro 3.5 billion (including own subfunds), the fund volume of VB Invest KAG was slightly higher than in the previous year. As before, the market share of VB Invest KAG was slightly over 2.2%.

>> Traditionally, VB Invest KAG is strong in the retail funds target group, which makes up almost 70% of the total fund volume. <<

(Manfred Stagl, Managing Director, VB Invest KAG)

Above-average performance in asset management

In 2010, the process of establishing asset management as a key component of Volksbank Investments continued successfully, with assets under management increasing by almost 8%. The outstanding cooperation with VICTORIA-VOLKSBANKEN Pensionskassen AG, VVP, is worthy of particular mention in this regard. Volksbank Investments developed an innovative asset management approach for VVP implemented by Volksbank Investments, it has resulted in an outperformance against the market every year since 2007.

International award

VVP's performance was considerably better than its competitors in the 2010 financial year as well. For the second time in a row, it was recognised as the "best pension fund in Austria" at the international IPE Awards, whereby the key factor for the jury's decision was the asset management approach of Volksbank Investments. In addition to the VVP pension fund, banks, insurance companies, foundations and private companies are also serviced.

Customers were not affected by the problem of upside being lost

The term "commitment to performance" is closely related to the philosophy of Volksbank Investments and means that customers can expect that products will show the performance that was promised at the point of purchase. A very good example of this in 2010 was the state-subsidised private pension plans. Many of those who bought those products were affected by the problem of the upside being eliminated once a particular downside threshold had been breached, and therefore no longer benefit from the potential future good performance of the shares included in the product. Due to Volksbank Investments' specific approach to guarantee management, at no point were the state-subsidised private pension plans of Volksbank Investments affected by this problem. At the start of the year, this product area became even more attractive through further improvements to the guarantee approach and asset management. Volksbank Investments succeeded in developing Austria's largest state-subsidised pension fund, the Austro Garant, which reached a volume of euro 229 million.

Volksbank Investments as a brand in the association of Volksbanks is a partner for banks, financial service providers, asset managers and institutional clients. In addition to the core market of Austria, Volksbank Investments also offers its products in many CEE countries (Slovakia, Czech Republic, Hungary, Slovenia, Croatia, Bosnia-Herzegovina, Serbia and Romania) and has built up a separate sales team of native speakers for this purpose. The team considers it vital to profoundly understand customer's needs in order to offer the best possible investment instruments.

Volksbank Investments: Austrian and international awards 2010

LIPPER FUND AWARDS

1st place: VB-Pacific-Invest Austria,
Germany & Europe



AUSTRIAN FUND AWARD

1st place: VB-Pacific-Invest



ÖKO INVEST 2010 – INDUSTRY MAGAZINE FOR SUSTAINABLE INVESTMENTS

3rd place: VB Ethik-Global

AUSTRIAN FUND OF FUNDS AWARD

1st + 3rd place: Volksbank-SMILE
2nd place: VB Asset Navigator pure, Premium-Evolution 50 and Premium-Evolution 25
3rd place: Premium-Evolution 100, VB Asset Navigator pure and VB Ethik-Global



CERTIFICATES AWARD

2nd place: Audience award



IPE AWARD

1st place: "Best pension fund in Austria"

3rd place: HI VB Global Trend and ALPHA Strategien Futures MH



Immo Kapitalanlage AG

Immo Kapitalanlage AG, Immo KAG, is a 100% subsidiary of Volksbank Invest Kapitalanlage Gesellschaft mbH. It was set up in 2004 with the mission of offering open-ended fund products and special funds in accordance with the Real Estate Investment Fund Act. On this basis, <immofonds1> was set up as a retail fund in 2004. <immofonds1> offers particularly small retail investors the opportunity to invest in a broadly diversified real estate portfolio. Investments are made predominantly in commercial properties in Austria and Germany. The stability of these two countries has been clearly demonstrated over the last few years and has led to stable rental income.

For most of 2010, the fund assets remained stable at euro 220 million, with a noticeable upturn and increased unit sales toward the end of the year.

**Real estate funds
for small retail investors**

Fund assets stable

>> In 2010, the real estate sector was characterised by a clear stabilisation <<

(Kurt Rossmüller, Member of the Managing Board, Immo KAG)

**Rental rate
increased to 96%**

The investment market continued to gain momentum, although still only at a low level. As a result, one property in the Wiener Neustadt area and one in Munich were sold as planned. Through active asset management, the rental rate was increased during the course of the year from 92% at the start of January to almost 96% at the end of the year.

Immo Kapitalanlage AG also concentrated on strengthening sales and marketing measures in 2010.

**Promotion of sales
platforms and focus on
capital market issues**

Outlook for the Financial Markets segment

With respect to the Volksbank sector, Group Treasury's strategy will focus on optimising qualitative levels of services regarding general bank management for the regional Volksbanks as well as on the further optimisation of sales platforms. Outside the sector, emphasis is placed on coordinating and managing capital market issues as well as placing these issues via own sales channels. It is planned that these channels will be extended geographically to include other European regions.

**New front
office system**

The implementation of a new front office system in the 2011 financial year will facilitate the structuring of new, innovative products, the mapping of processes and the pricing of products. On this basis, cross-selling is expected to be increased in corporate and real estate business. The investment, refinancing and hedging products that have been developed in coordination with the in-house research department will be a contributing factor for Group Treasury to reach the 2011 budget targets.

**Plans to issue
covered bonds**

The New Issues department is working closely with the Austrian association of Volksbanks (Österreichischer Genossenschaftsverband, ÖGV) on a project to generate additional liquidity. This project will constitute another core element in 2011. Mortgage loans generated by the regional Volksbanks are bundled in an asset pool that will then be used as collateral for VBAG covered bonds. Consequently, VBAG has started to participate in the Austrian Pfandbrief Forum, an organisation representing the interest of Austrian banks issuing covered bonds.

**Growth opportunities
through Asset Navigator**

Volksbank Investments expects to be able to expand further its market position with respect to private pension plan products, guaranteed savings products, pension funds and staff provision funds. These products are among Volksbank Investments' strongest growing segments. The high market shares in the area of certificates are to be strengthened. Volksbank Investments also sees significant opportunities for growth in the retail sector in 2011 through VB Asset Navigator, which has already been established on the market. Furthermore, it is expected that the extension of expertise in bonds as well as the new alpha interest rate modules will result in growing market shares.

**Expansion of market
shares planned**

The extensive range of services in institutional asset management will be presented to institutional clients as part of a marketing campaign in close cooperation with the regional Volksbanks. Parallel to this, alpha and beta components, which enable customers to create individual portfolios by themselves will be offered. Volksbank Investments anticipates perceptible increases in the market share of both products.

**Commitment
to performance**

Furthermore, the new tax conditions should accommodate the umbrella philosophy of Volksbank Investments – being able to create all forms of investments under one roof, tailored to individual requirements – and be reflected in increasing sales.

In light of the mixed, but still generally difficult market situation in most CEE and SEE countries, Volksbank Investments remains cautiously optimistic with regard to activities in those countries. In 2011, Volksbank Investments will continue to focus very strongly on reliable compliance with the commitment to stable performance, particularly through the ongoing analysis and evaluation of the individual product categories.

Immo KAG was assigned to the Real Estate segment at the start of the year in organisational terms, all real estate activities of the Group are now managed centrally. In 2011, Immo KAG anticipates growth in demand for real estate investment products and will continue to intensively manage the assets and will extend measures to promote sales.

Increased demand expected

Overall, the Financial Markets segment made a significant contribution to the Group result again in 2010. Exercising the function as a central institution meant that the regional Volksbanks were supported in the best possible manner. The quality of products and services offered was confirmed by various awards. Financial Markets will continue to pursue this course consistently in 2011 and is confident that it can generate good results in the current financial year as well.

SUSTAINABILITY IN THE FINANCIAL MARKETS SEGMENT

CORPORATE RESPONSIBILITY PRINCIPLE

We inspire our customers through individual solution approaches. Our mission is to offer investment products with a fair ratio of risk and reward. We create product solutions with a sustainable performance promise for each risk profile.

Our philosophy

We live responsibility through a sustainable value and quality philosophy.

- We capture the zeitgeist, are innovative and creative,
- view our customers as equal partners,
- inspire our business partners with comprehensible product solutions,
- act professionally and fairly,
- offer product solutions with a sustainable performance promise and
- ensure a qualitative and holistic servicing of our business partners throughout the business relationship.

Transparency and traceability

We live responsibility through responsible, transparent and traceable action.

- We offer our business partners systematic and traceable product solutions,
- provide our customer target groups with all relevant product information and
- guarantee open communication of risk and reward ratios.

Long-term successful business relationships

We live responsibility through the long-term increase of our business partners' success.

- We focus on the needs of our business partners,
- offer a suitable high-quality product offering according to the requirements of our business partners and market conditions and
- view ourselves as a strong and reliable partner.

Our mission

We live responsibility. We promote responsibility. We invest with responsibility.

- We preserve natural resources,
- offer our business partners products with high-quality standards and
- promote the comprehensive qualification of our employees, through which we are always up to the minute and can implement product innovations rapidly.

>> The social dimension of sustainability for me means implementing and supporting activities that allow all members of a society to participate, without restriction, in order to permanently create a livable and sustainable community of all people.<<

Martina Bauer, Volksbank Consulting

BEST PRACTICE

Win-win incentives

For the second time, VB Consulting marked the end of the year with its VBC social day. Managers, securities officers and marketing executives were invited to spend a day devoted to social commitment. An important consideration in the VBAG Group's cooperation projects and sponsoring is long-term, integrated concepts that allow more comprehensive support to be provided. Another factor of interest here is that sponsoring activities increasingly lead to cooperation projects and partnerships. This means that commitment is understood as a partnership to which both sides contribute and from which both sides benefit.

Giving time and reaping joy

What makes the VBC social day special is that personal interaction and the social dimension of sustainability take centre stage and can be experienced "hands-on".

Those who were interested in "networking differently" came in far greater numbers in 2010 than in the first year of the event and took the time to give the children of the "Am Himmel" charity's centre for the disabled a day rich in diversity and enjoy an enriching experience in personal interaction themselves.

The social dimension of sustainability

In the spirit of VBAG's Corporate Responsibility project "We live responsibility", VBC and all those who take part place emphasis on this day on the social dimension of sustainability.

The participants got to learn about the work of the "Am Himmel" charity's centre for children and young people with intellectual and multiple disabilities. Following that, the shared experience of the Kunsthistorisches Museum became an unforgettable adventure enjoyed by the children and adults in equal measure. A scavenger hunt gave all the participants a totally different perspective on the museum.

Networking differently

The social day is therefore a networking event with a focus on social responsibility. It offers not only an opportunity to gain an insight into the strategic management of non-profit companies, but also the chance to get to know and to value people that Volksbank managers rarely get to meet in daily business life. The social day offers both donors and recipients the chance to engage in important and diverse communication, which will have an ongoing sustainable effect.



SUSTAINABILITY FINANCIAL REPORT – FINANCIAL MARKETS

Sustainable communication

The Financial Markets segment consists of the profit centres Group Treasury and Volksbank Investments as well as several staff and service divisions, including Investor Relations, Emissions, International Financial Institutions and Financial Markets Operations. Volksbank Investments and also Group Treasury set the priorities in the area of sustainability. Corporate responsibility has been a focus at Volksbank Investments since 2009.

In addition to the ongoing expansion of sustainable investment products, the stakeholder dialogue event "Consultants' Forum" and the magazine "exclusiv" were also characterised by sustainability here. The heading "Sustainable Investments" can now be found on the Volksbank Investments website. Volksbank Investments is planning to develop sustainable investment products further in 2011, and on top of that it has already signed the Carbon Disclosure Project (www.cdproject.net). Partnership with our customers requires actively structuring our cooperation with them. At the customer conference "Kunden gehören gehört" (The customer's voice belongs here), customers are asked their opinion on various aspects involving investment. This initiative will also be supported by Group Treasury with three events in 2011.

Training

Training keeps investment and financial consulting at a high level and raises the quality of our customer consultancy services. Volksbank Investments set up an experts' training course for investment and financial consultants as well as for consultants from the private banking division back in 2009. The course consists of six modules in total and covers both specialist training on topics such as Structured Investments & Funds, Asset Management Solutions, Alpha Investments and Portfolio Building Blocks as well as sales training. Graduates of the course receive certification as a "Volksbank Investments Expert". The goal of the training course is the long-term establishment of a national team of experts in Austria. 50 experts have already been trained and certified as at the end of 2010.

Through the Volksbank Akademie, Group Treasury offers the customer relationship managers of Volksbank the opportunity to take part in the Treasury Expert Programme. This programme comprises three modules and offers the managers from this sector future-orientated training in the use of treasury products to hedge against interest rate, exchange rate and raw material risks. As part of the training course, special attention is paid to sustainability in customer relationship management, particularly in the use of derivative financial instruments. The whole programme culminates in an academically certified examination. The three modules are continually repeated, while there is an ongoing cooperation with the Treasury employees who act as trainers, all of which guarantees that the consultants in this area received highly effective training. Six experts are to be trained in 2011.

General financial education

The aim is to ensure that customers have the right knowledge so that they can make suitable investment decisions. This goal was pursued in 2010 with "Fit for Banking". With this programme, Group Treasury implements the "financial education" currently required at national and European level as part of an innovative training campaign. Financial knowledge is conveyed in a clear and easily comprehensible form. The campaign includes a new edition of the customer brochure "What you always wanted to know about securities", an online securities quiz as well as a variety of customer events on this topic. As part of "Fit for Banking", Volksbank Bad Aussee conducted a student workshop entitled "Securities Pro". "General financial education" will be continued as a core subject in 2011. We plan to use the "Fit for Banking" initiative to promote the "financial education" of private customers through local Volksbanks. This cooperation will further reinforce financial knowledge among the general public.

Women and money

With its experience as a "first mover", VBAG's Group Treasury has supported women to achieve financial independence with its initiative "Women and Money" on a sustained basis since 2002. This special service offers the optimal solution for achieving personal goals in a gender-specific way. "Women and Money" was continued in 2010 as planned. A series of events were held in several federal states. Information can be found on the website at www.volksbank.at/frauundgeld. This initiative will also continue in 2011, possibly with the integration of the pilot seminar "Knowledge brings rewards" in order to promote the general financial education of women in particular. There will also be a focus on the topic of "Networks for women".

Sustainability in refinancing and interest rate hedging

The "Treasury 4 You" application gives the Volksbank sector the opportunity to conduct derivative transactions through VBAG to hedge interest and exchange rates. Under the motto "Sustainable interest rate hedging for the sustainable company", VBAG's Group Treasury has been able to conclude interest rate caps of a

sizable volume (EUR 42 million in total) through the Volksbank Gailtal and the Volksbank Donau-Weinland as part of this cooperation. The Volksbank interest rate cap is a tailored product that allows the interest rate risk to be limited in a variable interest loan. Five customers in the area of ecological energy were successfully protected against interest rate fluctuations in 2010.

Group Treasury thus supports the success of "green" energy generation with its product. We plan to attract more sustainable customers in 2011.

Sustainable asset management

Volksbank Investments offers various forms of sustainable investment products – both in investment funds and in certificates. The volume of the money invested here has continued to rise in the past few years, as has its proportion in the total volume of all funds and certificates. This success can be attributed to the development of the volume of the sustainable certificates. 2011 will see Volksbank Investments products audited for transparent sustainability criteria, so that certification can subsequently be obtained for selected products.

| | Unit | 2008 | 2009 | 2010 |
|--|------|-------------|-------------|-------------|
| Volume of sustainable investment products at 31.12. (funds and certificates) | EUR | 406,783,000 | 557,347,200 | 681,623,900 |

Sustainable investment funds

Volksbank Investments currently offers two sustainable funds: VB-Mündel-Rent and VB-Ethik-Global. VB-Mündel-Rent invests exclusively in euro-denominated, gilt-edged bonds of Austrian issuers. Basic social standards are thus guaranteed, and sectors such as weapons or atomic energy are not included. VB-Ethik-Global is an equity fund that invests globally in equity funds of various investment styles and focal points. Assets are selected on the basis of economic financial analyses, in which social, ecological and ethical considerations are included.

We decided to apply for the European Transparency Logo for both funds in 2010. Implementation is planned for 2011. The European Transparency Logo for sustainable retail funds is awarded by the European Sustainable and Responsible Investment Forum (EUROSIF) and stands for more transparency in the sustainable investment market. It represents an important step towards the quality assurance of sustainable investments and the promotion of confidence in this particular form of investment.

The development of the two funds in terms of volume has differed. VB-Ethik-Global has increased the sum of the invested money by 17.7% and thus successfully surpassed its target from the previous sustainability programme (5%). The reasons for this lie in the favourable trend in share prices as well as in the higher number of units of share certificates. The sales effort originally planned for 2010 will first be implemented in 2011. The volume of VB-Ethik-Global should have increased again by 5% by 31 December 2011.

Overall, however, the total volume of the two sustainable funds declined. This is particularly true of the performance of VB-Mündel-Rent; both the price trend and the number of units went into reverse here. As a result of these circumstances, the goal of increasing the share of sustainable funds in the total fund volume to 12% was not met. However, the target remains in place and should be achieved by 31 December 2011.

Specific activities aimed at encouraging companies in which the Volksbank-Fondsgesellschaft holds shares to make a greater commitment to sustainable development were not conducted in 2010. Section 91 of the Börsegesetz (Austrian Stock Exchange Act) stipulates that anyone who holds less than 5% of a company may not raise questions at the company's annual general meeting, and as a result we did not make use of our vote either. As in previous years, all investments remained below this 5 % threshold in 2009.

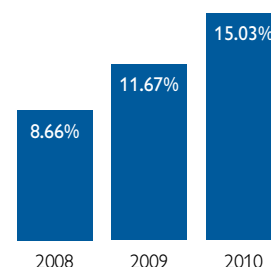
Volume of sustainable investment products at 31 December

| | Unit | 2008 | 2009 | 2010 |
|---------------------------------|------|-------------|-------------|-------------|
| Volume of VB-Ethik-Global | EUR | 1,320,000 | 1,865,200 | 2,195,954 |
| Volume of Volksbank-Mündel-Rent | EUR | 267,709,000 | 267,285,000 | 253,077,856 |
| Volume of all sustainable funds | EUR | 269,029,000 | 269,150,200 | 255,273,810 |

Certificates with a sustainable focus

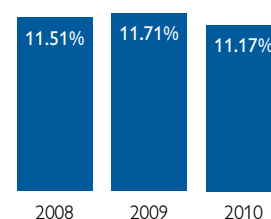
The volume of certificates with a sustainable focus almost doubled in the past year. Their share of the total volume of all VB certificates fell just short of 19% at 31 December 2010. The goal outlined in the 2009 sustainability report of 12% was thus clearly surpassed. New sustainable investment products in the certificate area were continuously issued and communicated to investors up to November 2010.

The share of sustainable products is growing



Share of sustainable certificates in the overall certificate volume in % at 31.12.

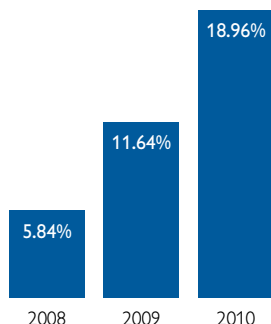
Stability in sustainable funds



Share of sustainable funds in the overall fund volume in % at 31.12.



The share of sustainable certificates is growing



Share of sustainable certificates in the overall certificate volume in % at 31.12.

In 2011, opportunities will be examined to see how the share selection of the "Fix Plus Garant" (formerly "Spar Garant Klassik") can be converted to transparent sustainability criteria. In addition, the proportion of the volume of sustainable certificates to the total volume of all certificates is targeted to be 12% as at 31 December 2011.

Furthermore, it proved possible to conduct sustainable issues in 2010 through the Levade S.A. Verbriefungsgesellschaft. Levade S.A. Verbriefungsgesellschaft offers better deposit protection, as the purchased issues legally represent a partial asset. Specifically, the products are Levade Österreich Bonus Garant Nachhaltigkeit (DE000A1AYX89) and Levade Alternative Energie Bonus Garant (DE000A1A0YC9).

At the end of 2010, Volksbank Investments issued the "Spar Garant Jungkünstler CR" product, where a part of the recorded sales volume is set aside for the benefit of the young artists' support programme of the Vienna Konzerthaus. The market success of this capital protection certificate was reflected in the sum of EUR 25,585 that we were able to present to the Vienna Konzerthaus for the promotion of young artists on 6 March 2011.

| | Unit | 2008 | 2009 | 2010 |
|---|------|-------------|-------------|-------------|
| Volume of sustainable certificates at 31.12. (funds and certificates) | EUR | 137,754,000 | 288,197,000 | 426,350,000 |

Victoria-Volksbanken Vorsorgekasse AG

As in 2009, Victoria-Volksbanken Vorsorgekasse AG was awarded certification as a sustainably investing provident fund for 2010 by the Österreichischen Gesellschaft für Umwelt und Technik (ÖGUT – Austrian Society for Environment and Technology) in the year under review. The company's increased use of explicitly sustainable funds as well as the high commitment shown to fund companies and managers was highlighted in particular here.

Prospectus

The published prospectuses for these above mentioned investment funds in their present form, including all modifications that have been made since their initial publication, are available under www.volksbankinvestments.com at and may also be obtained from the headquarters and branch offices of the Volksbank Group.

The financial instruments described are publicly offered in only those countries where it is expressly permitted pursuant to the applicable prospectus or terms of issue. The published prospectus applicable to the depicted financial instruments pursuant to Section 10.2 KMG, including any amendments or addenda, can be downloaded at www.volksbank.com/prospekt or <http://www.volksbank.com/levade>. The valid terms of issue upon completion and additional information can be found at www.volksbankinvestments.com.

Performance

The performance and profitability of the investment fund cannot be forecasted with certainty. Past performance results (source: OeKB) do not allow any conclusions regarding the future development of an investment fund. Issuing and redemption expenses are not taken into account in the performance evaluation.

INVESTMENT BOOK/OTHER OPERATIONS SEGMENT

All activities relating to VBAG Group's investment book were centralised at the beginning of 2010. Since then, they have been presented in the Investment Book/Other Operations segment which comprises the Capital Markets and Asset Liability Management profit centres of VBAG as well as the Debt Capital Markets department of Volksbank AG – Investkredit. The activities of 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 5.9 billion that is required for regulatory purposes and banking operations, along with other capital market investments amounting to around euro 1.6 billion (excluding Volksbank International Group).

In the second quarter, however, sovereign spreads of peripheral countries began to widen significantly. Although at the outset the concerns of market participants were directed at Greece, Ireland and Portugal, the spreads of Spain, Belgium and Italy also came under increasing pressure in the fourth quarter. Conversely, corporate bond spreads tightened considerably across practically all rating classes in the course of the year.

Group ALM and Liquidity Management

Asset Liability Management, ALM, is responsible for managing VBAG Group's long-term interest rate risk and foreign exchange risk. Transfer prices are used to take over these market risks from front office areas. The aim of interest rate risk management is to record all material interest rate risks from assets, liabilities and off-balance sheet items in the investment book. In order to reach this aim it is necessary to analyse both the income effect and the present value effect of changes in interest rates and take these into account when making decisions.

Income from the mismatch contribution increased in the course of the year. The change in the present value of interest-related operations entered into by ALM amounts to euro 26 million, with the long-term mismatch contribution at euro 70 million.

Increase in income

Outlook for the Investment Book/Other Operations segment

In the 2011 business year, relatively high redemptions are anticipated in the strategic investment book, some of which will be replaced by new business on a selective basis. The main focus here will be on securities required for regulatory purposes and banking operations.

High redemptions expected

In the coming year, starting from the short end of the yield curve, a moderate increase in interest rates, and consequently a flattening of the yield curve, is anticipated. Nevertheless, a clearly positive mismatch contribution is expected on the part of Group ALM and Liquidity Management. Furthermore, liquidity costs will fall due to redemptions of VBAG issues.

Moderate increase in interest rates in 2011

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>> THE NEW STRATEGY OF THE BANK
IS THE BASIS FOR HEALTHY AND
SUSTAINABLE GROWTH. <<

Income statement

| | | 1-12/2010 | 1-12/2009 | Changes | 1-12/2009 |
|--|------|---------------------|---------------------------------|-----------------------------|----------------------------------|
| | Note | in euro thousand | restated in euro thousand | in euro thousand % | published in euro thousand |
| Interest and similar income and expenses | | 771,978 | 632,573 | 139,405 22.04% | 684,319 |
| Income from companies measured at equity | | 4,280 | -36,055 | 40,335 -111.87% | -36,055 |
| Net interest income | 4 | 776,259 | 596,519 | 179,740 30.13% | 648,265 |
| Risk provisions | 5 | -364,308 | -851,748 | 487,439 -57.23% | -863,387 |
| Net fee and commission income | 6 | 166,906 | 200,771 | -33,865 -16.87% | 205,759 |
| Net trading income | 7 | 39,655 | 63,143 | -23,489 -37.20% | 64,858 |
| General administrative expenses | 8 | -551,126 | -538,487 | -12,640 2.35% | -560,258 |
| Other operating result | 9 | -21,592 | 21,135 | -42,727 <-200.00% | -13,729 |
| Income from financial investments | 10 | 42,788 | -253,498 | 296,286 -116.88% | -496,662 |
| Income from the disposal group | 2 | 2,243 | -181,288 | 183,532 -101.24% | 71,702 |
| Result before taxes | | 90,825 | -943,453 | 1,034,277 -109.63% | -943,453 |
| Income taxes | 11 | -31,008 | -215,408 | 184,399 -85.60% | -173,266 |
| Income taxes of the disposal group | 11 | -3,332 | 35,817 | -39,150 -109.30% | -6,325 |
| Result after taxes | | 56,484 | -1,123,043 | 1,179,527 -105.03% | -1,123,043 |
| Result attributable to shareholders of the parent company | | | | | |
| (Consolidated net income/loss) | | 55,421 | -1,084,272 | 1,139,693 -105.11% | -1,084,272 |
| Result attributable to non-controlling interest | | 1,063 | -38,771 | 39,834 -102.74% | -38,771 |
| Comprehensive income | | 1-12/2010 | 1-12/2009 | Changes | 1-12/2009 |
| | | in euro thousand | restated in euro thousand | in euro thousand % | published in euro thousand |
| Result after taxes | | 56,484 | -1,123,043 | 1,179,527 -105.03% | -1,123,043 |
| Other comprehensive income | | | | | |
| Currency reserve | | -5,480 | -36,880 | 31,400 -85.14% | -36,880 |
| Available for sale reserve (including deferred taxes) | | | | | |
| Change in fair value | | -39,816 | 52,048 | -91,865 -176.50% | 52,048 |
| Net amount transferred to profit or loss | | 4,272 | 4,778 | -506 -10.59% | 4,778 |
| Hedging reserve (including deferred taxes) | | | | | |
| Change in fair value (effective hedge) | | 26,670 | -1,064 | 27,734 <-200.00% | -1,064 |
| Net amount transferred to profit or loss | | -15,651 | -12,167 | -3,484 28.63% | -12,167 |
| Change in deferred taxes arising from untaxed reserve | | 77 | 721 | -644 -89.27% | 721 |
| Other comprehensive income total | | -29,927 | 7,437 | -37,365 <-200.00% | 7,437 |
| Comprehensive income | | 26,557 | -1,115,606 | 1,142,162 -102.38% | -1,115,606 |
| Comprehensive income attributable to shareholders of the parent company | | 23,614 | -1,063,233 | 1,086,846 -102.22% | -1,063,233 |
| Comprehensive income attributable to non-controlling interest | | 2,943 | -52,373 | 55,316 -105.62% | -52,373 |

Statement of financial position

| | | 31 Dec 2010 | 31 Dec 2009 | | Changes | 31 Dec 2009 |
|---|--------|---------------------|---------------------------------|---------------------|---------------|----------------------------------|
| | Note | in euro thousand | restated in euro thousand | in euro thousand | % | published in euro thousand |
| Assets | | | | | | |
| Liquid funds | 12 | 1,982,446 | 3,008,042 | -1,025,596 | -34.10% | 3,008,052 |
| Loans and advances to credit institutions (gross) | 13 | 6,431,879 | 6,795,291 | -363,412 | -5.35% | 5,961,684 |
| Loans and advances to customers (gross) | 14 | 23,614,938 | 24,133,518 | -518,580 | -2.15% | 24,168,604 |
| Risk provisions (-) | 15 | -1,522,532 | -1,233,691 | -288,841 | 23.41% | -1,245,350 |
| Trading assets | 16 | 2,163,480 | 1,764,095 | 399,384 | 22.64% | 1,764,095 |
| Financial investments | 17 | 8,993,767 | 9,410,642 | -416,875 | -4.43% | 9,410,647 |
| Assets for operating lease | 18 | 334,771 | 331,424 | 3,348 | 1.01% | 1,836,332 |
| Companies measured at equity | 19 | 72,619 | 70,887 | 1,731 | 2.44% | 70,887 |
| Participations | 20 | 717,920 | 634,992 | 82,928 | 13.06% | 655,254 |
| Intangible assets | 21 | 125,340 | 127,030 | -1,691 | -1.33% | 131,820 |
| Tangible fixed assets | 22 | 248,090 | 247,871 | 219 | 0.09% | 263,050 |
| Tax assets | 23 | 210,144 | 193,723 | 16,421 | 8.48% | 211,221 |
| Other assets | 24 | 1,372,512 | 1,491,838 | -119,326 | -8.00% | 1,491,414 |
| Assets of the disposal group | 2 | 1,719,470 | 2,169,929 | -450,459 | -20.76% | 388,734 |
| TOTAL ASSETS | | 46,464,844 | 49,145,593 | -2,680,749 | -5.45% | 48,116,444 |
| Liabilities and Equity | | | | | | |
| Amounts owed to credit institutions | 25 | 14,377,129 | 15,664,943 | -1,287,813 | -8.22% | 16,078,604 |
| Amounts owed to customers | 26 | 7,311,931 | 7,466,565 | -154,633 | -2.07% | 7,315,468 |
| Debts evidenced by certificates | 27 | 16,121,510 | 17,328,664 | -1,207,154 | -6.97% | 17,328,664 |
| Trading liabilities | 28 | 1,457,430 | 1,236,911 | 220,519 | 17.83% | 1,236,911 |
| Provisions | 29, 30 | 186,147 | 179,636 | 6,510 | 3.62% | 191,001 |
| Tax liabilities | 31 | 92,373 | 62,424 | 29,949 | 47.98% | 146,591 |
| Other liabilities | 32 | 1,729,266 | 1,418,875 | 310,392 | 21.88% | 1,405,413 |
| Liabilities of the disposal group | 2 | 1,267,024 | 1,682,878 | -415,854 | -24.71% | 369,359 |
| Subordinated liabilities | 33 | 1,863,924 | 1,983,383 | -119,458 | -6.02% | 1,923,117 |
| Equity | 35 | 2,058,109 | 2,121,315 | -63,206 | -2.98% | 2,121,315 |
| Shareholders' equity | | 1,192,694 | 1,178,072 | 14,622 | 1.24% | 1,178,072 |
| Non-controlling interest | | 865,415 | 943,243 | -77,828 | -8.25% | 943,243 |
| TOTAL LIABILITIES AND EQUITY | | 46,464,844 | 49,145,593 | -2,680,749 | -5.45% | 48,116,444 |

In order to provide a better comparability, the figures of the statement of financial position 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 reserve | Retained earnings | Currency reserve | IAS 39 valuation reserves ²⁾ | | Shareholder's equity | Non-controlling interest | Equity |
|--|----------------------------------|-----------------|-------------------|------------------|---|-----------------|----------------------|--------------------------|------------|
| | | | | | Available for sale reserve | Hedging reserve | | | |
| As at 1 Jan 2009 | 339,524 | 493,343 | 613,006 | -21,230 | -204,200 | 10,162 | 1,230,604 | 993,229 | 2,223,833 |
| Comprehensive income * | | | -1,084,367 | -20,451 | 54,807 | -13,132 | -1,063,233 | -52,373 | -1,115,606 |
| Release of reserves | | -505,985 | 505,985 | | | | | | |
| Dividends paid | | | -2,660 | | | | -2,660 | -36,232 | -38,892 |
| Participation capital | 1,000,000 | | | | | | 1,000,000 | | 1,000,000 |
| Change in treasury stocks | -178 | 12,643 | -12,806 | | | | -341 | | -341 |
| Change due to reclassifications shown under non-controlling interest and capital increases | | | 13,702 | | | | 13,702 | 38,619 | 52,320 |
| As at 31 Dec 2009 ³⁾ | 1,339,346 | 0 | 32,861 | -41,771 | -149,393 | -2,970 | 1,178,072 | 943,243 | 2,121,315 |
| Comprehensive income * | | | 55,485 | -3,447 | -34,179 | 5,756 | 23,614 | 2,943 | 26,557 |
| Dividends paid | | | | | | | 0 | -12,369 | -12,369 |
| Change in treasury stocks | -153 | | -117 | | | | -270 | | -270 |
| Change due to reclassifications shown under non-controlling interest and capital increases | | | -8,722 | | | | -8,722 | -68,403 | -77,124 |
| As at 31 Dec 2010 ³⁾ | 1,339,193 | 0 | 79,507 | -45,219 | -183,572 | 2,785 | 1,192,694 | 865,415 | 2,058,109 |

* Comprehensive income (income and changes in reserves)

| | 1-12/2010 | | | 1-12/2009 | | |
|---|----------------------|--------------------------|---------|----------------------|--------------------------|------------|
| | Shareholders' equity | Non-controlling interest | Equity | Shareholders' equity | Non-controlling interest | Equity |
| Consolidated net income | 55,421 | 1,063 | 56,484 | -1,084,272 | -38,771 | -1,123,043 |
| Change in deferred taxes arising from untaxed reserve | 64 | 14 | 77 | -95 | 816 | 721 |
| Retaining earnings | 55,485 | 1,077 | 56,561 | -1,084,367 | -37,955 | -1,122,322 |
| Currency reserve | -3,447 | -2,032 | -5,480 | -20,541 | -16,339 | -36,880 |
| thereof from application of the average rates | | | | | | |
| of exchange in income statement | -4 | -22 | -26 | -42 | -63 | -105 |
| Available for sale reserve (including deferred taxes) | -34,179 | -1,365 | -35,544 | 54,807 | 2,019 | 56,827 |
| Hedging reserve (including deferred taxes) | 5,756 | 5,264 | 11,019 | -13,132 | -98 | -13,231 |
| Comprehensive income | 23,614 | 2,943 | 26,557 | -1,063,233 | -52,373 | -1,115,606 |

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

²⁾ As at 31 December 2010, the available for sale reserve included deferred taxes of euro 60,167 thousand (31 December 2009: euro 48,617 thousand).

The hedging reserve contains deferred taxes in the amount of euro -1,161 thousand at the balance sheet date (31 December 2009: euro 540 thousand).

³⁾ In the figures as at 31 December 2009 the disposal group accounted for an amount of euro -4,556 thousand in the currency reserve (disposal group Real Estate) and for an amount of euro -3 thousand in the available for sale reserve (disposal group Retail Banks).

In the figures as at 31 December 2010 the disposal group accounted for an amount of euro -2,001 thousand in the currency reserve (disposal group Real Estate).

Cash flow statement

| in Euro thousand | 1-12/2010 | 1-12/2009 |
|---|------------------|-------------------|
| Annual result (before non-controlling interest) from continued operations | 57,573 | -977,572 |
| Non-cash positions in annual result | | |
| Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets | 84,660 | 325,272 |
| Alocation to and release of provisions, including risk provisions | 363,195 | 867,051 |
| Gains from the sale of financial investments and fixed assets | -13,531 | -3,497 |
| Non-cash changes in taxes | 9,735 | 187,844 |
| Changes in assets and liabilities from operating activities after adjustments for non-cash positions | | |
| Loans and advances to credit institutions | 363,297 | 164,185 |
| Loans and advances to customers | 531,115 | 1,838,374 |
| Trading assets | -328,755 | 149,912 |
| Financial investments | 220,261 | -923,345 |
| Assets for operating lease | -18,031 | -33,072 |
| Other assets from operating activities | 234,643 | -214,912 |
| Amounts owed to credit institutions | -1,301,241 | -4,397,141 |
| Amounts owed to customers | -174,184 | 1,290,772 |
| Debts evidenced by certificates | -1,263,664 | 2,260,373 |
| Other liabilities | -28,936 | -57,456 |
| Other changes | 283,210 | -173,263 |
| Cash flow from operating activities | -980,651 | -2,278,018 |
| Proceeds from the sale or redemption of | | |
| Securities held to maturity | 278,908 | 447,819 |
| Participations | 13,275 | 229,743 |
| Fixed assets | 12,320 | 10,476 |
| Payments for the acquisition of | | |
| Securities held to maturity | -67,159 | -90,225 |
| Participations | -28,883 | -136,296 |
| Fixed assets | -56,667 | -44,162 |
| Cash flow from investing activities | 151,794 | 417,357 |
| Issue of participation capital | 0 | 1,000,000 |
| Change in treasury stocks | -270 | -341 |
| Dividends paid | 0 | -2,660 |
| Changes in subordinated liabilities | -119,080 | 7,162 |
| Other changes | -77,389 | -11,068 |
| Cash flow from financing activities | -196,739 | 993,093 |
| Cash and cash equivalents at the end of previous period (= liquid funds) | 3,008,042 | 3,875,611 |
| Cash flow from operating activities | -980,651 | -2,278,018 |
| Cash flow from investing activities | 151,794 | 417,357 |
| Cash flow from financing activities | -196,739 | 993,093 |
| Cash and cash equivalents at the end of period (= liquid funds) | 1,982,446 | 3,008,042 |
| Payments of taxes, interest and dividends | | |
| Income taxes paid | -26,678 | -43,134 |
| Interest received | 2,062,332 | 2,128,262 |
| Interest paid | -1,314,121 | -1,540,459 |
| Dividends received | 17,041 | 14,867 |

Due to the disposal group cash and cash equivalents with an amount of euro 18 thousand was disposed of.

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NOTES

to the consolidated financial statements of Österreichische Volksbanken-Aktiengesellschaft 2010

1) General information

Österreichische Volksbanken-Aktiengesellschaft (VBAG), which has its registered office at Kolingasse 14-16, 1090 Vienna, is the central institution of the Austrian Volksbank sector and an international group acting as a financial services provider. Alongside its transactions with the Volksbanken sector, the Group focuses on retail and corporate banking. VBAG's operations are concentrated both on the domestic market and on the Central and Eastern European countries.

Volksbanken Holding e. Gen. (VB Holding), Vienna, is the superior financial holding company of VBAG. As superior institution, VB Holding is obliged to prepare consolidated financial statements. As participation certificates and bonds issued by VBAG are admitted to trading on a regulated market within the meaning of section 2 no. 37 of the Austrian Banking Act, VBAG is also obliged to prepare consolidated financial statements pursuant to section 245 of the Austrian Commercial Code.

Preparation of VBAG's consolidated financial statements follows the assumption of going concern. VBAG's consolidated financial statements are reported in euros, 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) Presentation and changes in the scope of consolidation

In the business year 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.

Seven subsidiaries in the Real Estate segment were included in consolidation (thereof one in the disposal group) as they are no longer immaterial for the presentation of the consolidated financial statements. The results from previous years of these companies were recognised directly in equity.

Furthermore one company was purchased in Real Estate segment. In doing so mainly one investment property was acquired. It was necessary to decrease the fair value of the new investment property by euro 13,490 thousand at initial consolidation. The purchase price for this company amounts to euro 3 thousand and equals the nominal capital. At time of acquisition, the equity of this company was negative, so a subsidy of euro 17,500 thousand was paid.

In Real Estate segment, two companies were founded (thereof one in the disposal group) in the business year 2010. One company was founded in business area Leasing. In business area Leasing, as well as in segment Other Operations, two fully consolidated companies merged. Neither the founding nor the merger effected the equity of the Group.

Through the inclusion of these companies in the scope of consolidation, loans and advances to customers from finance leases increased by the amount of euro 60,253 thousand and investment property assets by the amount of euro 4,443 thousand (entire amount in disposal group). These assets offset in addition with Group-internal funding amounts owed to credit institutions totalling euro 12,084 thousand.

On 12 July 2010, a framework agreement for the repurchase of stock of Investkredit International Bank p.l.c. with a face value of euro 53 million was concluded. From this time on, these shares are no longer shown as non-controlling interest in equity but as debt capital.

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 closing was on 31 December 2010; the right of disposal over the shares was 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, intangible and tangible fixed assets and deferred taxes. The result of the Europolis Group of 2010 was therefore adjusted for investment property valuations, depreciations of intangible and tangible fixed assets and deferred taxes, so that profit components that are no longer attributable to the VBAG Group would not be reported in the income statement. Assets and liabilities of the Europolis group were measured at 31 December 2010 with the estimated purchase price because of the deconsolidation at 1 January 2011. This valuation was recognised in income statement of the disposal group. With purchase contract date 28. September 2010, one company was transferred to the VBAG Group. In addition the banking operations of Europolis AG were sold in 2010 to Investkredit Bank AG and the bank license was put back. 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.

Income statement of disposal group segment Real Estate

| Euro thousand | 2010 | 2009 |
|--|--------------|-----------------|
| Net interest income | 63,818 | 51,746 |
| Risk provisions | -2,153 | -11,640 |
| Net fee and commission income | 3,058 | 5,070 |
| Net trading income | 367 | 1,715 |
| General administrative expenses | -20,206 | -22,777 |
| Other operating result | -37,765 | -33,941 |
| of which impairment of goodwill | 0 | -640 |
| Income from financial investments | -799 | -243,164 |
| Annual result before taxes | 6,320 | -252,990 |
| Income taxes | -3,081 | 42,142 |
| Annual result after taxes | 3,239 | -210,849 |
| Profit attributable to shareholders of the parent company | 1,983 | -147,517 |
| Profit attributable to non-controlling interest | 1,257 | -63,331 |

Assets of disposal group segment Real Estate

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|--|------------------|------------------|
| Liquid funds | 239 | 10 |
| Loans and advances to credit institutions (gross) | 141,033 | 121,707 |
| Loans and advances to customers (gross) | 26,999 | 49,545 |
| Risk provisions (-) | -5,623 | -11,659 |
| Financial investments | 5 | 5 |
| Assets for operating lease (including investment property) | 1,501,743 | 1,504,908 |
| Participations | 20,127 | 20,262 |
| Intangible assets | 4,292 | 4,790 |
| Tangible fixed assets | 15,053 | 15,179 |
| Tax assets | 11,100 | 36,373 |
| Other assets | 4,502 | 40,075 |
| Total assets | 1,719,470 | 1,781,195 |

Liabilities of disposal group segment Real Estate

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|-------------------------------------|------------------|------------------|
| Amounts owed to credit institutions | 1,003,561 | 1,019,199 |
| Amounts owed to customers | 28,765 | 37,364 |
| Provisions | 10,596 | 11,365 |
| Tax liabilities | 79,547 | 84,167 |
| Other liabilities | 23,821 | 47,223 |
| Subordinated liabilities | 120,734 | 114,201 |
| Liabilities | 1,267,024 | 1,313,519 |

Number of staff which was employed in disposal group segment Real Estate during the business year:

| | Average number of staff | | Number of staff at reporting date | |
|------------------------------|----------------------------|------------|--------------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Domestic | 30 | 33 | 27 | 34 |
| Foreign | 77 | 86 | 70 | 83 |
| Total number of staff | 107 | 119 | 97 | 117 |

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 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 and VB Linz+Mühlviertel was deconsolidated. 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 included in the result of 2009. In the result of 2010 only VB Linz+Mühlviertel is included.

Calculation of deconsolidation result of VB Linz+Mühlviertel

Euro thousand

| | |
|--|----------------|
| Assets proportional | 353,994 |
| Liabilities proportional | 334,291 |
| Available for sale reserve proportional | 120 |
| Disposal of net assets proportional | -19,583 |
| Revenues | 14,500 |
| Deconsolidation result | -5,083 |

The deconsolidation result is shown in income of a disposal group and is composed inclusively of profit and loss of disposal group segment Retail

| Euro thousand | 1 Jan - 6 Aug 2010 | 2009 |
|---|--------------------|---------------|
| Net interest income | 3,513 | 84,404 |
| Risk provisions | 678 | -14,409 |
| Net fee and commission income | 1,344 | 23,038 |
| Net trading income | 28 | 265 |
| General administrative expenses | -4,632 | -64,989 |
| Other operating result | 51 | -2,995 |
| Deconsolidation result | -5,083 | 47,493 |
| Income from financial investments | 25 | -1,106 |
| Result for the period before taxes | -4,077 | 71,702 |
| Income taxes | -252 | -6,325 |
| Result for the period after taxes | -4,329 | 65,377 |
| Profit attributable to shareholders of the parent company | -4,348 | 65,122 |
| Profit attributable to non-controlling interest | 19 | 256 |

Assets of disposal group segment Retail

| Euro thousand | 6 Aug 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 (-) | -11,063 | -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 | 829 | 3,637 |
| Total assets | 363,258 | 388,734 |

Liabilities of disposal group segment Retail

| Euro thousand | 6 Aug 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 | 5,225 | 1,645 |
| Liabilities | 343,038 | 369,359 |

Number of staff which was employed in disposal group segment Retail during the business year

| | Average number of staff | | Number of staff at reporting date | |
|-----------------------|----------------------------|------|--------------------------------------|-------------|
| | 2010 | 2009 | 31 Dec 2010 | 31 Dec 2009 |
| Total number of staff | 43 | 547 | 0 | 74 |

All other changes in the scope of consolidation had no significant effect on the consolidated financial statements.

Number of consolidated companies

| | 31 Dec 2010 | | | 31 Dec 2009 | | |
|---|-------------|------------|------------|-------------|------------|------------|
| | Domestic | Foreign | Total | Domestic | Foreign | Total |
| Fully consolidated companies | | | | | | |
| Credit institutions | 5 | 12 | 17 | 7 | 12 | 19 |
| Financial institutions | 23 | 17 | 40 | 22 | 18 | 40 |
| Other enterprises | 53 | 82 | 135 | 52 | 73 | 125 |
| Total | 81 | 111 | 192 | 81 | 103 | 184 |
| Companies consolidated at equity | | | | | | |
| Other enterprises | 3 | 1 | 4 | 3 | 1 | 4 |
| Total | 3 | 1 | 4 | 3 | 1 | 4 |

As a result of the deconsolidation of VB Linz+Mühlviertel, the Group disposed one fully consolidated credit institution. Europolis AG is reported as other enterprise as the bank license was put back in the last quarter of 2010.

Number of unconsolidated companies

| | 31 Dec 2010 | | | 31 Dec 2009 | | |
|------------------------|-------------|------------|------------|-------------|------------|------------|
| | Domestic | Foreign | Total | Domestic | Foreign | Total |
| Affiliates | 61 | 120 | 181 | 65 | 112 | 177 |
| Associated companies | 46 | 38 | 84 | 52 | 89 | 141 |
| Companies total | 107 | 158 | 265 | 117 | 201 | 318 |

The unconsolidated companies in their entirety were deemed immaterial to the presentation of a true and fair view of the net assets, liabilities, financial position and profit or loss of the Group. The total assets of unconsolidated companies amounted to 2.0% (2009: 2.1%) of consolidated total assets, while the annual result after taxes corresponds to 4.6% (2009: 0.4%) of the Group's annual result after taxes (excluding income from the disposal group). This calculation was based on the latest available financial statements of the companies and the Group's consolidated financial statements for 2010.

The complete list of companies included in the consolidated financial statements, including detailed information, can be found at the end of the notes.

3) Accounting principles

The accounting principles described below have been consistently applied to all reporting periods covered by these financial statements and have been followed by all consolidated companies without exception.

The VBAG Group's consolidated financial statements for 2010 and the comparative figures for 2009 have been prepared in accordance with the International Financial Reporting Standards (IFRS; previously International Accounting Standards, IAS) and thus comply in full with the provisions set out in section 245a of the Austrian Commercial Code and section 59a of the Austrian Banking Act governing consolidated financial statements prepared in accordance with internationally recognised accounting principles.

The consolidated financial statements have been prepared in accordance with all IFRS/IAS published by the International Accounting Standards Board (IASB) in force on the balance sheet date as well as all interpretations (IFRIC/SIC) of the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee as endorsed by the European Union.

The consolidated financial statements have been prepared on the basis of cost excluding the following items:

- Derivative financial instruments – measured at fair value
- Financial instruments in the category at fair value through profit or loss and available for sale – measured at fair value
- Investment property assets – measured at fair value
- Financial assets and liabilities which constitute underlying instruments for fair value hedges – amortised cost is adjusted for changes in fair value, which are to be allocated to hedged risks
- Employee benefit provisions – recognised at net present value less unrecognised actuarial gains or losses and less the net present value of plan assets

The two following chapters present altered and new accounting standards that are of significance to the consolidated financial statements of VBAG.

a) Changes to accounting standards

In January 2008, the IASB resolved upon changes to IAS 27 Consolidated and Separate Financial Statements and IFRS 3 Business Combinations. Significant changes to IAS 27 include the accounting treatment of transactions that do not result in a change of control and transactions that do not lead to a loss of control. These are to be recognised as equity transactions. Remaining interests are measured at fair value at the date on which control is lost. Significant changes to IFRS 3 comprise the measurement of non-controlling interests, the recognition of step acquisitions and the treatment of contingent consideration and acquisition-related costs. Non-controlling interests may be measured either at fair value (full goodwill method) or at the fair value of the non-controlling interest's proportionate share of the net identifiable assets of the entity acquired. The full goodwill method is not used in the VBAG Group. In the case of step acquisitions, the revised standards provide for the remeasurement at fair value of the previously recognised assets and liabilities of the acquired entity at the date on which control is obtained. Any change in contingent consideration recognised as a liability at the acquisition date must be recognised in profit or loss in future. Acquisition-related costs must be expensed as incurred. The amended standards must be applied to business combinations in business years commencing on or after 1 July 2009. The application of these amendments to IAS 27 and IFRS 3 does not have a significant impact on future consolidated financial statements.

The IASB resolved upon the amendment of IAS 39 in July 2008. This amendment clarifies which risks or portions of cash flows are permitted as hedged items in hedge accounting. Its regulations also include the procedure for handling the inflation portion of financial instruments and option contracts used as a hedging instrument in hedge accounting. The amended standard must be applied to business years commencing on or after 1 July 2009. The effect of these amendments are immaterial for the consolidated financial statements.

b) New accounting standards

IFRS 9 Financial Instruments was published in November 2009, regulating the classification and measurement of financial assets, and is to replace IAS 39 Financial Instruments: Recognition and Measurement in future. There will only be two categories in future – amortised cost and fair value. A financial asset is measured at amortised cost if it is held in the context of a business model with the objective of holding financial assets and collecting the contractual cash flows resulting from these financial assets. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets that do not satisfy these criteria are to be measured at fair value through profit or loss. For an investment in an equity instrument that is not held for trading, an entity may elect irrevocably at initial recognition to present all fair value changes from the investment directly in equity in other comprehensive income. Sales or impairments are not reclassified to profit or loss. If embedded derivatives are contained in a financial instrument, these are not separated. Instead, the financial instrument is measured in its entirety at fair value through profit or loss.

In addition to measurement of financial instruments, the measurement of financial liabilities in line with IFRS 9 was published in October 2010. The main changes to the former guideline in IAS 39 is the representation of changes in fair value, caused by the requirements of the own credit amounts, for financial liabilities measured at fair value through profit or loss. In future those changes in the fair value should be recognised directly in equity in other comprehensive income, except it would create an accounting mismatch. The rules for measurement at amortised costs and derivatives are unchanged.

This standard is required to be applied for fiscal years beginning on or after 1 January 2013. The standard is not endorsed by the European Union yet. This standard was not adopted prematurely in the VBAG Group. The effect of IFRS 9 on the income statement and the balance sheet is currently being evaluated in the VBAG Group. Based on the business activities of the Group, this standard will have a considerable impact on the consolidated financial statements.

In November 2009, the IASB resolved upon the amendment of IAS 24 Related Party Disclosures. The amendment includes a simplification of disclosure requirements for companies with close links to governments. Related companies and persons are also clearly defined. The amended standard is required to be applied for financial years beginning on or after 1 January 2011. It will not be adopted prematurely in the VBAG Group. As things stand at present, the amendment will not affect VBAG's consolidated financial statements.

IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, published by the IASB in November 2009, is required to be applied for financial years beginning on or after 1 January 2011. It will not be adopted prematurely in the VBAG Group. As things currently stand, the new IFRIC will not affect VBAG's consolidated financial statements.

In October 2010, the IASB published amendments to IFRS 7 Financial Instruments: Disclosures. The amendments lead to an extensive standardisation of the corresponding disclosure requirements in accordance with IFRS and the US Generally Accepted Accounting Principles (US-GAAP). Extended disclosure requirements are stipulated for the transfer of financial assets to enable balance sheet addressees to better understand the impact of the remaining risks at the company. These amendments are required to be applied for financial years beginning on or after 1 July 2011. The amendment has not yet been adopted by the EU. It will not be adopted prematurely in the VBAG Group. From today's perspective, there will be no major changes to VBAG's consolidated financial statements.

In December 2010, the IASB published amendments to IAS 12 Income Taxes. These will also lead to changes in the scope of application of SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets. The amendment includes a partial clarification of the treatment of taxable temporary differences in connection with the application of the fair value model from IAS 40. In the case of real estate held as financial investments, it is often difficult to judge whether existing differences will reverse during continued use or in the course of a sale. The amendment works on the basic assumption that a sale will trigger the reversal. The amendment is to be applied retrospectively for financial years beginning on or after 1 January 2012. The amendment has not yet been adopted by the EU. It will not be adopted prematurely in the VBAG Group. From today's perspective, there will be no major changes to VBAG's consolidated financial statements.

In October 2009, the IASB published an amendment to IAS 32 Financial Instruments: Presentation. According to this, subscription rights, options and warrants for the acquisition of equity instruments that are in a currency other than the issuer's functional currency and have been issued to the company's existing shareholders are to be classified as equity for issuers. This applies provided that the subscription rights are issued at a defined currency amount. The amended standard is required to be applied for financial years beginning on or after 1 February 2010. Since the VBAG Group has not issued any subscription rights, options or warrants of this kind, this amendment does not affect VBAG's consolidated financial statements.

In November 2009, IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments was published. This explains how financial reporting is to be performed if a company extinguishes all or part of a financial liability by issuing shares or other equity instruments. According to this, the equity instruments issued for the purpose of repayment are consideration paid for this financial liability and are therefore to be measured at the respective fair value. Any resulting difference between the carrying amount of the financial liability to be extinguished and the initial carrying value of the equity instruments issued must be recognised in profit or loss. This interpretation is required to be applied for financial years beginning on or after 1 July 2010. According to current estimates, the initial application of IFRIC 19 will not affect VBAG's consolidated financial statements.

c) Application of estimates and assumptions

All assumptions, estimates and assessments required as part of recognition and measurement in line with IFRS are carried out in accordance with the relevant standard, are re-evaluated on an ongoing basis and are based on historical experience and other factors including expectations with regard to future events that appear reasonable in the particular circumstances. These estimates and assumptions have an influence on the amounts shown for assets and liabilities in the balance sheet and income and expenses in the income statement.

In the case of the following assumptions and estimates, there is the inherent possibility that the development of overall conditions contrary to expectations as at the balance sheet date may lead to considerable adjustments of assets and liabilities in the next business year.

- Alternative investment measurement methods are used to assess the recoverability of financial instruments for which no active market is available. Some of the parameters taken as a basis when determining fair value are based on assumptions concerning the future.
- The assessment of the recoverability of intangible assets, goodwill, investment properties and property, plant and equipment is based on assumptions concerning the future. The calculation of recoverable amounts in the course of the impairment tests is based on assumptions such as future surplus funds and the discount rate. Surplus funds correspond to the values shown in the most recent business plan for the following three to five years as at the date the financial statements are prepared. The discount rate is based on the industry, corporate risk and the respective market environment and lies between 8% and 20%. The underlying development factor is between 1% and 4%.
- The recognition of deferred tax assets is based on the assumption that sufficient tax income will be generated in future in order to realise existing tax loss carryforwards.
- Assumptions regarding the interest rate, retirement age, life expectancy and future salary increases are applied when measuring existing long-term employee provisions.
- Provisions are measured on the basis of cost estimates from contractual partners, past experience and investment calculation methods.
- Assessments are regularly carried out for liabilities and impairment not recognised in the balance sheet due to guarantees and contingencies in order to determine whether on-balance sheet recognition in the financial statements is to be carried out.

If estimates were required to a greater extent, the assumptions made are shown with the note on the corresponding item. Actual values may deviate from the assumptions and estimates made if overall conditions develop contrary to expectations as at the balance sheet date. Amendments are recognised in profit or loss and assumptions adjusted accordingly once better information is obtained.

d) Consolidation principles

The consolidated financial statements of VBAG are based on the separate financial statements of all fully consolidated companies prepared in accordance with IFRS. The figures reported in the individual financial statements of associated companies measured at equity have been adjusted to group accounting principles where the effects on the consolidated financial statements were significant.

The financial statements of the fully consolidated companies and the companies consolidated using the equity method were prepared on the basis of the Group's balance sheet date of 31 December 2010.

Business combinations with a contract date on or after 31 March 2004 are accounted for using the purchase method set out in IFRS 3. Accordingly, all identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date. If the cost of acquisition exceeds the fair value of the identifiable assets, liabilities and contingent liabilities, goodwill is recognised as an asset. The full goodwill method is not in use. Goodwill is not amortised over the estimated useful life, but instead is tested for impairment annually in accordance with IAS 36. Negative goodwill arising on an acquisition is recognised directly in income in accordance with IFRS 3. Any change in contingent consideration recognised as a liability at the acquisition date is recognised in profit or loss. Transactions, which do not lead to a loss of control are recognised directly in equity.

Subsidiaries under the direct or indirect control of VBAG are fully consolidated if these are material for a true and fair view of the net assets, liabilities, financial position and profit or loss of the Group. Proportionate consolidation is not applied in VBAG's consolidated financial statements. Companies in which VBAG holds an equity interest of between 20% and 50% and for which controlling agreements do not exist are consolidated using the equity method; they are not consolidated if they are not significant for the Group. The Group does not have any interests in joint ventures.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

e) Currency translation

In accordance with IAS 21, foreign currency monetary assets and debts, non-monetary positions stated at fair value and unsettled spot transactions are translated using the spot exchange mean rate, whereas unsettled forward transactions are translated at the forward exchange mean rate prevailing on the balance sheet date. Non-monetary assets and liabilities carried at amortised cost are recognised at the prevailing rate on the acquisition date.

The individual financial statements of fully consolidated companies prepared in currencies other than the euro are translated using the modified closing rate method set out in IAS 21. Under this method, all assets and liabilities are translated at the spot exchange mean rate effective on the balance sheet date, while the historical rate is applied for the translation of equity. Differences resulting from the translation of the financial statements of foreign subsidiaries are recognised in the currency reserve in equity. Any goodwill, disclosed hidden reserves and liabilities arising from the initial consolidation of foreign subsidiaries prior to 1 January 2005 have been translated at historical rates. Any goodwill, disclosed hidden reserves and liabilities arising from business combinations after 1 January 2005 are translated at the spot exchange mean rate on the Group's balance sheet date.

Income and expense items are translated at the average spot exchange mean rate for the reporting period, calculated on the basis of the end-of-month rates. Exchange differences between the closing rate applied for the translation of balance sheet items and the average rate used for translating income and expense items are recognised in the currency reserve in equity.

f) Net interest income

Interest income and interest expenses are recognised on an accrual basis in the income statement. Current or non-recurring income or expenses similar to interest, such as commitment fees, overdraft commissions or handling fees, are reported in net interest income in accordance with the effective interest method. Premiums and discounts are allocated over the term of the financial instrument using the effective interest method and reported in net interest income.

If it appears more unlikely than likely that a customer will be able to pay the agreed interest, the relevant asset is treated as non-interest-bearing. The unwinding effect resulting from the calculation of the risk provision is therefore shown in interest income.

Net interest income consists of:

- Interest and similar income from credit and money market transactions (including unwinding effect from risk provision)
- Interest and similar income from debt securities
- Income from equities and other variable-yield securities
- Income from affiliated companies and other participations
- Income from companies measured at equity
- Income from operating lease contracts and investment property assets, as well as depreciation of operating lease assets
- Interest and similar expenses for deposits
- Interest and similar expenses for debts evidenced by certificates and subordinated liabilities
- The interest component of derivatives reported in the investment book

The changes of values of investment property assets which were shown in net interest income last year, were reclassified in the business year 2010 to income from financial investments. The comparative figures have been restated accordingly.

Interest income and expenses from trading assets and liabilities and changes in their fair value are recognised in net trading income.

The result of the valuation and disposal of securities, shares, companies measured at equity and participations is reported in income from financial investments.

g) Risk provisions

Risk provisions reflect the allocation to and release of provisions for impairments of loans and advances on individual and portfolio basis. Loans and advances directly written off and receipts from loans and advances already written off are also recognised in this item. Furthermore, this item contains additions to and releases of provisions for risks.

h) Net fee and commission income

This item contains all income and expenditure relating to the provision of services in the VBAG Group as accrued within the respective reporting period.

i) Net trading income

All realised and unrealised results from securities, foreign currency and derivatives allocated to the trading book (trading assets and trading liabilities) are reported in this item. This includes changes in market value as well as all interest income, dividend payments and refinancing expenses for trading assets.

Results from the daily measurement of foreign currencies are also reported in net trading income.

j) General administrative expenses

General administrative expenses contain all expenditure incurred in connection with the Group's operations.

Staff expenses include wages and salaries, statutory social security contributions and fringe benefits, payments to pension funds and internal pension plans as well as all expenses resulting from severance and pension payments.

Administrative expenses include expenses for premises, communications, public relations and marketing, costs for legal advice and other consultancy, as well as training and EDP expenditure.

Amortisation of intangible assets – excluding impairment of goodwill – and depreciation of tangible fixed assets is also reported in this item.

k) Other operating result

In addition to impairment of goodwill and the deconsolidation result from the disposal of subsidiaries, this item contains all results from the Group's other operating activities.

l) Income from financial investments

This item contains all realised and unrealised results from financial investments at fair value through profit or loss and all derivatives reported in the investment book.

In addition, the results of disposals of securitised financial investments classified as available for sale (including participations), loans & receivables and held to maturity are included in this item. Remeasurement results attributable to material or lasting impairment are also reported in this item as well as the increase of the fair value, which can be objectively related to an event occurring after the impairment loss was recognised, up to a maximum of amortised cost.

Since the business year 2010 changes in value of investment property assets are reported in this position. The comparative figures have been restated accordingly.

Results from the daily measurement of foreign currencies are reported in net trading income.

m) Financial assets and liabilities

Recognition

A financial asset or a financial liability is initially recognised in the balance sheet when the Group becomes party to a contract on the financial instrument and thus acquires the right to receive or assumes a legal obligation to pay liquid funds. A financial instrument is deemed to be added or disposed of at the trade date. The trade date is relevant for the initial recognition of a financial instrument in the balance sheet, its measurement in the income statement and the accounting treatment of its sale.

Derecognition

A financial asset is derecognised on the date on which the contractual rights to its cash flows expire or the transfer criteria set out in IAS 39.18 are met. A financial liability is derecognised once it has been redeemed.

The Group conducts transactions in which financial assets are transferred but the risks or rewards incident to the ownership of the asset remain with the Group. If the Group retains all or substantially all risks and rewards, the financial asset is not derecognised, but instead continues to be reported in the balance sheet. Such transactions include, for example, securities lending and repurchase agreements.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions, such as in the Group's trading activities.

Amortised cost

The amortised cost of financial assets and liabilities is defined as the amount consisting of the original purchase price adjusted for account redemptions, the allocation of premiums or discounts over the term of the instrument in accordance with the effective interest method, and value adjustments or depreciation due to impairment or uncollectibility.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

For calculation of fair values, the following hierarchy is used and shows the meaning of the single parameters.

Level 1: Quoted prices in active markets of identical assets or liabilities. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable data – either directly as prices or indirectly derived from prices. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties, as well as reference to the current fair value of other instruments that are substantially the same. For discounted cash flow analyses and option pricing models all important parameters are derived either directly or indirectly observable market data. All factors that market participants would consider in setting prices are taken into account, and are consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observables data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Impairment

There is a monthly procedure for the evaluation of lending under which the organisational units responsible for risk are required to make a proposal for risk provisioning on the basis of current developments. An impairment is recognised if, subsequent to the initial recognition of a financial instrument, there is objective evidence of an event that will have an effect on the future cash flows from the financial instrument and reliable assumptions can be made with regard to the extent of such an effect.

The Group recognises impairments at both individual asset and portfolio level. All significant assets are individually tested for impairment. Financial assets that are not individually significant are grouped together on the basis of similar risk profiles and assessed collectively. In the case of assets for which there is no objective indication of impairment, impairment is recognised in the form of portfolio-based allowances to reflect impairment that has occurred but not yet been detected.

Objective evidence that financial assets are impaired includes, for example, financial difficulties of the debtor; the rescheduling of receivables on terms which would otherwise not be granted; indications that the debtor will enter bankruptcy; the disappearance of securities from an active market and other observable data in connection with a group of financial assets, such as changes in the payment status of borrowers or economic conditions correlating with defaults on the assets in the group.

In calculating the level of risk provisioning required, all significant assets are individually analysed if there is objective evidence of impairment. All customers with an internal rating of 4C to 4E (watch list loans) and all other customers for which other indications show a risk of default, i.e. the contractual redemption is at risk, are examined more intensively in accordance with the Group credit risk manual. A corresponding risk provision is recognised for uncollateralised or partly collateralised exposures. For non-performing loans (rating category 5A – 5E), the appropriateness of the level of risk provisioning is examined.

The amount of impairment for assets carried at amortised cost is calculated as the difference between the carrying amount and the net present value of the future cash flows, taking any collateral into account, discounted using the effective interest rate of the asset. The impairment amount is reported in the income statement. In the event that the reason for impairment ceases to exist at a later date, the impairment loss is reversed through profit or loss.

Portfolio-based allowances are calculated for homogeneous portfolios. The parameters listed below are used in assessing the amounts of these value adjustments:

- Historical loss experience with non-performing loans
- The estimated period between the occurrence of the loss and its identification (30 – 180 days)
- Management's experienced judgment as to whether the expected losses in the current period are greater or lower than suggested by historical data.

In the case of available for sale financial assets, impairment corresponds to the difference between amortised cost and fair value and is recognised immediately as a write-down in the income statement. If the reason for impairment ceases to exist, the impairment loss is reversed through profit or loss in the case of debt instruments or recognised directly in equity taking into account deferred taxes in the case of equity instruments.

Financial instruments designated at fair value through profit or loss

The Group makes use of the option to irrevocably designate financial instruments at fair value through profit or loss. Allocation to this category is performed if one of the three following criteria is met:

- Groups of financial assets and financial liabilities are managed on a fair value basis in accordance with a documented risk management and investment strategy.
- Fair value measurement can be demonstrated to prevent inconsistencies in the valuation of financial assets and liabilities.
- A financial instrument contains an embedded derivative that is generally required to be reported separately from the host agreement at fair value.

Financial liabilities which are measured at fair value through profit or loss, are customer deposits which are tied to the performance of the underlying. For calculation of fair value of these financial liabilities, the performance of the underlying is considered, therefore it does not contain any changes in value due to the own credit risk.

In note 37) Financial assets and liabilities, the amounts allocated to the at fair value through profit or loss category are indicated for each class of financial asset and liability. The reasons for the designation are described in the notes on the individual financial assets and liabilities.

Derivatives

Derivatives are always recognised in income at their fair value.

Changes in the fair value of derivatives used in fair value hedges are recognised in income immediately under income from financial investments. Changes in the market value of the underlying instruments are also reported in income from financial investments, irrespective of their allocation to the individual IAS 39 categories. The Group uses fair value hedges with a view to hedging fixed-interest financial assets and liabilities, assets and liabilities denominated in foreign currency and structured issues.

In the case of cash flow hedges, the change in the fair value of the derivative is recognised in the hedging reserve in equity, taking into account deferred taxes. The measurement of the host instrument is performed on the basis of its allocation to one of the individual IAS 39 categories. The Group uses cash flow hedges with a view to hedging the interest risk from variable-yield financial instruments and the currency risk from assets and liabilities denominated in foreign currencies.

If a derivative is used as a hedge of a net investment in a foreign operation, the effective portion of the hedge is recognised directly in the currency reserve in equity, while the ineffective portion is recognised immediately in income. The amount contained in the currency reserve is transferred to income at the disposal date of the foreign operation.

Embedded derivatives are reported and measured separately, irrespective of the financial instrument in which they are embedded, unless the structured investment has been designated and allocated to the at fair value through profit or loss category.

Own equity and debt instruments

Own equity instruments are carried at cost and deducted from equity on the liabilities side of the balance sheet. Own issues are deducted from issues at their redemption amounts on the liabilities side of the balance sheet, with the difference between the redemption amount and cost reported in net interest income.

n) Loans and advances to credit institutions and customers

Loans and advances represent non-derivative financial assets with fixed or determinable redemption amounts which are not traded on an active market and are not securitised.

Loans and advances to credit institutions and customers are recognised at their gross amounts before deductions for impairment losses, including deferred interest. The total amount of risk provisions for balance sheet receivables is recognised as a reduction on the asset side of the balance sheet under loans and advances to credit institutions and loans and advances to customers. Risk provisions for off-balance sheet transactions are included in provisions.

Receivables are initially measured at fair value plus incremental direct transaction costs. Subsequent measurement is performed at amortised cost using the effective interest method unless the receivables are designated to the at fair value through profit or loss category.

Finance lease

The group concludes finance lease contracts for real estate and for movable goods. In these contracts it acts as a lessor in a leasing transaction in which significantly all the risks and rewards are transferred to the lessee, who hence becomes the owner of the leased asset, this transaction is reported in receivables. In this case, instead of the leased asset, the present value of future payments is recognised, taking into account any residual value.

Real Estate leasing contracts have a basically maturity of 10 to 20 years. Concerning property leasing there is a distinction between volume equipment leasing (e.g. container leasing), with basically maturity of 7 to 10 years, and movable goods for the retail section with a basically maturity of 3 to 5 years. The interest rate of the customer for the lease agreement is fixed for the whole maturity at the time the contract is closed. The effective interest rate can be adapted to changes on capital markets through an interest adjustment clause. Property leasing contracts are mostly based on part-amortisation, while movable goods leasing are basically full pay out contracts. Car leasing contracts are placed as part amortisation contracts as well as full pay out contracts.

o) Risk provisions

Provisions for individual and portfolio-based impairment are recognised in order to cover the specific risks inherent to banking. Provisions are also recognised for potential losses from investments in high-risk countries; these are based on the standard international valuations for such types of investments. For further details, see section m) Financial assets and liabilities.

p) Trading assets and liabilities

Trading assets include all financial assets acquired with a view to short-term sale or forming part of a portfolio which is intended to yield short-term profits. Trading liabilities consist of all negative fair values of derivative financial instruments used for trading purposes. In this position there are no financial assets and liabilities reported which are designated to the at fair value through profit and loss category.

Both initial recognition and subsequent measurement are performed at fair value. Transaction costs are expensed as incurred. All changes in fair value as well as all interest and dividend payments and refinancing allocable to the trading portfolio are reported in net trading income.

q) Financial investments

Financial investments comprise all securitised debt and equity instruments not classified as participations. Financial investments are initially recognised at fair values plus incremental direct transaction cost. Subsequent measurement depends on whether the financial assets are allocated to the at fair value through profit or loss, available for sale, loans & receivables or held to maturity categories.

At fair value through profit or loss

The Group allocates some securities to this category and records changes in the fair value of such securities directly in the income statement as described in section m) Financial assets and liabilities.

Available for sale

This category comprises all financial instruments which are not allocated to the at fair value through profit or loss, loans & receivables or held to maturity categories. It also includes all equity instruments with no maturity date, provided that they have not been classified as at fair value through profit or loss. Shares which are not traded on a stock exchange and whose fair value cannot be reliably determined are carried at cost less any impairment losses. All other available for sale assets are measured at fair value. Changes in fair value are taken directly to equity until these financial investments are sold or impaired and the remeasurement result is transferred from equity to the income statement. With regard to debt securities, the difference between cost including transaction cost and the redemption amount is amortised in accordance with the effective interest method and recognised in income. Accordingly, only the difference between amortised cost and fair value is recognised in the available for sale reserve, taking into account deferred taxes.

Loans & receivables

All securitised financial investments with fixed or determinable payments that are not quoted in an active market and which the Group does not intend to sell immediately or in the near term are classified as loans & receivables. These financial instruments are recognised at amortised cost in accordance with the effective interest method.

Held to maturity

The Group allocates financial instruments to this category if it has the positive intention and ability to hold them to maturity and they have fixed or determinable payments and a fixed maturity.

These financial instruments are recognised at amortised cost in accordance with the effective interest method. Any sale or reallocation of a substantial part of these financial instruments which does not occur on a date that is close to the redemption date or is attributable to a non-recurring isolated event that is beyond the Group's control and that could not have been reasonably anticipated, results in the reallocation of all held to maturity financial investments to the available for sale category for the two subsequent fiscal years. In 2010 and 2009, no such reallocations took place.

r) Assets for operating lease (inclusive investment property)

Assets used in operating lease transactions are allocated to the VBAG Group and reported in the balance sheet item assets for operating lease.

All land and buildings that meet the definition of investment property set out in IAS 40 are reported at fair value. In the case of domestic and foreign land and buildings, the annual measurement is based on the standards of the RICS (Royal Institution of Chartered Surveyors). The gross rental method is based on yields which are defined by the appraisers and reflect the current market situation and the individual strengths and weaknesses of each investment property. King Sturge, Colliers International, Cushman & Wakefield, DTZ Polska, Knight Frank, Spiller Farmer and Jones Lang LaSalle are mandated to act as independent experts for assessing the value of foreign investment properties. The fee basis for external appraisers is a fixed amount and independent of the appraised value.

Leasing and rental income is recognised on a straight-line basis in accordance with the term of the respective lease and rental contracts and reported in interest and similar income. Depreciation of other operating lease assets is calculated in accordance with the principles applying to the respective item and is also reported in interest and similar income. Starting 2010, changes in value of investment property assets are reported in position income from financial statements. The comparative figures have been restated accordingly.

s) Participations

The Group establishes subsidiaries and acquires participations for strategic reasons and as financial investments. Strategic participations relate to companies operating in the Group's lines of business or companies supporting the Group's business activities.

Companies over which the Group exercises significant control are measured at equity. All other participations are recognised at their respective fair values. Participations whose fair value cannot be determined without an unreasonable amount of effort are carried at cost. Write-downs have been recognised for impairment. If the reason for impairment ceases to exist, the impairment loss is reversed and recognised directly in equity taking into account deferred taxes.

t) Intangible and tangible fixed assets

Intangible assets are carried at cost less straight-line amortisation and impairment. This item primarily comprises acquired goodwill, brand rights and software.

Goodwill is not depreciated on a straight-line basis, but instead is tested for impairment at least once a year in accordance with IAS 36, or more frequently if events or changes in circumstances indicate that impairment may have occurred. Impairment testing is performed for the cash-generating units (CGUs) to which goodwill is allocated. The expected cash flows are calculated on the basis of the forecast result of the respective CGU for the following three to five years, discounted using a risk-adjusted interest rate. This corresponds to a long-term, risk-free interest rate which is increased by an equity premium, multiplied by a branch beta and adjusted for any country risk premiums and which is between 8% and 20%. The underlying development factor is between 1% and 4%.

The proportionate enterprise value determined according to the principles listed above is offset against the proportionate equity of the CGU plus any goodwill. If the proportionate enterprise value is lower than the sum of the proportionate equity and any goodwill, an impairment loss is recognised in the amount of the difference.

Due to impairment tests which were done on 31 December 2010 the goodwill of one VBI credit institutions was partly impaired. On balance sheet date, all other impairment tests which took place, did not led to further impairment requirements.

In the course of the acquisition of Investkredit Bank AG in 2005, the Investkredit brand was recognised as intangible asset. In line with IAS 38, an intangible asset is considered as having an unlimited useful life if, based on an analysis of all relevant factors, there is no foreseeable limit on the period in which the asset is likely to generate net cash flows for an entity. The factors considered as relevant in determining the expected

useful life of the Investkredit brand primarily include the probable use of this asset by the VBAG Group, changes in the overall demand for services which can be produced using this asset, as well as the level of expenditure for retention necessary to attain the probable future economic benefits derived from the asset and the ability and intention of VBAG to achieve this level.

As a result of the analyses performed, it can be assumed that the Investkredit brand name still has an unlimited useful life, reflecting the intention of the VBAG management regarding the retention of the Investkredit brand. An impairment test conducted in 2010 did not identify any impairment.

Tangible fixed assets are carried at cost and depreciated on a straight-line basis over their estimated life in the case of depreciable assets.

Write-downs are recognised for permanent impairment. If the circumstances resulting in the recognition of a write-down cease to exist, the write-down is reversed up to a maximum of amortised cost.

The useful life is the period of time during which an asset is expected to be used by the Group and is calculated as follows:

| | | |
|---|-------|----------|
| Office furniture and equipment | up to | 10 years |
| EDP hardware (including calculators, etc.) | up to | 5 years |
| EDP software | up to | 4 years |
| Vehicles | up to | 5 years |
| Strongrooms and safes | up to | 20 years |
| Buildings, reconstructed buildings, rental rights | up to | 50 years |

u) Tax assets and liabilities

This item is used to report current and deferred tax assets and liabilities.

According to the balance sheet liability method set out in IAS 12, deferred taxes are derived from all temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet prepared in accordance with IFRS. Deferred taxes are calculated for subsidiaries on the basis of the tax rates that apply or have been announced in the individual countries on the balance sheet date. Deferred tax assets are offset against deferred tax liabilities for each individual subsidiary.

In the course of the initial consolidation of the Investkredit Group in 2005, the tax advantage due to the amortisation of goodwill in accordance with section 9 (7) of the Austrian Corporation Tax Act was recognised as an asset within the meaning of IAS 12 to the extent that it is probable that future taxable profit will be available against which the tax relief from the amortisation of goodwill can be utilised. In the business year 2009, the asset was totally reversed, as the usability of this tax advantage will not be realised in an appropriate period of time.

Deferred tax assets in respect of unutilised tax loss carryforwards are recognised to the extent that it is probable that future taxable profit will be available at the same company against which the unused tax losses can be utilised or if sufficient taxable temporary differences exist. The appraisal period is up to 5 years. Deferred tax assets from tax loss carryforwards are impaired, if it is unlikely that the tax benefit can be realised. Deferred taxes are not discounted.

v) Other assets

Deferred items are used for accruing income and expenses and are shown in this item together with other assets. Value adjustments are recognised for impairment. This item also includes all positive fair values of derivatives that are reported in the investment book and carried at fair value. With the exception of derivatives used in cash flow hedges and hedges of a net investment, which are taken directly to equity, changes in fair value are reported in income from financial investments.

w) Liabilities

The initial recognition of amounts owed to credit institutions and customers as well as debts evidenced by certificates is performed at fair value plus directly attributable transaction cost. Subsequent measurement is performed at amortised cost in accordance with the effective interest method, unless these liabilities were designated as liabilities at fair value through profit or loss.

x) Employee benefits

Payments to defined contribution plans are expensed as incurred. Irregular payments are allocated to the respective reporting period.

VBAG Group has made defined benefit commitments for individual staff members for the amounts of future benefits. All of these plans are partly unfunded, i.e. the funds required as cover are retained and the VBAG Group recognises the necessary provisions. In the Investkredit and Europolis sub-groups, staff pension entitlements were transferred to a pension fund in previous years and are shown as plan assets.

In accordance with the projected unit credit method, provisions for pensions and severance payments are calculated on the basis of generally recognised actuarial principles for determining the present value of the overall entitlement and additional claims acquired in the reporting period. For severance payments, this procedure takes into account retirement due to attainment of pensionable age, occupational incapacity, disability or death, as well as the vested rights of surviving dependents.

Actuarial gains and losses are treated in accordance with the so-called corridor method, meaning that contributions are recognised in income when the cumulative unrecognised actuarial gains or losses exceed 10% of the present value of the defined benefit obligation for pensions or severance payments or the fair value of any available external plan assets. In 2010 and 2009, actuarial gains and losses exceeding the corridor were recognised in income in full.

Principal actuarial assumptions

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|--------------------------------|-------|-------|-------|-------|-------|
| Discount rate | 4.25% | 5.25% | 5.75% | 5.00% | 4.50% |
| Expected return on plan assets | 4.25% | 5.50% | 5.50% | 5.00% | 5.00% |
| Future salary increase | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| Future pension increase | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Fluctuation rate | none | none | none | none | none |

The fundamental biometric actuarial assumptions of the latest Austrian scheme by Pagler and Pagler for calculating pension insurance for salaried employees are applied as the basis of calculation (AVÖ 2008 P- Rechnungsgrundlagen für die Pensionsversicherung – Pagler&Pagler, Angestelltenbestand). As the defined benefit obligations for staff not employed in Austria are immaterial, the principal actuarial assumptions were not adjusted to reflect the circumstances in the countries where the respective subsidiaries are domiciled.

The current retirement age limits are generally taken into account in these calculations. It is assumed that, as a rule, men will retire at the age of 65 years and women at the age of 60 years. Any transitional arrangements are disregarded. For staff not employed in Austria, the standard retirement age stipulated in the respective country is applied.

Pension obligations comprise claims of employees who were in active service for the Group on the valuation date as well as entitlements of pension recipients. These entitlements are defined in special agreements and in the Group's Articles of Association, and represent legally binding and irrevocable claims.

y) Other provisions

Other provisions are recognised if a past event has given rise to a present obligation and it is likely that meeting such an obligation will result in an outflow of resources. They are built to the amount of the most probable future claims, taking into account cost estimates of contractual partners, experienced data and financial mathematical methods. A contingent liability is reported if an eventual obligation exists and an outflow of resources does not appear probable or no reliable estimate of the amount of the obligation can be made.

z) Other liabilities

Deferred items are used for accruing income and expenses and are shown in this item together with other liabilities. This item also includes all negative market values of derivatives that are reported in the investment book and carried at fair value. With the exception of derivatives used in cash flow hedges and hedges of a net investment, which are taken directly to equity, changes in fair value are reported in income from financial investments.

aa) Subordinated Liabilities

Initial recognition of subordinated liabilities is carried out at fair value plus directly attributable transaction cost. Subsequent measurement is performed at amortised cost in accordance with the effective interest method, unless these liabilities were designated as liabilities at fair value through profit or loss.

In case of bankruptcy or the winding up of the enterprise, all amounts accounted for as subordinated liabilities may be satisfied after having met the demands of all other non subordinated creditors. Securitised and non-securitised liabilities of VBAG Group are classified as subordinated liabilities if the rank order described above is applicable.

Additionally to subordination, terms of contract of supplementary capital imply a performance-related interest payment. Payment of interest only will take place, as far as this payment is covered by the result before changes in reserves of the company issuing the supplementary capital.

bb) Equity

Financial instruments issued by the VBAG Group which do not involve a contractual obligation to transfer cash or another financial asset to another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially unfavourable to the issuer are reported in equity.

Capital management in VBAG Group is done on the basis of the supervisory capital. For further details see chapter ee) Own funds in accordance with the Austrian Banking Act (BWG) and chapter 52)c) Risk strategy and internal capital adequacy assessment process.

cc) Capital reserves

In accordance with IAS 32, the transaction cost of an equity transaction are accounted for as a deduction from equity, taking into account deferred taxes, to the extent that they constitute incremental costs that are directly attributable to the equity transaction. Furthermore the difference between face value and repurchase value of own shares, as far as it is covered in capital reserves, is shown there. If the difference exceeds capital reserves, this amount is deducted from retained earnings.

dd) Retained earnings

All legal and statutory reserves as well as other reserves, provisions against a specific liability as defined by section 23 (6) of the Austrian Banking Act, untaxed reserves and all other undistributed profits are reported in retained earnings.

ee) Own funds in accordance with the Austrian Banking Act (BWG)

The Group is subject to external provisions governing its equity requirements based on the EU directives 2006/48/EC and 2006/49/EC which have been implemented in national law. The rules regarding capital ratios specified here constitute the central management variable in the VBAG Group. These ratios reflect the relationship between regulatory own funds and credit, market and operational risk. Accordingly, the risk/return management of VBAG is based on the capital allocated to one business or, ultimately, one organisational unit and the income to be generated from this, taking into account the corresponding risk considerations.

Credit risk is determined by multiplying on-balance sheet and off-balance sheet exposures on the basis of their relative risks by the risk weighting to be allocated to a counterparty. The procedure for determining risk-relevant parameters (exposure, risk weighting) is based on either percentages specified by regulatory requirements (standard approach) or internal procedures (IRB approach). The market risk component of the Group is a multiple of the computed value at risk, which is calculated for banking supervisory purposes on the basis of the Group's internal calculation models. The capital requirements for operational risk are calculated by multiplying the revenues by the respective percentages for the divisions.

Regulatory own funds can be broken down into three elements:

- Core capital or tier I capital
- Supplementary capital or tier II capital
- Short-term subordinated liabilities or tier III capital.

Core capital or tier I capital consists of subscribed capital, capital reserves and retained earnings as well as hybrid capital components less intangible assets.

Supplementary capital or tier II capital consists of non-current subordinated liabilities, unrealised profits from listed securities and provisions for risks inherent in lending operations.

Tier III capital consists of current subordinated liabilities.

The minimum equity ratio (based on the total of tier I, tier II and tier III capital) corresponds to 8%, and the minimum core capital ratio 4%, of total risk exposure. The total tier II capital is limited to 100% of tier I capital. Depending on the configuration of tier II capital, subordinated liabilities may be included only up to a maximum of 50% of tier I capital. Tier III capital may only be used to cover market risks.

The VBAG Group's own funds are described in note 36) Own funds in accordance with the Austrian Banking Act (BWG).

The VBAG Group complied with these relevant supervisory requirements in the reporting period and its own funds exceeded the minimum requirements.

ff) Trustee transactions

Transactions in which an affiliate of the VBAG Group acts as a trustee or in any other trusteeship function and thus manages or places assets on a third-party account are not shown in the balance sheet. Commission payments from such transactions are reported in net fee and commission income.

gg) Repurchase transactions

Under genuine repurchase agreements, the Group sells assets to a contractual partner and simultaneously undertakes to repurchase these assets at the agreed price on a predefined date. The assets remain in the consolidated balance sheet and are measured in accordance with the rules applying to the respective balance sheet items. At the same time, the received payment is recognised as a liability.

hh) Contingent liabilities

Possible obligations for which an outflow of resources does not appear probable or no reliable estimate of the amount of the obligation can be made are reported under contingent liabilities.

Provisions are recognised for acceptances and endorsements as part of provisions for risks if there are likely to be future claims.

Obligations arising from financial guarantees are recognised as soon as the VBAG Group becomes a contracting party, i.e. when the guarantee offer is accepted. Initial measurement is performed at fair value. Considered in its entirety, the fair value of a financial guarantee at the time of contract conclusion is nil because, for standard market contracts, the value of the premium agreed generally corresponds to the value of the guarantee obligation.

Guaranteed amounts of members in the case of participations in cooperatives are reported under other contingent liabilities.

A follow-up check is regularly performed in order to determine whether on-balance sheet recognition in the consolidated financial statements is necessary.

ii) Cash flow statement

The cash flow statement is calculated in accordance with the indirect method. Here, the net cash flow from operating activities is calculated based on the annual result after taxes and before non-controlling interests, whereby non-cash expenses and income during the business year are included and deducted respectively first of all. Moreover, all expenses and income which did serve as cash, but were not allocated to operating activities, are eliminated. These payments are recognised under the cash flow from investing activities or financing activities. The interest, dividend and tax payments, which are stated separately, are solely from operating activities.

Cash flows from non-current assets such as held to maturity securities, participations and fixed assets are assigned to the cash flow from investing activities. The cash flow from financing activities includes all cash flows of the owners as well as changes to subordinated liabilities and non-controlling interests. Liquid funds have been defined as cash and cash equivalents and comprise balances with central banks as well as cash in hand. These balances are composed of the minimum reserve to be held according to statutory provisions and current investments with various central banks.

As the business activity of the VBAG Group mainly comprises financing activities, the informative value of the cash flow statement is rather limited.

4) Net interest income

| Euro thousand | 2010 | 2009 |
|---|----------------|----------------|
| Interest and similar income | 2,013,688 | 2,181,368 |
| Interest and similar income from | 1,966,494 | 2,170,225 |
| liquid funds | 21,467 | 51,333 |
| credit and money market transactions with credit institutions | 82,696 | 134,466 |
| credit and money market transactions with customers | 1,146,166 | 1,316,711 |
| debt securities | 291,118 | 313,790 |
| derivatives in the investment book | 425,046 | 353,926 |
| Current income from | 24,444 | -9,770 |
| equities and other variable-yield securities | 4,247 | 9,523 |
| other affiliates | 10,797 | 12,373 |
| companies measured at equity | 4,280 | -36,055 |
| investments in other companies | 5,120 | 4,389 |
| Income from operating lease and investment property | 22,750 | 20,913 |
| rental income investment property | 11,519 | 12,080 |
| income from operating lease contracts | 11,232 | 8,833 |
| rental income | 43,602 | 44,783 |
| depreciations | -32,370 | -35,951 |
| Interest and similar expenses of | -1,237,430 | -1,584,850 |
| deposits from credit institutions (including central banks) | -291,714 | -520,317 |
| deposits from customers | -203,383 | -258,349 |
| debts evidenced by certificates | -598,651 | -612,026 |
| subordinated liabilities | -49,765 | -79,604 |
| derivatives in the investment book | -93,917 | -114,553 |
| Net interest income | 776,259 | 596,519 |

Starting 2010, changes in value of investment property assets are reported in position financial investments. The comparative figures have been restated accordingly.

Net interest income according to IAS 39 categories:

| Euro thousand | 2010 | 2009 |
|--|----------------|----------------|
| Interest and similar income | 2,013,688 | 2,181,368 |
| Interest and similar income from | 1,966,494 | 2,170,225 |
| financial investments at fair value through profit or loss | 16,490 | 22,553 |
| derivatives in the investment book | 425,046 | 353,926 |
| financial investments not at fair value through profit or loss | 1,524,957 | 1,793,746 |
| financial investments available for sale | 160,291 | 121,738 |
| financial investments at amortised cost | 1,291,035 | 1,561,090 |
| of which financial lease | 214,418 | 239,920 |
| of which unwinding | 9,755 | 6,242 |
| financial investments held to maturity | 73,631 | 110,917 |
| Current income from | 24,444 | -9,770 |
| financial investments at fair value through profit or loss | 821 | 1,301 |
| financial investments available for sale | 19,343 | 24,984 |
| companies measured at equity | 4,280 | -36,055 |
| Operating lease operations (including investment property) | 22,750 | 20,913 |
| Interest and similar expenses of | -1,237,430 | -1,584,850 |
| financial investments at fair value through profit or loss | -1,145 | -369 |
| derivatives in the investment book | -93,917 | -114,553 |
| financial investments at amortised cost | -1,142,368 | -1,469,927 |
| Net interest income | 776,259 | 596,519 |

5) Risk provisions

| Euro thousand | 2010 | 2009 |
|---|-----------------|-----------------|
| Allocation to risk provisions | -642,113 | -918,165 |
| Release of risk provisions | 278,577 | 98,061 |
| Allocation to provisions for risks | -8,010 | -25,120 |
| Release of provisions for risks | 16,741 | 5,293 |
| Direct write-offs of loans and advances | -13,978 | -16,983 |
| Income from loans and advances previously written off | 4,474 | 5,166 |
| Risk provisions | -364,308 | -851,748 |

For more details to risk provisions and provisions for risks we refer to chapter 15) Risk provisions and chapter 29) Provisions.

6) Net fee and commission income

| Euro thousand | 2010 | 2009 |
|--|----------------|----------------|
| Fee and commission income from | 231,133 | 262,498 |
| lending operations | 53,657 | 58,029 |
| securities businesses | 64,231 | 95,107 |
| payment transactions | 56,463 | 57,005 |
| foreign exchange, foreign notes and coins transactions | 29,607 | 24,687 |
| other banking services | 27,174 | 27,670 |
| Fee and commission expenses from | -64,227 | -61,727 |
| lending operations | -25,429 | -25,553 |
| securities businesses | -14,082 | -17,288 |
| payment transactions | -6,233 | -6,880 |
| foreign exchange, foreign notes and coins transactions | -13,605 | -7,584 |
| other banking services | -4,878 | -4,421 |
| Net fee and commission income | 166,906 | 200,771 |

Net fee and commission income does not include any income or expenses from financial investments designated at fair value through profit or loss.

Management fees for trust agreements were recognised in fee and commission income in the amount of euro 258 thousand (2009: euro 512 thousand).

In 2010, the result of the sales activities of the trading department was reclassified from net trade income to net fee and commission income. The comparative figures have been restated accordingly.

7) Net trading income

| Euro thousand | 2010 | 2009 |
|------------------------------------|---------------|---------------|
| Equity related transactions | -28,177 | -19,064 |
| Exchange rate related transactions | 37,697 | 22,157 |
| Interest rate related transactions | 30,135 | 60,051 |
| Net trading income | 39,655 | 63,143 |

In 2010, the result of the sales activities of the trading department was reclassified from net trade income to net fee and commission income. The comparative figures have been restated accordingly.

8) General administrative expenses

| Euro thousand | 2010 | 2009 |
|---|-----------------|-----------------|
| Staff expenses | -291,315 | -270,057 |
| Wages and salaries | -212,390 | -204,591 |
| Expenses for statutory social security | -55,547 | -55,300 |
| Fringe benefits | -7,062 | -7,625 |
| Expenses for retirement benefits | -4,262 | -3,244 |
| Allocation to provision for severance payments and pensions | -12,054 | 703 |
| Other administrative expenses | -220,075 | -230,412 |
| Depreciation of fixed tangible and intangible assets | -39,736 | -38,018 |
| Scheduled depreciation | -37,143 | -37,698 |
| Impairment | -2,594 | -320 |
| General administrative expenses | -551,126 | -538,487 |

Staff expenses include payments for defined contribution plans totalling euro 3,550 thousand (2009: euro 3,652 thousand).

Other administrative expenses include expenses for managing contracts for investment property to the amount of euro 478 thousand (2009: euro 557 thousand).

For the business year, expenses for the auditor KPMG Austria GmbH amounted to euro 2,641 thousand (2009: euro 2,168 thousand). Thereof euro 1,896 thousand (2009: euro 1,716 thousand) fall upon the audit of the consolidated financial statement (including financial statements of fully consolidated companies and joint enterprises) and euro 744 thousand (2009: euro 452 thousand) upon other audit services.

Information on compensation for and loans granted to board members

| Euro thousand | 2010 | 2009 |
|---|-------|-------|
| Total compensation | | |
| Supervisory board | 90 | 89 |
| Managing board | 2,192 | 2,177 |
| Former board members and their surviving dependents | 698 | 705 |
| Expenses for severance payments and pensions | | |
| Managing board | 692 | 1,611 |

The figures for the managing board include employees of the parent company.

The total compensation of the managing board consists of a fixed basic salary, a performance related bonus and other remuneration. In general, external comparisons are carried out at regular intervals in order to assess whether remuneration of the managing board is reasonable and normal for the market.

Performance related bonuses are connected to the achievement of the following goals: result of the consolidated financial statement according to IFRS, payments of dividends, cost-income-ratio as well as the achievement of personal targets. The bonus is limited by 75% of the annual gross salary. Since 2008, however, these bonus regulations have become inoperative: no bonus payments have been made on this basis for either in the business year 2008 or 2009. No performance related bonus are to be paid out to members of the managing board for the business year 2010 either.

The board of management participate in the defined business contribution pension scheme of the group, like employees. Additionally a D&O insurance policy (directors and officers insurance) is in place.

Expenses for severance payments and pensions for the senior management of the parent company amounted to euro 357 thousand (2009: euro 308 thousand).

Number of staff employed, including disposal group

| | Average number of staff | | Number of staff at year end | |
|--------------|-------------------------|--------------|-----------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Domestic | 1,499 | 2,048 | 1,443 | 1,541 |
| Foreign | 6,257 | 6,559 | 6,185 | 6,390 |
| Total | 7,756 | 8,607 | 7,628 | 7,931 |

The number of staff employed in disposal group is as follows

| | Average number of staff | | Number of staff at year end | |
|--|-------------------------|------------|-----------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Segment Real Estates disposal group | | | | |
| Domestic | 30 | 33 | 27 | 34 |
| Foreign | 77 | 86 | 70 | 83 |
| Total | 107 | 119 | 97 | 117 |
| Segment Real Estates disposal group | | | | |
| Domestic | 43 | 547 | 0 | 74 |
| Total | 150 | 666 | 97 | 191 |

The retail banks were deconsolidated with 31 December 2009. The deconsolidation of VB Linz+Mühlviertel took place on 6 August 2010. The deconsolidation of Europol AG took place on 1 January 2011.

9) Other operating result

| Euro thousand | 2010 | 2009 |
|---|----------------|----------------|
| Other operating income | 51,060 | 60,131 |
| Proceeds from deconsolidation of subsidiaries | 0 | 484 |
| Other operating expenses | -54,347 | -34,582 |
| Other taxes | -10,732 | -667 |
| Impairment of goodwill | -7,573 | -4,232 |
| Other operating result | -21,592 | -21,135 |

Hire purchase transactions as well as operating expenses and insurance contributions which are passed on to customers are netted and recognised in other operating income to the amount of euro 118,668 thousand (2009: euro 133,225 thousand), as this procedure presents a fairer view of the economic nature of these transactions.

Other operating expenses include expenses for vacancy of investment property assets to the amount of euro 97 thousand (2009: none).

Details of impairment of goodwill can be found in chapter 21) Intangible assets.

10) Income from financial investments

| Euro thousand | 2010 | 2009 |
|---|---------------|-----------------|
| Result from financial investments at fair value through profit or loss / macro hedges | 27,487 | -15,266 |
| Result from financial investments at fair value through profit or loss | | |
| and from underlying instruments for macro hedges | 27,224 | -14,966 |
| Debt securities | 28,424 | -10,262 |
| Equities and other variable-yield securities | -620 | -5,388 |
| Amounts owed to credit institutions and customers | -580 | 684 |
| Result from revaluation of derivatives | 263 | -300 |
| Result from fair value hedges | -32 | -33 |
| Result from revaluation of underlying instruments | -24,126 | -188,238 |
| Loans and advances to credit institutions and customers | 12,419 | 7,708 |
| Debt securities | 52,563 | -31,889 |
| Amounts owed to credit institutions and customers | -32,978 | -44,204 |
| Debts evidenced by certificates | -56,510 | -113,842 |
| Subordinated liabilities | 378 | -6,012 |
| Result from revaluation of derivatives | 24,094 | 188,205 |
| Result from valuation of other derivatives in the investment book | -105 | 58,598 |
| Equity related transactions | 211 | 216 |
| Exchange rate related transactions | -9,834 | 376 |
| Interest rate related transactions | -6,727 | 56,438 |
| Credit related transactions | 12,723 | -2,633 |
| Other transactions | 3,520 | 4,200 |
| Result from available for sale financial investments (including participations) | -6,999 | -229,206 |
| Realised gains / losses | 12,917 | 4,778 |
| Income from revaluation | 3,951 | 14,534 |
| Impairments | -23,867 | -248,518 |
| Result from loans & receivables financial investments | 11,729 | -47,567 |
| Realised gains / losses | 8,188 | 2,563 |
| Income from revaluation | 6,830 | 42 |
| Impairments | -3,288 | -50,173 |
| Result from held to maturity financial investments | 5,056 | -21,519 |
| Realised gains / losses | 4,885 | 3,497 |
| Income from revaluation | 265 | 738 |
| Impairments | -94 | -25,753 |
| Result from assets for operating lease and investment property assets as well as other financial investments | 5,651 | 1,494 |
| Realised gains / losses | 10,802 | -260 |
| Change in value investment property | -5,151 | 1,755 |
| Income from financial investments | 42,788 | -253,498 |

Since the business year 2010, changes in value of investment property assets are reported in this position. The result of participations are part of available for sale financial investments beginning with this business year. The comparative figures have been restated accordingly.

The assessment of recoverability of some participations led to an increased impairment in the previous year.

In 2010, an amount of euro 4,272 thousand (2009: euro 4,778 thousand) previously recognised in the available for sale reserve was reclassified and shown in the income statement.

| Euro thousand | 2010 | 2009 |
|--|---------------|-----------------|
| Result from financial investments, which are measured at fair value through profit and loss | 22,199 | 45,055 |
| Financial instruments at fair value through profit or loss | 27,224 | -14,966 |
| Fair value hedges | -32 | -33 |
| Other derivatives in investment book | 158 | 58,299 |
| Investment property assets | -5,151 | 1,755 |
| Result from financial investments, which are not measured at fair value through profit and loss | 20,589 | -298,553 |
| Realised gains/losses | 36,792 | 10,578 |
| Available for sale financial investments | 12,917 | 4,778 |
| Loans & receivables financial investments | 8,188 | 2,563 |
| Held to maturity financial investments | 4,885 | 3,497 |
| Operating lease assets and other financial investments | 10,802 | -260 |
| Income from revaluation | 11,046 | 15,313 |
| Available for sale financial investments | 3,951 | 14,534 |
| Loans & receivables financial investments | 6,830 | 42 |
| Held to maturity financial investments | 265 | 738 |
| Impairments | -27,249 | -324,444 |
| Available for sale financial investments | -23,867 | -248,518 |
| Loans & receivables financial investments | -3,288 | -50,173 |
| Held to maturity financial investments | -94 | -25,753 |
| Income from financial investments | 42,788 | -253,498 |

11) Income taxes

| Euro thousand | 2010 | 2009 |
|---|----------------|-----------------|
| Current income taxes | -17,293 | -25,875 |
| Deferred income taxes | -9,735 | -187,844 |
| Income taxes of disposal group | -3,332 | 35,817 |
| Income taxes for the current fiscal year | -30,361 | -177,902 |
| Income taxes from previous periods continued operations | -3,979 | -1,860 |
| Income taxes from previous periods disposal group | 0 | 171 |
| Income taxes from previous periods | -3,979 | -1,689 |
| Income taxes | -34,340 | -179,590 |

The reconciliation below shows the relationship between the imputed and reported tax expenditure.

| Euro thousand | 2010 | 2009 |
|--|---------------|-----------------|
| Annual result before taxes - continued operations | 88,581 | -762,164 |
| Annual result before taxes - disposal group | 2,243 | -181,288 |
| Annual result before taxes - total | 90,825 | -943,453 |
| Imputed income tax 25% | 22,706 | -235,863 |
| Tax relief resulting from | | |
| tax-exempt investment income | -31,969 | -12,128 |
| investment allowances | -81 | -974 |
| other tax-exempt earnings | -597 | -2,904 |
| release of tax assets section 9 (7) Austrian Corporation Tax Act | 0 | 43,683 |
| non-tax deductible impairment of goodwill | 1,893 | 1,218 |
| measurement of participation including outside basis differences | 84,640 | 50,000 |
| adjustment of deferred taxes | 16,029 | 148,251 |
| non-inclusion of deferred taxes | 7,512 | 164,603 |
| re-inclusion of deferred taxes | -66,301 | 0 |
| changes in tax rates | 612 | -437 |
| different foreign tax rates | -17,280 | -886 |
| other differences | 13,196 | 23,339 |
| Reported income taxes | 30,361 | 177,902 |
| of which disposal group | 3,332 | -35,817 |
| Effective tax rate - continued operations | 30.51% | -28.04% |
| Effective tax rate - including disposal group | 33.43% | -18.86% |

In business year 2010 and 2009, the informative value of effective tax rate is restricted due to high allowances of deferred tax assets (particularly for taxable loss carryforwards), re-inclusion of deferred taxes, high level of tax-exempt investment income as well as to the presentation of the disposal group.

Deferred taxes totalling euro -39,851 thousand (2009: euro -30,319 thousand) were taken directly to equity. In 2010, tax loss carryforwards and deferred tax assets to the amount of euro 64,116 thousand (2009: euro 593,002 thousand) were impaired. Furthermore, no deferred taxes were recognised for taxable loss carryforwards and for deferred tax assets to the amount of euro 30,047 thousand (2009: euro 658,413 thousand) as, in the opinion of the management, the realisation of these tax loss carryforwards and deferred tax assets does not appear to be probable over an adequate period of time (up to 5 years). Therefore no deferred taxes were recognised for tax loss carryforwards to the amount of euro 1,020,583 thousand (2009: euro 1,221,258 thousand). Of these taxable loss carryforwards euro 944,912 thousand (2009: euro 1,161,526 thousand) are without limitation.

Notes to the consolidated balance sheet

12) Liquid funds

| | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|-----------------------------|------------------|-------------------------|--------------------------|
| Euro thousand | | | |
| Cash in hand | 104,156 | 108,855 | 108,865 |
| Balances with central banks | 1,878,290 | 2,899,187 | 2,899,187 |
| Liquid funds | 1,982,446 | 3,008,042 | 3,008,052 |

13) Loans and advances to credit institutions

Loans and advances to credit institutions amounting to euro 6,431,879 thousand (2009 restated: euro 6,795,291 thousand, published: euro 5,961,684 thousand) are measured at amortised cost.

Breakdown by residual term

| EUR Tsd. | 31 Dec 2010 | 31 Dec 2009 |
|--|--------------------|--------------------|
| on demand | 869,498 | 146,441 |
| up to 3 months | 4,901,355 | 4,782,951 |
| up to 1 year | 138,900 | 603,427 |
| up to 5 years | 111,041 | 133,224 |
| more than 5 years | 411,085 | 295,642 |
| Loans and advances to credit institutions | 6,431,879 | 5,961,684 |

14) Loans and advances to customers

Loans and advances to customers amounting to euro 23,614,938 thousand (2009: restated EUR 24,133,518 thousand, published: euro 24,168,604 thousand) are measured at amortised cost.

Breakdown by residual term

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|--|--------------------|--------------------|
| on demand | 2,692,003 | 1,395,331 |
| up to 3 months | 1,508,906 | 2,400,958 |
| up to 1 year | 2,991,839 | 3,319,916 |
| up to 5 years | 7,895,029 | 7,631,434 |
| more than 5 years | 8,527,160 | 9,420,965 |
| Loans and advances to customers | 23,614,938 | 24,168,604 |

Finance lease disclosures

| Euro thousand | up to 1 year | up to 5 years | more than 5 years | Total |
|--|---------------------|----------------------|--------------------------|------------------|
| 2010 | | | | |
| Total gross investment | 1,137,643 | 1,753,307 | 471,324 | 3,362,274 |
| Less paid non-interest-bearing deposits | -4,906 | -1,550 | -7,669 | -14,126 |
| Less unearned financial income | -140,677 | -171,550 | -71,520 | -383,747 |
| Present value of minimum lease payments | 992,060 | 1,580,207 | 392,134 | 2,964,402 |
| Total unguaranteed residual value | | | | 24,765 |
| 2009 | | | | |
| Total gross investment | 1,205,354 | 1,849,340 | 451,692 | 3,506,386 |
| Less paid non-interest-bearing deposits | -4,036 | -3,508 | -3,651 | -11,194 |
| Less unearned financial income | -148,939 | -201,637 | -77,129 | -427,705 |
| Present value of minimum lease payments | 1,052,379 | 1,644,195 | 370,913 | 3,067,487 |
| Total unguaranteed residual value | | | | 27,634 |

The net present value of minimum lease payments is measured at amortised cost and reported in loans and advances to credit institutions and customers.

The net present value of minimum lease payments corresponds to the fair value of financial leasing transactions, as such contracts are based on variable interest rates.

15) 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 | 110,222 |
| Changes in the scope of consolidation | 0 | -103,185 | -3,691 | -106,877 | -106,877 |
| Currency translation | 0 | 2,254 | -442 | 1,812 | -2 |
| Reclassification | 0 | 4,666 | 2,288 | 6,955 | 867 |
| Unwinding | 0 | -6,242 | 0 | -6,242 | -520 |
| Utilisation | 0 | -89,317 | 0 | -89,317 | -4,650 |
| Release | 0 | -83,899 | -31,003 | -114,902 | -16,841 |
| Addition | 48 | 881,150 | 78,122 | 959,320 | 41,156 |
| As at 31 Dec 2009 | 539 | 1,177,271 | 79,237 | 1,257,047 | 23,355 |
| Changes in the scope of consolidation | 0 | -10,099 | -495 | -10,594 | -11,063 |
| Currency translation | 0 | 27,121 | 421 | 27,542 | 182 |
| Reclassification | 0 | 3,780 | -3,444 | 336 | -6,905 |
| Unwinding | 0 | -9,755 | 0 | -9,755 | 0 |
| Utilisation | 0 | -101,379 | 0 | -101,379 | -1,368 |
| Release | 0 | -248,578 | -32,000 | -280,578 | -2,001 |
| Addition | 333 | 632,043 | 13,160 | 645,536 | 3,423 |
| As at 31 Dec 2010 | 872 | 1,470,404 | 56,880 | 1,528,155 | 5,623 |

The additions include an amount of euro 14,201 thousand (2009: euro 18,088 thousand), which is caused by allocation due to interest past-due. Loans and advances to customers include non-interest-bearing receivables amounting to euro 660,866 thousand (2009 restated: euro 437,351 thousand and published: euro 441,379 thousand). The line reclassification includes beside reclassifications to provisions a release of risk provision at an amount of euro -5,442 thousand from the disposal group which is not recognised in profit and loss due to the provisions of the purchase contract.

16) Trading assets

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|--|-------------|-------------------------|--------------------------|
| Debt securities | 349,050 | 157,002 | 157,002 |
| Equity and other variable-yield securities | 151,655 | 43,125 | 43,125 |
| Positive fair value from derivatives | 1,662,775 | 1,563,968 | 1,563,968 |
| exchange rate related transactions | 44,274 | 100,101 | 100,101 |
| interest related transactions | 1,410,090 | 1,455,559 | 1,455,559 |
| other transactions | 208,411 | 8,308 | 8,308 |
| Trading assets | 2,163,480 | 1,764,095 | 1,764,095 |

Breakdown by residual term

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|-------------------|-------------|-------------|
| up to 3 months | 51 | 1,392 |
| up to 1 year | 498 | 554 |
| up to 5 years | 172,096 | 2,225 |
| more than 5 years | 176,405 | 152,830 |
| Debt securities | 349,050 | 157,002 |

17) Financial investments

| | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|--|------------------|-------------------------|--------------------------|
| Euro thousand | | | |
| Financial investments at fair value through profit or loss | 763,764 | 1,066,890 | 1,066,895 |
| Debt securities | 699,625 | 986,605 | 986,610 |
| Equity and other variable-yield securities | 64,140 | 80,286 | 80,286 |
| Financial investments available for sale | 4,655,391 | 4,466,256 | 4,466,256 |
| Debt securities | 4,391,013 | 4,197,122 | 4,197,122 |
| Equity and other variable-yield securities | 264,377 | 269,134 | 269,134 |
| Financial investments loans & receivables | 1,837,891 | 1,918,289 | 1,918,289 |
| Financial investments held to maturity | 1,736,721 | 1,959,208 | 1,959,208 |
| Financial investments | 8,993,767 | 9,410,642 | 9,410,647 |

Financial investments held to maturity also include deferred interest of euro 34,660 thousand (2009 restated and published: euro 38,727 thousand).

Breakdown by residual term

| | 31 Dec 2010 | 31 Dec 2009 |
|------------------------|------------------|------------------|
| Euro thousand | | |
| up to 3 months | 1,062,365 | 394,277 |
| up to 1 year | 621,116 | 730,106 |
| up to 5 years | 3,405,290 | 3,712,524 |
| more than 5 years | 3,576,479 | 4,224,322 |
| Debt securities | 8,665,250 | 9,061,228 |

Breakdown of debt securities in accordance with the Austrian Banking Act, including disposal group

| | 31 Dec 2010 | 31 Dec 2009 |
|--|-------------|-------------|
| Euro thousand | | |
| Listed securities | 7,674,314 | 8,224,166 |
| Debt securities | 7,650,920 | 8,178,931 |
| Equity and other variable-yield securities | 23,395 | 45,235 |
| Securities allocated to fixed assets | 7,671,646 | 7,779,315 |
| Securities eligible for rediscounting | 4,217,422 | 4,866,524 |

All securities held with the intention of belonging more than one year to the Group are shown in position securities allocated to fixed assets.

Financial investments measured at fair value through profit or loss

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

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.

| | 31 Dec 2010 | 31 Dec 2009 | 1 Jul 2008 |
|---|-------------|-------------|------------|
| Euro thousand | | | |
| Carrying amount | 773,727 | 861,322 | 1,140,363 |
| Fair value | 733,487 | 783,706 | 1,140,363 |
| Available for sale reserve with reclassification | -47,416 | -53,935 | -79,177 |
| Available for sale reserve without reclassification | -84,884 | -121,012 | -79,177 |

The amounts of the available for sale reserve take deferred taxes into account. The reclassification did not have any effect on the income statement.

18) Assets for operating lease (including investment property)

| Euro thousand | Investment properties | Other operating lease assets | Total | of which disposal group |
|---------------------------------------|-----------------------|------------------------------|------------------|-------------------------|
| Cost as at 1 Jan 2009 | 1,447,178 | 189,632 | 1,636,809 | 1,376,328 |
| Changes in the scope of consolidation | 51,934 | 0 | 51,934 | -4,850 |
| Currency translation | -11,408 | 1,187 | -10,221 | -11,408 |
| Additions, including transfers | 214,105 | 42,235 | 256,340 | 176,056 |
| Disposals, including transfers | -128,254 | -41,196 | -169,451 | -122,238 |
| Cost as at 31 Dec 2009 | 1,573,554 | 191,857 | 1,765,411 | 1,413,887 |
| Changes in the scope of consolidation | 22,574 | 0 | 22,574 | 0 |
| Currency translation | 3,928 | -1,759 | 2,169 | 4,281 |
| Additions, including transfers | 14,241 | 30,132 | 44,373 | 5,253 |
| Disposals, including transfers | -4,671 | -45,908 | -50,580 | -1,035 |
| Cost as at 31 Dec 2010 | 1,609,626 | 174,322 | 1,783,948 | 1,422,387 |

| Euro thousand | Investment properties | Other operating lease assets | Total | of which disposal group |
|--|-----------------------|------------------------------|------------------|-------------------------|
| 2009 | | | | |
| Cost as at 31 Dec 2009 | 1,573,554 | 191,857 | 1,765,411 | 1,413,887 |
| Cumulative write-downs and write-ups | 137,862 | -66,941 | 70,920 | 91,021 |
| Carrying amount as at 31 Dec 2009 | 1,711,416 | 124,916 | 1,836,332 | 1,504,908 |
| Impairments in fiscal year | -234,431 | -35,951 | -270,381 | -232,622 |
| Revaluations in fiscal year | 10,395 | 0 | 10,395 | 6,832 |
| Carrying amount as at 1 Jan 2009 | 1,716,454 | 136,138 | 1,852,592 | 1,608,934 |
| 2010 | | | | |
| Cost as at 31 Dec 2010 | 1,609,626 | 174,322 | 1,783,948 | 1,422,387 |
| Cumulative write-downs and write-ups | 122,544 | -69,978 | 52,566 | 79,356 |
| Carrying amount as at 31 Dec 2010 | 1,732,170 | 104,344 | 1,836,514 | 1,501,743 |
| Impairments in fiscal year | -15,651 | -32,370 | -48,021 | 0 |
| Revaluations in fiscal year | 10,500 | 0 | 10,500 | 0 |

In the disposal group Real Estate, impairments amounting to euro -41,643 thousand and revaluations amounting to euro 32,051 thousand were not recognised in profit and loss in the business year 2010, due to the provisions in the purchase contract.

In 2010, carrying amount of investment property assets to the amount of euro 3,586 thousand (2009 restated: euro 600 thousand, published: euro 44,321 thousand) was disposed of.

Investment properties contain 11 completed properties (2009: 15) as well as one property under construction with a carrying amount of euro 10,525 thousand (2009: one property under construction with a carrying amount of euro 30,092 thousand). These properties are located in Austria as well as in countries of Central and Eastern Europe. At balance sheet date, the property under construction is measured at fair value.

Investment properties of the disposal group contain 26 completed properties (2009: 27) as well as 9 properties under construction with a carrying amount of euro 92,543 thousand (2009: 9 properties under construction with a carrying amount of euro 114,134 thousand). These properties are primarily located in the countries of Central and Eastern Europe. At balance sheet date an amount of euro 62,042 thousand (2009: euro 72,121 thousand) of properties under construction are measured at amortised cost as fair value cannot be reliably determined for these items.

The Group has committed itself to maintain investment property refunded by a third party. Apart from that, there are no other obligations to purchase, construct, develop or maintain investment property.

Future minimum lease payments under non-callable leases

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|--------------------------------------|----------------|----------------|
| up to 3 months | 10,083 | 10,726 |
| up to 1 year | 30,169 | 32,746 |
| up to 5 years | 70,469 | 86,184 |
| more than 5 years | 36,565 | 42,823 |
| Future minimum lease payments | 147,286 | 172,479 |

19) Companies measured at equity

Additional information on companies measured at equity:

| Euro thousand | 2010 | 2009 restated | 2009 published |
|--------------------------------------|---------|------------------|-------------------|
| Cumulative total assets as at 31 Dec | 318,167 | 169,884 | 169,884 |
| Cumulative equity as at 31 Dec | 162,603 | 154,177 | 154,177 |
| Cumulative net income | 11,157 | -177,399 | -177,399 |

20) Participations

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|--|----------------|-------------------------|--------------------------|
| Investments in unconsolidated affiliates | 569,758 | 487,902 | 507,784 |
| Participating interests | 73,175 | 73,204 | 73,267 |
| Investments in other companies | 74,987 | 73,885 | 74,202 |
| Participations | 717,920 | 634,992 | 655,254 |

Companies measured at equity and participations with a carrying amount of euro 4,630 thousand (2009: euro 1,312 thousand) were disposed of. The proceeds from these divestments amounted to euro 8,631 thousand (2009: euro -35 thousand) and are reported in income from financial investments.

All investments and participations are measured at acquisition costs, as their fair value cannot be determined without an unreasonable amount of effort. None of the Group's participations are listed on a stock exchange. The Group is not planning to sell significant participations.

21) Intangible assets

| Euro thousand | Software | Goodwill | Other | Total | of which disposal group |
|---------------------------------------|----------------|----------------|---------------|----------------|-------------------------------|
| Cost as at 1 Jan 2009 | 91,087 | 250,290 | 29,028 | 370,405 | 823 |
| Changes in the scope of consolidation | -488 | 0 | -24 | -512 | -512 |
| Currency translation | -467 | -1,040 | 11 | -1,496 | -5 |
| Additions, including transfers | 12,976 | 6,059 | 393 | 19,428 | 5,491 |
| Disposals, including transfers | -1,856 | 0 | -459 | -2,315 | -106 |
| Cost as at 31 Dec 2009 | 101,253 | 255,309 | 28,949 | 385,511 | 5,691 |
| Changes in the scope of consolidation | -80 | 0 | -5 | -86 | -17 |
| Currency translation | -41 | 1,051 | -47 | 963 | 9 |
| Additions, including transfers | 16,133 | 0 | 203 | 16,336 | 12 |
| Disposals, including transfers | -2,600 | 0 | -108 | -2,707 | -1 |
| Cost as at 31 Dec 2010 | 114,664 | 256,360 | 28,992 | 400,016 | 5,694 |

| Euro thousand | Software | Goodwill | Other | Total | of which disposal group |
|--|---------------|---------------|---------------|----------------|-------------------------|
| 2009 | | | | | |
| Cost as at 31 Dec 2009 | 101,253 | 255,309 | 28,949 | 385,511 | 5,691 |
| Cumulative write-downs and reversals | -67,469 | -183,195 | -3,023 | -253,687 | -898 |
| Carrying amount as at 31 Dec 2009 | 33,783 | 72,114 | 25,926 | 131,824 | 4,793 |
| of which unlimited useful life | 0 | 72,114 | 24,860 | 96,974 | 4,670 |
| of which limited useful life | 33,783 | 0 | 1,066 | 34,850 | 124 |
| Amortisation in fiscal year | -9,830 | 0 | -575 | -10,406 | -89 |
| Impairments in fiscal year | -24 | -4,872 | 0 | -4,896 | -640 |
| Carrying amount as at 1 Jan 2009 | 31,388 | 71,967 | 26,468 | 129,822 | 235 |
| 2010 | | | | | |
| Cost as at 31 Dec 2010 | 114,664 | 256,360 | 28,992 | 400,016 | 5,694 |
| Cumulative write-downs and reversals | -75,651 | -191,244 | -3,490 | -270,385 | -1,402 |
| Carrying amount as at 31 Dec 2010 | 39,013 | 65,117 | 25,502 | 129,631 | 4,292 |
| of which unlimited useful life | 0 | 65,117 | 24,860 | 89,977 | 4,194 |
| of which limited useful life | 39,013 | 0 | 642 | 39,655 | 97 |
| Amortisation in fiscal year | -10,482 | 0 | -593 | -11,075 | -2 |
| Impairments in fiscal year | -109 | -7,573 | 0 | -7,682 | 0 |

In the disposal group Real Estate, depreciations amounting to euro -33 thousand and impairments amounting to euro -475 thousand were not recognised in the business year 2010 due to the provisions in the purchase contract.

In position Software is no internally developed software included.

Composition of goodwill

| Euro thousand | Carrying amount 31 Dec 2010 | Impairment 2010 | Carrying amount 31 Dec 2009 | Impairment 2009 |
|------------------------|--------------------------------|--------------------|--------------------------------|--------------------|
| Investkredit sub-group | | | | |
| Corporates segment | 31,563 | 0 | 31,563 | 0 |
| Real Estate segment | 750 | 0 | 750 | 0 |
| VBI sub-group | | | | |
| Retail segment | 28,610 | 7,573 | 35,132 | 4,232 |
| Europolis sub-group | | | | |
| Real Estate segment | 4,194 | 475 | 4,670 | 640 |
| Total | 65,117 | 8,048 | 72,114 | 4,872 |

Impairments in 2010 are made for a VBI subsidiary in Ukraine as well as an Europolis subsidiary, a real estate company in Romania. Due to a provision in the purchase contract of Europolis, these amounts are not recognised in profit or loss. In Investkredit subgroup the segment Corporates corresponds to a cash generating unit. For all other segments, the cash generating units, which are consistent with the subsidiaries, are summed up to sub-groups, as the single values are not significant for the group.

22) Tangible fixed assets

| Euro thousand | Land and buildings | EDP equipment | Office furniture and equipment | Other | Total | of which disposal group |
|---------------------------------------|--------------------|---------------|--------------------------------|---------------|----------------|-------------------------|
| Cost as at 1 Jan 2009 | 254,517 | 63,657 | 142,262 | 35,058 | 495,494 | 71,151 |
| Changes in the scope of consolidation | -3,942 | -1,738 | -38,050 | 151 | -43,579 | -43,730 |
| Currency translation | -1,663 | -828 | -840 | -519 | -3,850 | 163 |
| Additions, including transfers | 23,350 | 3,245 | 8,093 | 3,407 | 38,095 | 7,068 |
| Disposals, including transfers | -8,512 | -4,761 | -9,330 | -5,188 | -27,791 | -4,690 |
| Cost as at 31 Dec 2009 | 263,749 | 59,575 | 102,136 | 32,909 | 458,368 | 29,961 |
| Changes in the scope of consolidation | -5,180 | -393 | -3,632 | 10 | -9,195 | -9,205 |
| Currency translation | 1,125 | -157 | -161 | 131 | 938 | 541 |
| Additions, including transfers | 26,038 | 3,493 | 10,652 | 3,107 | 43,290 | 1,336 |
| Disposals, including transfers | -9,926 | -7,405 | -6,659 | -3,482 | -27,471 | -340 |
| Cost as at 31 Dec 2010 | 275,806 | 55,112 | 102,336 | 32,675 | 465,930 | 22,294 |

| Euro thousand | Land and buildings | EDP equipment | Office furniture and equipment | Other | Total | of which disposal group |
|--|--------------------|---------------|--------------------------------|---------------|----------------|-------------------------|
| 2009 | | | | | | |
| Cost as at 31 Dec 2009 | 263,749 | 59,575 | 102,136 | 32,909 | 458,368 | 29,961 |
| Cumulative write-downs and reversals | -61,620 | -46,378 | -69,810 | -13,204 | -191,012 | -10,476 |
| Carrying amount as at 31 Dec 2009 | 202,129 | 13,196 | 32,326 | 19,705 | 267,356 | 19,485 |
| Depreciation in fiscal year | -9,620 | -7,718 | -11,430 | -4,256 | -33,024 | -5,642 |
| Impairments in fiscal year | -164 | -65 | -62 | -54 | -345 | -49 |
| Carrying amount as at 1 Jan 2009 | 198,790 | 19,023 | 50,599 | 21,658 | 290,070 | 31,887 |
| 2010 | | | | | | |
| Cost as at 31 Dec 2010 | 275,806 | 55,112 | 102,336 | 32,675 | 465,930 | 22,294 |
| Cumulative write-downs and reversals | -70,791 | -45,584 | -71,116 | -15,296 | -202,787 | -7,241 |
| Carrying amount as at 31 Dec 2010 | 205,015 | 9,529 | 31,220 | 17,379 | 263,144 | 15,053 |
| Depreciation in fiscal year | -8,489 | -6,422 | -7,897 | -3,493 | -26,301 | -231 |
| Impairments in fiscal year | -2,280 | -84 | -119 | -2 | -2,485 | 0 |

In the disposal group Real Estate, depreciation amounting to euro -894 thousand and impairment amounting to euro -473 thousand were not recognised in profit and loss in the business year 2010, due to provisions in the purchase contract.

23) Tax assets

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|---------------------|----------------|----------------------|-----------------------|
| Current tax assets | 34,319 | 45,675 | 43,040 |
| Deferred tax assets | 175,825 | 148,049 | 168,181 |
| Tax assets | 210,144 | 193,723 | 211,221 |

The table below shows the differences resulting from the balance sheet figures reported in accordance with Austrian tax legislation and IFRS giving rise to deferred tax assets.

| | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|--|----------------|-------------------------|--------------------------|
| Euro thousand | | | |
| Loans and advances to credit institutions | 2 | 8,135 | 8,151 |
| Loans and advances to customers, including risk provisions | 44,320 | 41,298 | 41,400 |
| Trading assets | 1,987 | 6,563 | 6,563 |
| Financial investments | 35,894 | 22,850 | 22,850 |
| Assets for operating lease (including investment property) | 837 | 673 | 673 |
| Participations | 2,453 | 58,094 | 67,332 |
| Intangible and tangible fixed assets | 284 | 375 | 4,488 |
| Amounts owed to credit institutions | 23,777 | 20,806 | 20,806 |
| Amounts owed to customers | 22,643 | 16,972 | 16,972 |
| Debts evidenced by certificates and subordinated liabilities | 83,700 | 46,646 | 46,646 |
| Trading liabilities | 48 | 135 | 135 |
| Provisions for pensions, severance payments and other provisions | 12,688 | 15,554 | 16,794 |
| Other assets and liabilities | 134,878 | 187,142 | 187,142 |
| Tax loss carryforwards | 139,457 | 37,601 | 49,099 |
| Deferred taxes before netting | 502,968 | 462,844 | 489,051 |
| Offset against liabilities-side deferred taxes | -327,143 | -314,796 | -320,870 |
| Reported deferred tax assets | 175,825 | 148,049 | 168,181 |

Deferred tax assets and deferred tax liabilities can only be offset to the extent that they relate to the same company.

For verification of the usability of tax loss carryforwards a period up to 5 years was taken as a basis according to the Group's tax planning.

24) Other assets

| | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|---|------------------|-------------------------|--------------------------|
| Euro thousand | | | |
| Deferred items | 24,524 | 24,401 | 32,599 |
| Other receivables and assets | 202,451 | 425,861 | 409,734 |
| Positive fair value from derivatives in the investment book | 1,145,537 | 1,041,576 | 1,049,080 |
| Other assets | 1,372,512 | 1,491,838 | 1,491,414 |

The table below shows the fair values of derivatives used in hedge accounting in accordance with IFRS.

| | 31 Dec 2010 | | 31 Dec 2009 restated and published | |
|---|---------------------|--------------------|---------------------------------------|--------------------|
| Euro thousand | Fair value hedge | Cash flow hedge | Fair value hedge | Cash flow hedge |
| Exchange rate related transactions | 8,546 | 0 | 17,500 | 0 |
| Interest rate related transactions | 656,061 | 13,208 | 565,757 | 4,410 |
| Positive fair value from derivatives | 664,607 | 13,208 | 583,257 | 4,410 |

25) Amounts owed to credit institutions

| | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|--|-------------------|-------------------------|--------------------------|
| Euro thousand | | | |
| Central banks | 570,042 | 838,030 | 838,030 |
| Other credit institutions | 13,807,088 | 14,826,912 | 15,240,574 |
| Amounts owed to credit institutions | 14,377,129 | 15,664,943 | 16,078,604 |

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|--|--------------------|--------------------|
| on demand | 3,862,774 | 3,922,500 |
| up to 3 months | 2,505,355 | 2,360,933 |
| up to 1 year | 645,322 | 1,523,666 |
| up to 5 years | 3,889,460 | 4,848,217 |
| more than 5 years | 3,474,218 | 3,423,289 |
| Amounts owed to credit institutions | 14,377,129 | 16,078,604 |

26) Amounts owed to customers

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|---|--------------------|---------------------------------|----------------------------------|
| Measured at fair value through profit or loss | 21,934 | 20,419 | 20,419 |
| Measured at amortised cost | 7,289,998 | 7,446,146 | 7,295,050 |
| Savings deposits | 125,718 | 136,360 | 136,360 |
| Other deposits | 7,164,280 | 7,309,786 | 7,158,689 |
| Amounts owed to customers | 7,311,931 | 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 exceeded the redemption amount at maturity by euro 84 thousand (2009 restated and published: the carrying amount fall short the redemption amount with euro 486 thousand). As the amount of fair value is geared to the performance of the underlying, there were no fair value changes in year 2009 and 2010 that can be traced back to a change of the own credit risk.

Breakdown by residual term

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|----------------------------------|--------------------|--------------------|
| on demand | 2,641,027 | 2,650,839 |
| up to 3 months | 1,728,492 | 2,041,303 |
| up to 1 year | 980,258 | 848,070 |
| up to 5 years | 573,541 | 444,184 |
| more than 5 years | 1,388,613 | 1,331,073 |
| Amounts owed to customers | 7,311,931 | 7,315,468 |

27) Debts evidenced by certificates

| | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|--|-------------------|-------------------------|--------------------------|
| Euro thousand | | | |
| Mortgage and local authority bonds | 233,244 | 233,308 | 233,308 |
| Bonds | 15,888,266 | 17,095,356 | 17,095,356 |
| Debts evidenced by certificates | 16,121,510 | 17,328,664 | 17,328,664 |

Debts evidenced by certificates are measured at amortised cost.

Breakdown by residual term

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|--|-------------------|-------------------|
| up to 3 months | 780,327 | 439,332 |
| up to 1 year | 2,128,394 | 1,965,597 |
| up to 5 years | 8,603,261 | 10,906,365 |
| more than 5 years | 4,609,528 | 4,017,370 |
| Debts evidenced by certificates | 16,121,510 | 17,328,664 |

28) Trading liabilities

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|--------------------------------------|------------------|-------------------------|--------------------------|
| Negative fair value from derivatives | | | |
| Exchange rate related transactions | 41,095 | 105,297 | 105,297 |
| Interest rate related transactions | 1,203,412 | 1,128,468 | 1,128,468 |
| Other transactions | 212,923 | 3,146 | 3,146 |
| Trading liabilities | 1,457,430 | 1,236,911 | 1,236,911 |

29) Provisions

| Euro thousand | Provisions for risk | Other provisions | Total | of which disposal group |
|---------------------------------------|------------------------|---------------------|----------------|----------------------------|
| As at 1 Jan 2009 | 38,759 | 59,767 | 98,527 | 7,851 |
| Changes in the scope of consolidation | -969 | -6,109 | -7,079 | -7,120 |
| Currency translation | -91 | 5 | -85 | 7 |
| Reclassification | 0 | -1,059 | -1,060 | 0 |
| Utilisation | -3,899 | -18,970 | -22,869 | -3,190 |
| Release | -5,903 | -11,306 | -17,209 | -1,521 |
| Addition | 26,211 | 52,870 | 79,082 | 16,260 |
| As at 31 Dec 2009 | 54,108 | 75,199 | 129,307 | 12,286 |
| Changes in the scope of consolidation | -1,073 | -122 | -1,196 | -1,196 |
| Currency translation | 420 | -50 | 371 | -66 |
| Reclassification | -16,802 | 9,369 | -7,434 | -21 |
| Utilisation | -134 | -14,387 | -14,520 | -1,697 |
| Release | -16,808 | -15,812 | -32,621 | -1,884 |
| Addition | 8,032 | 44,541 | 52,574 | 2,956 |
| As at 31 Dec 2010 | 27,743 | 98,738 | 126,481 | 10,378 |

Other provisions consist of provisions recognised for obligations that are likely to lead to an outflow of resources in the future. These provisions are recognised among other things, for projects which need to be carried out due to regulatory requirements. In order to increase chances of re-lettability, provisions for enhancements of various rental objects were built, as well as for pending legal proceedings.

30) Long-term employee provisions

| Euro thousand | Provisions for pensions | Provisions for severance payments | Provisions for anniversary bonuses | Total | of which disposal group |
|--|----------------------------|---|--|----------------|----------------------------|
| Long-term employee provisions as at 1 Jan 2009 | 76,376 | 34,907 | 4,768 | 116,050 | 1,459 |
| Changes in the scope of consolidation | -5,929 | -6,301 | -853 | -13,082 | 20 |
| Current service costs | 562 | 2,182 | 474 | 3,218 | 94 |
| Interest costs | 4,354 | 1,937 | 298 | 6,588 | 96 |
| Payments | -4,979 | -3,627 | -377 | -8,982 | -198 |
| Actuarial gains or losses | 3,476 | -3,673 | 333 | 135 | 212 |
| Net present value as at 31 Dec 2009 | 73,860 | 25,425 | 4,643 | 103,928 | 1,683 |
| Unrecognised actuarial gains or losses | -2,397 | 2,543 | 0 | 145 | -242 |
| Long-term employee provisions as at 31 Dec 2009 | 71,462 | 27,968 | 4,643 | 104,073 | 1,441 |
| Changes in the scope of consolidation | -169 | -753 | -128 | -1,050 | -1,203 |
| Current service costs | 537 | 1,824 | 467 | 2,829 | 33 |
| Interest costs | 3,789 | 1,345 | 247 | 5,382 | 16 |
| Payments | -4,203 | -1,765 | -312 | -6,280 | -20 |
| Actuarial gains or losses | 14,886 | -409 | -338 | 14,140 | 92 |
| Net present value as at 31 Dec 2010 | 86,302 | 28,211 | 4,581 | 119,094 | 359 |
| Unrecognised actuarial gains or losses | -8,630 | 408 | 0 | -8,222 | -89 |
| Long-term employee provisions as at 31 Dec 2010 | 77,672 | 28,619 | 4,581 | 110,872 | 270 |

Net present value of plan assets

| Euro thousand | Provisions for pensions | of which disposal group |
|---|----------------------------|----------------------------|
| Net present value of plan assets as at 1 Jan 2009 | 33,042 | 45 |
| Return on plan assets | 1,947 | 1 |
| Contributions | 5,836 | 4 |
| Payments | -1,837 | 0 |
| Actuarial gains or losses | 1,078 | 0 |
| Net present value of plan assets as at 31 Dec 2009 | 40,067 | 51 |
| Return on plan assets | 2,163 | 2 |
| Contributions | 546 | 0 |
| Payments | -2,047 | 0 |
| Actuarial gains or losses | -91 | 0 |
| Net present value of plan assets as at 31 Dec 2010 | 40,611 | 52 |

| Euro thousand | Provisions for pensions | Provisions for severance payments | Provisions for anniversary bonuses | Total |
|--|----------------------------|---|--|---------------|
| 31 Dec 2009 | | | | |
| Long-term employee provisions | 71,462 | 27,968 | 4,643 | 104,073 |
| Net present value of plan assets | -40,067 | 0 | 0 | -40,067 |
| Net liability recognised in balance sheet | 31,396 | 27,968 | 4,643 | 64,006 |
| of which disposal group | 165 | 1,054 | 172 | 1,391 |

31 Dec 2010

| | | | | |
|--|---------------|---------------|--------------|---------------|
| Long-term employee provisions | 77,672 | 28,619 | 4,581 | 110,872 |
| Net present value of plan assets | -40,611 | 0 | 0 | -40,611 |
| Net liability recognised in balance sheet | 37,061 | 28,619 | 4,581 | 70,261 |
| of which disposal group | -1 | 187 | 32 | 218 |

Historical information

| Euro thousand | 2010 | 2009 | 2008 | 2007 | 2006 |
|----------------------------------|---------|---------|---------|---------|---------|
| Net present value of obligation | 119,094 | 103,928 | 112,923 | 142,524 | 177,291 |
| Net present value of plan assets | 40,611 | 40,067 | 33,042 | 43,848 | 43,341 |

31) Tax liabilities

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|--------------------------|---------------|-------------------------|--------------------------|
| Current tax liabilities | 7,986 | 6,311 | 17,440 |
| Deferred tax liabilities | 84,388 | 56,113 | 129,151 |
| Tax liabilities | 92,373 | 62,424 | 146,591 |

The table below shows the differences resulting from the balance sheet figures reported in accordance with Austrian tax legislation and IFRS giving rise to deferred tax liabilities.

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|--|---------------|-------------------------|--------------------------|
| Loans and advances to credit institutions | 680 | 511 | 511 |
| Loans and advances to customers, including risk provisions | 75,918 | 48,991 | 49,017 |
| Financial investments | 14,364 | 12,733 | 12,733 |
| Assets for operating lease (including investment property) | 14,049 | 11,413 | 84,760 |
| Participations | 49,722 | 6,381 | 6,381 |
| Intangible and tangible fixed assets | 14,037 | 14,541 | 14,541 |
| Amounts owed to credit institutions | 5,395 | 8,356 | 12,618 |
| Amounts owed to customers | 67 | 327 | 438 |
| Debts evidenced by certificates and subordinated liabilities | 7,561 | 9,711 | 9,711 |
| Provisions for pensions, severance payments and other provisions | 158 | 1,132 | 1,150 |
| Other assets and liabilities | 214,685 | 241,189 | 242,537 |
| Other balance sheet items | 14,895 | 15,622 | 15,622 |
| Deferred taxes before netting | 411,531 | 370,908 | 450,020 |
| Offset against asset-side deferred taxes | -327,143 | -314,796 | -320,870 |
| Reported deferred tax liabilities | 84,388 | 56,113 | 129,151 |

32) Other liabilities

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|---|------------------|-------------------------|--------------------------|
| Deferred items | 39,154 | 40,773 | 56,018 |
| Other liabilities | 495,650 | 420,132 | 377,863 |
| Negative fair value from derivatives in the investment book | 1,194,463 | 957,970 | 971,532 |
| Other liabilities | 1,729,266 | 1,418,875 | 1,405,413 |

The table below shows the fair values of derivatives used in hedge accounting in accordance with IFRS

| Euro thousand | 31 Dec 2010 | | 31 Dec 2009 restated and published | |
|---|---------------------|--------------------|---------------------------------------|--------------------|
| | Fair value hedge | Cash flow hedge | Fair value hedge | Cash flow hedge |
| Exchange rate related transactions | 50,969 | 433 | 43,686 | 3,030 |
| Interest rate related transactions | 408,121 | 10,261 | 220,277 | 16,521 |
| Other transactions | 0 | 0 | 92,887 | 0 |
| Negative fair value from derivatives | 459,090 | 10,694 | 356,851 | 19,551 |

33) Subordinated liabilities

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|---------------------------------|------------------|-------------------------|--------------------------|
| Subordinated liabilities | 936,458 | 953,971 | 1,043,706 |
| Supplementary capital | 927,466 | 1,029,412 | 879,412 |
| Subordinated liabilities | 1,863,924 | 1,983,383 | 1,923,117 |

Subordinated liabilities are measured at amortised cost.

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

Breakdown by residual term

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|---------------------------------|------------------|------------------|
| up to 3 months | 62 | 2,169 |
| up to 1 year | 46,508 | 10,097 |
| up to 5 years | 450,029 | 901,862 |
| more than 5 years | 1,367,325 | 1,008,989 |
| Subordinated liabilities | 1,863,924 | 1,923,117 |

34) Cash flows on the liability side

The table below presents the future cash flows on the liabilities side classified according to their maturity

| Euro thousand | Amounts owed to credit institutions | Amounts owed to customers | Debts evidenced by certificates | Subordinated liabilities | Derivatives trading book | Derivatives investment book |
|--------------------------------|-------------------------------------|---------------------------|---------------------------------|--------------------------|--------------------------|-----------------------------|
| 31 Dec 2010 | | | | | | |
| Carrying amount | 14,377,129 | 7,311,931 | 16,121,510 | 1,863,924 | 1,457,430 | 1,194,463 |
| Undiscounted cash flows | 16,131,840 | 8,149,018 | 19,471,931 | 2,472,365 | 1,832,287 | 1,316,061 |
| up to 3 months | 6,464,231 | 4,389,648 | 829,713 | 8,678 | 222 | 2,557 |
| up to 1 year | 819,885 | 1,056,047 | 2,569,492 | 66,149 | 105,884 | 411,699 |
| up to 5 years | 5,187,707 | 829,605 | 9,726,921 | 505,872 | 418,030 | 298,827 |
| more than 5 years | 3,660,018 | 1,873,719 | 6,345,806 | 1,891,667 | 1,308,151 | 602,977 |
| 31 Dec 2009 | | | | | | |
| Carrying amount | 16,078,604 | 7,315,468 | 17,328,664 | 1,923,117 | 1,236,911 | 971,532 |
| Undiscounted cash flows | 18,142,093 | 8,538,366 | 22,149,745 | 2,317,376 | 1,489,645 | 2,265,523 |
| up to 3 months | 7,166,696 | 4,878,404 | 758,213 | 11,514 | 32 | 73,728 |
| up to 1 year | 1,765,513 | 990,891 | 2,270,136 | 15,128 | 227,117 | 380,454 |
| up to 5 years | 5,194,402 | 791,785 | 12,605,996 | 929,172 | 424,776 | 597,429 |
| more than 5 years | 4,015,481 | 1,877,286 | 6,515,400 | 1,361,562 | 837,720 | 1,213,912 |

The values of 2009 include the disposal group Real Estate, the amounts in 2010 are shown without the disposal group.

Cash flows for contingent liabilities are displayed in chapter 45) Contingent liabilities and credit risks.

35) Equity

As at 31 December 2010, the subscribed capital of VBAG before deduction of treasury stocks amounted to euro 311,095 thousand. It consists of individual no-par value shares as follows.

| | Euro thousand |
|--|---------------|
| 10 registered shares | 0 |
| 40,124,990 bearer shares | 291,709 |
| 2,666,666 non-voting preferred bearer shares | 19,386 |
| | 311,095 |

In return for waiving their voting rights, holders of preferred bearer shares receive a special dividend, the amount of which is determined on the basis of VBAG's business performance. Due to the non-paying out of dividends for non-voting preferred bearer shares these shares will have voting rights till dividends will be paid out again. Volksbank Holding e.Gen, as preferred bearer share owner, engaged with DZ PB-Beteiligungsgesellschaft mbH not to use their voting rights from the preferred bearer shares until further notice.

On 7 April 2009 participation capital in the amount of euro one billion was subscribed by the Austrian Republic. The participation capital has tranches per euro 50 millions. Regarding interest we refer to chart Group issues in chapter 36) Own resources according to Austrian Banking Act. VBAG has the possibility, through an exercise of call options, to decrease the participation capital in its tranches anytime. At balance sheet date, the participation capital was totally held by the Austrian Republic. The participation capital issued in 2008 amounting to euro 500 thousand is reported in position subordinated liabilities.

In addition to its equity, VBAG reported participation capital with a nominal value of euro 1,034,078 thousand at 31 December 2010 (2009: euro 1,034,078 thousand). The participation certificates are made out to bearers and their terms of issue and the contributions paid correspond to the provisions of section 23 (4) of the Austrian Banking Act.

Changes in subscribed capital

| Number of units | 31 Dec 2010 | | 31 Dec 2009 | |
|--|-------------------|----------------------------|-------------------|----------------------------|
| | Shares | Participation certificates | Shares | Participation certificates |
| Shares and participation certificates outstanding as at 1 Jan | 42,098,314 | 169,625 | 42,100,401 | 151,865 |
| Disposal of treasury stocks and participation certificates | 0 | 50 | 0 | 16 |
| Addition of treasury stocks and participation certificates | -1,919 | -1,965 | -2,087 | -2,256 |
| Issue participation certificates | 0 | 0 | 0 | 20,000 |
| Shares and participation certificates outstanding as at 31 Dec | 42,096,395 | 167,710 | 42,098,314 | 169,625 |
| Treasury stocks and participation certificates | 695,271 | 12,739 | 693,352 | 10,824 |
| Shares and participation certificates as at 31 Dec | 42,791,666 | 180,449 | 42,791,666 | 180,449 |

20,449 pieces (2009: 20,449 pieces) of circulating and of total issued participation certificates have a face value of euro 50 thousand per certificate. The remaining participation certificates have a face value of euro 72.67 per certificate.

In accordance with the resolution adopted by the general meeting on 24 May 2006, changed by general meeting on 20 March 2009, the managing board was authorised to raise VBAG's share capital by euro 32 million until 31 May 2011 through the issue of new shares against cash contributions, subject to the consent of the supervisory board.

At the extraordinary general meeting on 15 December 2008, a contingent capital increase of up to euro 156 million through the issue of ordinary shares was resolved. This capital increase may only be carried out to the extent that the bearers of the participation capital issued in line with the resolution of the general meeting on 15 December 2008 make use of their conversion rights (authorised capital).

Dividend payment including participation capital

| Euro thousand | 2010 | 2009 |
|-----------------------------|----------|--------------|
| Dividend voting capital | 0 | 0 |
| Dividend non-voting capital | 0 | 2,660 |
| Total | 0 | 2,660 |

In the business year 2011 there will be no dividends on shares or participation capital paid.

36) Own resources according to Austrian Banking Act

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 (the amounts include the disposal group)

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|--|------------------|------------------|
| Subscribed capital (less treasury stocks) | 1,839,193 | 1,839,346 |
| Open reserves (including differential amounts and non-controlling interests) | 983,086 | 1,066,779 |
| Funds for general banking risks | 10,821 | 10,886 |
| Intangible assets | -39,379 | -34,461 |
| Net loss | -101,975 | -68,707 |
| Core capital (tier I capital) before deductions | 2,691,746 | 2,813,843 |
| Deductions from core capital (50% deduction pursuant to section 23 (13) Austrian Banking Act) | -79,112 | -99,161 |
| Core capital (tier I capital) after deductions | 2,612,634 | 2,714,682 |
| Supplementary capital | 382,080 | 361,322 |
| Eligible subordinated liabilities | 564,841 | 620,201 |
| Hidden reserves pursuant to section 57 (1) Austrian Banking Act | 64,092 | 117 |
| IRB risk provision surplus | 0 | 55,510 |
| Supplementary capital (tier II capital) before deductions | 1,011,013 | 1,037,150 |
| Deductions from supplementary capital (50% deduction pursuant to section 23 (13) Austrian Banking Act) | -79,112 | -99,161 |
| Supplementary capital (tier II capital) after deductions | 931,901 | 937,989 |
| Deductions from own funds pursuant to section 103e no. 13 Austrian Banking Act | -23,385 | 0 |
| Short-term subordinated liabilities (tier III capital) | 41,844 | 29,790 |
| Eligible qualifying capital | 3,562,994 | 3,682,461 |
| Capital requirement | 2,230,461 | 2,361,064 |
| Surplus capital | 1,332,533 | 1,321,397 |
| Core capital ratio (tier I) (in relation to the assessment base pursuant to section 22 Austrian Banking Act - credit risk) | 10.26% | 9.96% |
| Equity ratio (solvency ratio) (in relation to credit risk after deduction of capital requirements for market and operational risk) | 13.24% | 12.85% |
| Core capital ratio (in relation to the risks pursuant to section 22 (1) no. 1 - 5 Austrian Banking Act) | 9.37% | 9.20% |
| Equity ratio (in relation to the risks pursuant to section 22 (1) no. 1 - 5 Austrian Banking Act) | 12.78% | 12.48% |

Open reserves include hybrid tier I capital totalling euro 300,000 thousand (2009 restated and published: euro 353,123 thousand). Due to consolidation activities hybrid tier I capital of euro 53,123 thousand is not accounted anymore as eligible tier I capital since March 2010.

The risk-weighted assessment base as defined by the Austrian Banking Act and the ensuing capital requirements changed as follows

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|---|------------------|------------------|
| Risk-weighted assessment base pursuant to section 22 Austrian Banking Act - credit risk | 25,453,573 | 27,255,125 |
| Of which 8% minimum capital requirement for credit risk | 2,036,286 | 2,180,410 |
| Capital requirement for position risk in debt instruments, equities, foreign exchange and commodities - market risk | 53,595 | 55,241 |
| Capital requirement for operational risk | 140,580 | 125,413 |
| Total capital requirement | 2,230,461 | 2,361,064 |

Group issues which are included in Tier I or Tier II

| Name | Identification IFRS | Redemption date | Conditions | Nominal value in euro thousand |
|--|--------------------------|-----------------|--|--------------------------------|
| Tier I issues | | | | |
| Participation certificate 1986 | equity | perpetual | Dividends | 11,628 |
| Participation certificate 2006 | equity | perpetual | Average 3m Euribor + 130 bp | 22,450 |
| Participation certificate 2008 | subordinated liabilities | perpetual | 10.00% p.a.; from 18 Jun 2018: 6m Euribor + 100 bp + initial spread (or remarketing) | 500,000 |
| Participation certificate 2009 | equity | perpetual | Dividends: 9.30% p.a., in year 6 of duration: 9.80% p.a., in year 7 of duration: 10.30% p.a., in year 8 of duration: 11.05% p.a., from year 9 of duration: respectively interest rate of previous year + 100 bp p.a., max, 12m Euribor + 1000 bp | 1,000,000 |
| VBAG Fixed/Floating Rate Perpetual Preferred Securities 2004 | subordinated liabilities | perpetual | 6.00% p.a.; from 22 Sep 2005 10Y-Mid Swap + 10 bp p.a., Cap 9.00% p.a. | 250,000 |
| Subordinated non-cumulative Limited Recourse Note | subordinated liabilities | perpetual | 3m Euribor + 165 bp p.a. | 50,000 |
| Tier II issues | | | | |
| Supplementary bond capital 04/14 | subordinated liabilities | 22.04.2014 | 2005: 4.00% p.a.; 2006: 4.13% p.a.; 2007: 4.25% p.a.; 2008: 4.50% p.a.; 2009: 4.75% p.a.; 2010: 5.00% p.a.; 2011: 5.25% p.a.; 2012: 5.50% p.a.; 2013: 6.00% p.a.; 2014: 7.00% p.a. | 59,000 |
| Supplementary bond capital 04/24 | subordinated liabilities | 16.04.2024 | 5.5% p.a.; from 16 April 2014: 6.375% | 35,001 |
| Supplementary bond capital 04/24 | subordinated liabilities | 29.04.2024 | 5.65% p.a.; from 29 April 2014: 6.375% p.a. | 21,000 |
| Supplementary bond capital 04/19 | subordinated liabilities | 02.08.2019 | 5.45% p.a. | 5,400 |
| Supplementary bond capital 05/15 | subordinated liabilities | 29.07.2015 | 6m Euribor + 70 bp | 18,450 |
| Supplementary bond capital 05/15 | subordinated liabilities | 29.07.2015 | 4.17% p.a. | 21,000 |
| Supplementary bond capital 05/25 | subordinated liabilities | 29.07.2025 | 4.81% p.a. | 35,400 |
| Supplementary bond capital 05/18 | subordinated liabilities | 29.07.2018 | 6m Euribor + 72 bp; from 29 July 2015: 6m Euribor + 180 bp | 65,056 |
| Supplementary bond capital 05/20 | subordinated liabilities | 07.09.2020 | 2006: 3.00% p.a.; 2007: 3.125% p.a.; 2008: 3.25% p.a.; 2009: 3.375% p.a.; 2010: 3.50% p.a.; 2011: 3.625% p.a.; 2012: 3.75% p.a.; 2013: 3.875% p.a.; 2014: 4.00% p.a.; 2015: 4.25% p.a.; 2016: 4.50% p.a.; 2017: 5.00% p.a.; 2018: 6.00% p.a.; 2019: 7.00% p.a.; 2020: 8.00% p.a. | 7,000 |
| Supplementary bond capital 05/25 | subordinated liabilities | 18.08.2025 | 4.90% p.a. | 11,150 |
| Supplementary bond capital 05/18 | subordinated liabilities | 16.11.2018 | 4.35% p.a. | 10,000 |
| Supplementary bond capital 06/19 | subordinated liabilities | 09.08.2019 | 6m Euribor + 72 bp; from 09 Aug 2016: 6m Euribor + 150 bp | 12,500 |
| Supplementary bond capital 10/20 | subordinated liabilities | 16.03.2020 | 6m Euribor +500 bp p.a. | 50,000 |
| Supplementary bond capital 01/21 | subordinated liabilities | 08.03.2021 | 7.00% p.a. | 15,000 |
| Supplementary bond capital 02/22 | subordinated liabilities | 20.06.2022 | 6.7% p.a.; from 20 Jun 2012: 7.00% | 11,000 |
| Supplementary bond capital 02/22 | subordinated liabilities | 24.07.2022 | 10Y CMS, at least 6.00% p.a.; from 24 July 2012: 7.00% p.a. | 5,000 |
| Supplementary bond capital 02/12 | subordinated liabilities | 24.09.2012 | 107.25% from 10Y CMS, max. 7.00% | 4,500 |
| Supplementary bond capital 01-21 | subordinated liabilities | 06.03.2021 | 7.00% p.a. | 30,000 |
| ERP Fonds | subordinated liabilities | 31.12.2018 | 1.00% p.a. | 3,339 |
| ERP Fonds | subordinated liabilities | 31.12.2012 | 2.00% p.a. | 1,526 |
| ERP Fonds | subordinated liabilities | 31.12.2013 | 2.00% p.a. | 1,370 |
| ERP Fonds | subordinated liabilities | 31.12.2014 | 2.00% p.a. | 1,442 |
| ERP Fonds | subordinated liabilities | 31.12.2011 | 2.00% p.a. | 590 |
| ERP Fonds | subordinated liabilities | 31.12.2011 | 3.50% p.a. | 661 |
| Subordinated zero bond liability 06/16 | subordinated liabilities | 03.10.2016 | 0% p.a. | 29,211 |
| Subordinated bond liability 01/11 | subordinated liabilities | 27.04.2011 | 3.00% p.a. | 2,000 |
| Subordinated CMS Floater to Fix 07/17 | subordinated liabilities | 30.03.2017 | 10Y CMS; from 30 Mar 2012: 6.00% p.a. | 4,000 |

| Name | Identification IFRS | Redemption date | Conditions | Nominal value in euro thousand |
|--|--------------------------|-----------------|---|--------------------------------|
| Subordinated Merkur Best of Life II Garant 08-20 | subordinated liabilities | 01.12.2020 | 0% p.a. | 5,400 |
| Subordinated bond liability 03/23 | subordinated liabilities | 25.09.2023 | 5.72% p.a.; from 25 Sep 2013: 6.00% p.a. | 12,000 |
| Subordinated bond liability 01/21 | subordinated liabilities | 15.03.2021 | 6.50% p.a.; from 15 Mar 2011: 6.75% p.a. | 15,000 |
| Subordinated Lower Tier II Notes due November 2016 | subordinated liabilities | 28.11.2016 | 3m Euribor + 35 bp; from 28 Nov 2011: 3m Euribor + 85 bp | 248,500 |
| Subordinated bond liability 02/22 | subordinated liabilities | 25.01.2022 | 6.35% p.a.; from 25 Jan 2012: 7% p.a. | 30,000 |
| Subordinated zero bond liability 07/17 | subordinated liabilities | 03.04.2017 | 0% p.a. | 29,271 |
| Subordinated bond liability 07/27 | subordinated liabilities | 08.02.2027 | 5.27% p.a. | 14,000 |
| Subordinated bond liability 06/26 | subordinated liabilities | 19.01.2026 | 4.05% p.a.; from 19 Jan 2016: 5.00% p.a. | 25,000 |
| Subordinated bond liability 02/22 | subordinated liabilities | 18.01.2022 | 6.35% p.a.; from 18 Jan 2012: 7% p.a. | 3,000 |
| Subordinated zero bond liability 06/16 | subordinated liabilities | 01.06.2016 | 0% p.a. | 18,499 |
| Subordinated bond liability 03/13 | subordinated liabilities | 10.09.2013 | 80.00% from 10Y CMS + 75 bp, at least 4.00% p.a., max. 7.25% p.a. | 8,000 |
| Promissory note bond | subordinated liabilities | 18.01.2017 | 5.00% p.a. | 3,000 |
| Promissory note bond | subordinated liabilities | 15.05.2017 | 4.87% p.a. | 10,000 |
| Promissory note bond | subordinated liabilities | 30.05.2017 | 5.01% p.a. | 10,000 |
| Promissory note bond | subordinated liabilities | 30.05.2017 | 5.01% p.a. | 10,000 |
| Subordinated Investkredit bond 97/12 | subordinated liabilities | 07.01.2012 | 6.50% | 21,802 |
| Subordinated Investkredit-Floater 99/14 | subordinated liabilities | 14.05.2014 | 93.00% from 10Y-Swapinterests, at least 4.00% p.a. | 18,000 |
| Subordinated Investkredit FRN 00/20 | subordinated liabilities | 14.03.2020 | 3m Euribor + 53 bp | 5,000 |
| Subordinated Investkredit bond 01/16 | subordinated liabilities | 12.02.2016 | 6.40% p.a. | 20,000 |
| Subordinated Investkredit Fix-Reverse-Floater 02/12 | subordinated liabilities | 22.03.2012 | 7.50% p.a.; from 22 Mar 2004: 10.75% p.a. – 12m Euribor | 5,000 |
| Subordinated Euro CMS linked Floating Rate Notes 02/22 | subordinated liabilities | 12.04.2022 | if 10Y CMS < or = 4.50%, then 10Y CMS + 300 bp; then 10Y CMS > 4.50%, then 10Y CMS; then 10Y CMS > 7.00%, then 7.00% p.a. | 4,000 |
| Subordinate loan | subordinated liabilities | 09.04.2015 | 6m Euribor + 80 bp; from 10 Apr 2010 6m Euribor + 150 bp | 10,000 |
| Subordinate loan | subordinated liabilities | 09.09.2011 | 6m Euribor + 90 bp | 10,000 |
| Subordinate loan | subordinated liabilities | 09.10.2013 | 1.50% p.a. | 10,000 |
| Subordinate loan | subordinated liabilities | 03.09.2013 | 6m Euribor + 270 bp in the first 5 years, then 6m Euribor + 370 bp | 7,500 |
| Subordinate loan | subordinated liabilities | 19.12.2016 | 3m Euribor + 100 bp | 40,000 |

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 2010, no substantial, practical or legal obstacles existed which would have prevented the transfer of equity or the repayment of liabilities between the parent institution and institutions subordinated to the former.

37) Financial assets and liabilities

The table below shows financial assets and liabilities in accordance with their individual categories and their fair values.

| Euro thousand | Note | 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 2010 | | | | | | | | |
| Liquid funds | 12 | 0 | 0 | 0 | 0 | 1,982,446 | 1,982,446 | 1,982,446 |
| Loans and advances to credit institutions | 13 | 0 | 0 | 0 | 0 | 6,431,879 | 6,431,879 | 6,431,877 |
| Loans and advances to customers | 14 | 0 | 0 | 0 | 0 | 23,614,938 | 23,614,938 | 21,984,658 |
| Trading assets | 16 | 2,163,480 | 0 | 0 | 0 | 0 | 2,163,480 | 2,163,480 |
| Financial investments | 17 | 0 | 763,764 | 1,736,721 | 4,655,391 | 1,837,891 | 8,993,767 | 8,805,721 |
| Participations | 20 | 0 | 0 | 0 | 717,920 | 0 | 717,920 | 717,920 |
| Derivatives - investment book | 24 | 1,145,537 | 0 | 0 | 0 | 0 | 1,145,537 | 1,145,537 |
| Financial assets - total | | 3,309,017 | 763,764 | 1,736,721 | 5,373,311 | 33,867,154 | 45,049,967 | 43,231,639 |
| Financial assets of the disposal group | 2 | 1,285 | 5 | 0 | 20,127 | 168,271 | 189,689 | 184,066 |
| Amounts owed to credit institutions | 25 | 0 | 0 | 0 | 0 | 14,377,129 | 14,377,129 | 14,372,766 |
| Amounts owed to customers | 26 | 0 | 21,934 | 0 | 0 | 7,289,998 | 7,311,931 | 7,310,305 |
| Debts evidenced by certificates | 27 | 0 | 0 | 0 | 0 | 16,121,510 | 16,121,510 | 15,782,581 |
| Trading liabilities | 28 | 1,457,430 | 0 | 0 | 0 | 0 | 1,457,430 | 1,457,430 |
| Derivatives - investment book | 32 | 1,194,463 | 0 | 0 | 0 | 0 | 1,194,463 | 1,194,463 |
| Subordinated liabilities | 33 | 0 | 0 | 0 | 0 | 1,863,924 | 1,863,924 | 1,325,627 |
| Financial liabilities - total | | 2,651,893 | 21,934 | 0 | 0 | 39,652,562 | 42,326,388 | 41,443,172 |
| Financial liabilities of the disposal group | 2 | 1,607 | 0 | 0 | 0 | 1,153,060 | 1,154,667 | 1,154,667 |

| Euro thousand | Note | 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 | 12 | 0 | 0 | 0 | 0 | 3,008,042 | 3,008,042 | 3,008,042 |
| Loans and advances to credit institutions | 13 | 0 | 0 | 0 | 0 | 6,795,291 | 6,795,291 | 6,795,273 |
| Loans and advances to customers | 14 | 0 | 0 | 0 | 0 | 24,133,518 | 24,133,518 | 22,850,385 |
| Trading assets | 16 | 1,764,095 | 0 | 0 | 0 | 0 | 1,764,095 | 1,764,095 |
| Financial investments | 17 | 0 | 1,066,890 | 1,959,208 | 4,466,256 | 1,918,289 | 9,410,642 | 9,129,803 |
| Participations | 20 | 0 | 0 | 0 | 634,992 | 0 | 634,992 | 634,992 |
| Derivatives - investment book | 24 | 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 | 5,101,248 | 35,855,140 | 46,788,157 | 45,224,167 |
| Financial assets of the disposal group | 2 | 7,504 | 5 | 0 | 59,587 | 544,299 | 611,395 | 588,040 |
| Amounts owed to credit institutions | 25 | 0 | 0 | 0 | 0 | 15,664,943 | 15,664,943 | 15,671,235 |
| Amounts owed to customers | 26 | 0 | 20,419 | 0 | 0 | 7,446,146 | 7,466,565 | 7,464,292 |
| Debts evidenced by certificates | 27 | 0 | 0 | 0 | 0 | 17,328,664 | 17,328,664 | 17,182,599 |
| Trading liabilities | 28 | 1,236,911 | 0 | 0 | 0 | 0 | 1,236,911 | 1,236,911 |
| Derivatives - investment book | 32 | 957,970 | 0 | 0 | 0 | 0 | 957,970 | 957,970 |
| Subordinated liabilities | 33 | 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 | 2 | 13,562 | 0 | 0 | 0 | 1,536,166 | 1,549,728 | 1,549,728 |

Financial investments contain securities classified as held to maturity and loans & receivables with a carrying amount of euro 1,842,225 thousand (2009 restated and published: euro 2,320,149 thousand), a total of euro 245,614 thousand (2009 restated and published: euro 324,378 thousand) above their fair value, as there is no objective evidence of impairment.

Some financial investments and liabilities are assigned to categories in which they are not carried at fair value through profit or loss. However, such financial instruments are underlying instruments for fair value hedges of interest rate and foreign exchange risk, meaning that these instruments are measured at fair value with respect to the hedged interest rate and foreign exchange risk.

Carrying amounts of underlyings of fair value hedges

| Euro thousand | Interest rate risk | | Foreign currency risk | |
|---|-----------------------|-------------------|-----------------------|-------------------|
| | Available for sale | Amortised cost | Available for sale | Amortised cost |
| 31 Dec 2010 | | | | |
| Loans and advances to credit institutions | 0 | 15,676 | 0 | 0 |
| Loans and advances to customers | 0 | 707,193 | 0 | 81,715 |
| Financial investments | 1,384,512 | 205,592 | 93,504 | 0 |
| Financial assets | 1,384,512 | 928,461 | 93,504 | 81,715 |
| Amounts owed to credit institutions | 0 | 1,697,940 | 0 | 0 |
| Amounts owed to customers | 0 | 918,410 | 0 | 0 |
| Debts evidenced by certificates | 0 | 14,377,186 | 0 | 169,715 |
| Subordinated liabilities | 0 | 95,000 | 0 | 0 |
| Financial liabilities | 0 | 17,088,536 | 0 | 169,715 |
| 31 Dec 2009 | | | | |
| Loans and advances to credit institutions | 0 | 304,722 | 0 | 0 |
| Loans and advances to customers | 0 | 616,650 | 0 | 54,322 |
| Financial investments | 1,646,954 | 249,067 | 96,652 | 0 |
| Financial assets | 1,646,954 | 1,170,439 | 96,652 | 54,322 |
| Amounts owed to credit institutions | 0 | 1,808,430 | 0 | 0 |
| Amounts owed to customers | 0 | 992,364 | 0 | 0 |
| Debts evidenced by certificates | 0 | 16,171,947 | 0 | 180,723 |
| Subordinated liabilities | 0 | 85,000 | 0 | 52,568 |
| Financial liabilities | 0 | 19,057,740 | 0 | 233,291 |

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 |
|---|------------------|------------------|------------------|
| 31 Dec 2010 | | | |
| Trading assets | 366,793 | 1,796,687 | 2,163,480 |
| Financial investments | 4,554,242 | 864,913 | 5,419,155 |
| at fair value through profit or loss | 635,594 | 128,170 | 763,764 |
| available for sale | 3,918,648 | 736,743 | 4,655,391 |
| Derivatives - investment book | 0 | 1,145,537 | 1,145,537 |
| Total | 4,921,035 | 3,807,136 | 8,728,171 |
| Financial assets of the disposal group | 5 | 1,285 | 1,290 |
| Amounts owed to customers | 0 | 21,934 | 21,934 |
| Trading liabilities | 0 | 1,457,430 | 1,457,430 |
| Derivatives - investment book | 0 | 1,194,463 | 1,194,463 |
| Total | 0 | 2,673,826 | 2,673,826 |
| Financial liabilities of the disposal group | 0 | 1,607 | 1,607 |
| 31 Dec 2009 | | | |
| Trading assets | 97,672 | 1,666,424 | 1,764,095 |
| Financial investments | 4,849,899 | 683,247 | 5,533,146 |
| at fair value through profit or loss | 885,102 | 181,788 | 1,066,890 |
| available for sale | 3,964,797 | 501,459 | 4,466,256 |
| Derivatives - investment book | 0 | 1,041,576 | 1,041,576 |
| Total | 4,947,571 | 3,391,247 | 8,338,817 |
| Financial assets of the disposal group | 34,669 | 9,947 | 44,616 |
| Amounts owed to customers | 0 | 20,419 | 20,419 |
| Trading liabilities | 0 | 1,236,911 | 1,236,911 |
| Derivatives - investment book | 0 | 957,970 | 957,970 |
| Total | 0 | 2,215,300 | 2,215,300 |
| Financial liabilities of the disposal group | 0 | 13,562 | 13,562 |

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

V BAG 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 creditspreads or transactions which are done on active markets in similar products. If necessary, the prices of the system are adopted.

38) Cash flow hedges

In cash flow hedge accounting, interest rate swaps and cross currency swaps are used with a view to hedging the interest rate risk as well as the foreign currency risk of variable-interest financial investments and liabilities and financial investments and liabilities denominated in foreign currencies.

Periods in which cash flows can be expected to occur

| Euro thousand | Interest rate related transactions | |
|-------------------|------------------------------------|--------------|
| | 31 Dec 2010 | 31 Dec 2009 |
| up to 3 months | 1,657 | -730 |
| up to 1 year | 7,836 | -3,091 |
| up to 5 years | 50,546 | 1,125 |
| more than 5 years | 14,770 | 4,410 |
| Total | 74,809 | 1,713 |

Periods in which cash flows are expected to affect the consolidated income statement

| Euro thousand | Interest rate related transactions | |
|-------------------|------------------------------------|-------------|
| | 31 Dec 2010 | 31 Dec 2009 |
| up to 3 months | 3,304 | -888 |
| up to 1 year | 8,401 | -3,463 |
| up to 5 years | 49,627 | 467 |
| more than 5 years | 12,393 | 4,716 |
| Total | 73,725 | 832 |

Although the cross currency swaps hedge interest rate risk as well as the foreign currency exchange risk, the cash flows from cash flow hedges are reported in interest rate related transactions.

Changes in value in the hedging reserve in the amount of euro -15,651 thousand (2009: euro -12,167 thousand) were recognised in income during the reporting period. No significant inefficiencies have been realised in cash flow hedge.

39) Derivatives

Derivative financial instruments

| Euro thousand | Nominale value | | | | Fair value | |
|-------------------------------|-------------------|-------------------|-------------------|--------------------|----------------|----------------|
| | up to 1 year | 1 to 5 years | more than 5 years | Total | 31 Dec 2010 | 31 Dec 2009 |
| Interest related transactions | 19,318,702 | 34,754,492 | 30,588,178 | 84,661,372 | 538,384 | 614,411 |
| Caps & Floors | 259,993 | 3,821,021 | 1,876,284 | 5,957,298 | 15,575 | 9,707 |
| Forward rate agreements | 612,690 | 0 | 0 | 612,690 | -816 | 137 |
| Futures | 387,378 | 31,250 | 0 | 418,328 | -88 | 45 |
| Interest rate swaps | 17,509,582 | 29,454,445 | 26,902,048 | 73,866,075 | 606,378 | 686,584 |
| Swaptions | 549,059 | 1,447,776 | 1,809,846 | 3,806,681 | -82,666 | -82,062 |
| Currency related transactions | 17,306,085 | 1,111,817 | 834,085 | 19,251,987 | -404,236 | -113,078 |
| Cross currency swaps | 740,496 | 1,001,602 | 820,280 | 2,562,378 | -149,479 | -39,609 |
| Foreign exchange options | 632,861 | 91,011 | 13,806 | 737,678 | 3,295 | 1,453 |
| FX Swaps | 15,510,322 | 1,948 | 0 | 15,512,270 | -261,390 | -76,191 |
| Forward exchange transactions | 422,406 | 17,255 | 0 | 439,661 | 3,337 | 1,269 |
| Credit related transactions | 28,432 | 8,456,764 | 15,834,726 | 24,319,922 | 23,477 | -1,005 |
| Others transactions | 609,488 | 2,262,856 | 305,793 | 3,178,136 | 808 | 5,767 |
| Total | 37,262,707 | 46,585,928 | 47,562,782 | 131,411,417 | 158,433 | 506,096 |

Fair values 2010 and 2009 are presented excluding disposal group. In 2010, the disposal group reported a fair value for interest rate related transactions of euro -398 thousand (2009: euro -874 thousand) and for currency related transactions of euro 76 thousand (2009: euro -5,184 thousand).

All derivative financial instruments – except for futures – are OTC products.

40) Hedge of a net investment in a foreign operation

In the business years 2010 and 2009 there was no hedge of a net investment in a foreign operation.

41) Assets and liabilities denominated in foreign currencies

On the balance sheet date, assets denominated in foreign currencies (non-MUM currencies) totalled euro 16,672,200 thousand (2009: euro 11,870,805 thousand), whereas liabilities denominated in foreign currencies stood at euro 10,781,025 thousand (2009: euro 5,972,045 thousand). Differences between the amounts of foreign currency assets and liabilities are covered by derivative transactions. The assets and liabilities denominated in foreign currencies are presented including disposal group.

42) Trust transactions

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|--|-------------|-------------------------|--------------------------|
| Assets from trust transactions | | | |
| Loans and advances to credit institutions | 0 | 4 | 4 |
| Loans and advances to customers | 207,119 | 189,487 | 189,487 |
| Financial investments | 727 | 3,694 | 3,694 |
| Mutual funds | 3,238,282 | 3,138,022 | 3,138,022 |
| Liabilities arising from trust transactions | | | |
| Amounts owed to customers | 207,119 | 189,491 | 189,491 |
| Debts evidenced by certificates | 727 | 3,694 | 3,694 |
| Mutual funds | 3,238,282 | 3,138,022 | 3,138,022 |

43) Subordinated assets

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|---------------------------------|-------------|-------------------------|--------------------------|
| Loans and advances to customers | 16,780 | 14,688 | 14,688 |
| Financial investments | 319,956 | 341,723 | 341,723 |

44) Assets pledged as collateral for the Group's liabilities

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|---|-------------|-------------------------|--------------------------|
| Assets pledged as collateral | | | |
| Loans and advances to customers | 649,021 | 751,760 | 751,760 |
| Financial investments | 120,812 | 55,937 | 55,937 |
| Liabilities for which assets have been pledged as collateral | | | |
| Amounts owed to credit institutions | 792,367 | 807,697 | 807,697 |

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and advances to customers in the amount of euro 492 million (2009: euro 563 million) have been provided as collateral. These loans and advances are guaranteed by means of Austrian government default guarantees, private insurance policies and draft guarantees. OeKB may not repledge or sell these loans and advances to customers if the Group performs in accordance with the contract.

Furthermore, financial investments in the amount of euro 46 million (2009: euro 51 million) have been assigned as collateral for global loans from the European Investment Bank (EIB). The EIB also does not have the option to sell or repledge this collateral if the Group performs in accordance with the contract.

The remaining loans and advances to customers have been provided as collateral in the context of funding provided by Landeskreditbank Baden-Württemberg and KfW Bankengruppe. This is subject to the same terms as for OeKB.

45) Contingent liabilities and credit risks

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 restated | 31 Dec 2009 published |
|---|-------------|-------------------------|--------------------------|
| Contingent liabilities | | | |
| Acceptances and endorsements | 110,278 | 132,965 | 132,965 |
| Liabilities arising from guarantees | 4,310,811 | 4,950,967 | 4,950,992 |
| Liabilities arising from assets pledged as collateral | 72,891 | 88,141 | 88,141 |
| Others (amount guaranteed) | 32,442 | 41,201 | 41,201 |
| Commitments | | | |
| Liabilities arising from sales with an option to repurchase | 3,691 | 0 | 0 |
| Unutilised loan commitments | 5,478,221 | 6,663,387 | 6,663,748 |

The table below presents future cash flows of contingent liabilities classified according to their contracted maturity, concerning guarantees also according to their expected maturity.

| Euro thousand | Loan commitments | Guarantees as contracted | Guarantees expected |
|--------------------------------|---------------------|-----------------------------|------------------------|
| 31 Dec 2010 | | | |
| Carrying amount | 5,478,221 | 4,310,811 | |
| Undiscounted cash flows | 5,478,221 | 4,310,811 | 15,919 |
| up to 3 months | 1,832,472 | 4,310,807 | 189 |
| up to 1 year | 2,976,135 | 0 | 423 |
| up to 5 years | 643,038 | 5 | 15,140 |
| more than 5 years | 26,575 | 0 | 167 |
| 31 Dec 2009 | | | |
| Carrying amount | 6,663,748 | 4,950,992 | |
| Undiscounted cash flows | 6,663,748 | 4,950,992 | 61,156 |
| up to 3 months | 1,926,530 | 4,950,992 | 3,226 |
| up to 1 year | 3,809,257 | 0 | 13,338 |
| up to 5 years | 783,242 | 0 | 44,376 |
| more than 5 years | 144,718 | 0 | 217 |

Loan commitments are reported according to the end of their contracted maturity. Contracted guarantees are reported when the utilisation is first possible, while column guarantees expected shows management estimates of the expected utilisation over the period.

If the management estimates a cash out flow for financial guarantees, a provision was built for off-balance risks to the amount of the probable cash out flow under consideration of possible available collaterals. Therefore the provision amounts to euro 15,517 thousand (2009: euro 44,177 thousand).

46) Repurchase transactions and other transferred assets

As at 31 December 2010, VBAG as pledgor had buy-back commitments under genuine repurchase agreements in the amount of euro 740,599 thousand (2009: euro 831,169 thousand).

The balance sheet does not contain any further financial assets for which material risks or opportunities were retained.

47) Related party disclosures

| Euro thousand | Unconsolidated affiliates | Companies in which the Group has a participating interest | Associated companies | Companies which exercise a significant influence on the parent as shareholders | of which disposal group |
|---|---------------------------|---|----------------------|--|-------------------------|
| 31 Dec 2010 | | | | | |
| Loans and advances to credit institutions | 114 | 746,940 | 0 | 67,329 | 0 |
| Loans and advances to customers | 1,081,894 | 337,049 | 3,062 | 2 | 3,238 |
| Risk provisions (-) | -27,816 | -52,054 | 0 | 0 | -633 |
| Debt securities | 14,252 | 130,696 | 0 | 0 | 0 |
| Amounts owed to credit institutions | 889 | 1,051,325 | 0 | 1,887,232 | 0 |
| Amounts owed to customers | 86,191 | 54,558 | 7,931 | 310 | 0 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Liabilities arising from guarantees | 35,498 | 0 | 0 | 35,423 | 0 |
| 31 Dec 2009 | | | | | |
| Loans and advances to credit institutions | 118 | 651,441 | 0 | 27,840 | 0 |
| Loans and advances to customers | 620,989 | 441,650 | 3,131 | 0 | 13,491 |
| Risk provisions (-) | -22,813 | -54,151 | 0 | 0 | 0 |
| Debt securities | 14,250 | 92,034 | 0 | 0 | 0 |
| Amounts owed to credit institutions | 1,223 | 1,053,266 | 0 | 1,975,284 | 4,004 |
| Amounts owed to customers | 89,785 | 50,294 | 21,991 | 0 | 3,728 |
| Provisions | 2,791 | 0 | 0 | 0 | 0 |
| Liabilities arising from guarantees | 54,413 | 31 | 0 | 39,011 | 0 |

Settlement prices between the VBAG Group and its associated companies are consistent with standard market practices. As in previous year, VBAG Group does not have any other liabilities for unconsolidated affiliates or associated companies on balance sheet date.

The shareholders Volksbanken Holding e. Gen. and DZ Bank AG Deutsche Zentral-Genossenschaftsbank exercise a significant influence on Österreichische Volksbanken-AG.

Loans and advances granted to members of the managing board and the supervisory board during the business year.

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|--------------------------------|-------------|-------------|
| Outstanding loans and advances | 22 | 13 |
| Redemptions | 13 | 12 |
| Interest payments | 0 | 0 |

At the VBAG Group, the board members of the parent company are classified as management members in key positions. No contracts were closed with members in key positions.

As at 31 December 2010, loans and advances to credit institutions contained transactions with the Volksbanksector amounting to euro 4,779,936 thousand (2009: euro 3,817,038 thousand) and amounts owed to credit institutions included transactions with the Volksbank-Sector amounting to euro 4,988,291 thousand (2009: euro 4,882,239 thousand).

48) Disclosures on mortgage banking in accordance with the Austrian Mortgage Bank Act, including covered bonds

| Euro thousand | Covering loans | Debts evidenced by certificates | Surplus cover |
|--------------------|------------------|---------------------------------|----------------|
| 31 Dec 2010 | | | |
| Mortgage bonds | 535,282 | 232,916 | 302,367 |
| Covered bonds | 855,569 | 792,696 | 62,872 |
| Total | 1,390,851 | 1,025,612 | 365,239 |
| 31 Dec 2009 | | | |
| Mortgage bonds | 683,386 | 232,809 | 450,577 |
| Covered bonds | 964,096 | 908,070 | 56,026 |
| Total | 1,647,482 | 1,140,878 | 506,604 |

The required coverage for debts evidenced by certificates includes surplus cover of 2% calculated on the basis of the face value of all outstanding mortgage bonds and all outstanding covered bonds.

49) Branches

| | 31 Dec 2010 | 31 Dec 2009 |
|---------------------------------|-------------|-------------|
| Domestic | 1 | 11 |
| Foreign | 548 | 583 |
| Total number of branches | 549 | 594 |

Due to the deconsolidation of the retail banks, the number of domestic branches decreased by 10. In the figures as at 31 Dec 2009, 10 branches of VB Linz+Mühlviertel are included.

50) Events occurring after the balance sheet date

As set out in the VBAG Strategy 2015, the process has been initiated for evaluating the disposals of Volksbank International AG and VB-Leasing International Holding GmbH. The data rooms were opened at the start of February for this purpose.

The planned combination of Österreichische Volksbanken-AG and Investkredit Bank AG is still in progress and is set to be completed by the middle of 2011.

In the first quarter of 2011, Immoconsult Leasing GmbH was merged with PREMIUMRED Real Estate Development GmbH. The merged companies will trade under the name VB Real Estate Services GmbH in future. This change in legal form will not affect the consolidated financial statements.

No further events with a significant impact on the Group's financial statements as at 31 December 2010 occurred between the balance sheet date and the approval of the Group's financial statements by the managing board. The managing board released the Group's financial statements and handed it on to the supervisory board on 10 March 2011. The supervisory board has the function of verifying and declaring if it approves the Group's financial statements.

51) Segment reporting

The VBAG Group has five operating segments which correspond to the strategic business segments. These segments provide a variety of products and services and are controlled in varying ways in accordance with the internal management and reporting structure. The Group's internal management is based on the organisation of business units as profit centres, meaning that all results are allocated to business units irrespective of whether these profit centres are organised as independent legal entities within business units or whether the results are realised by the parent company.

A report is submitted to the Managing Board and management level at least once a quarter for each business segment. The separate financial statements of the subsidiaries prepared in line with IFRS and results attributable in accordance with the market interest method form the basis of these reports. The intragroup settlement prices for investments, refinancing or services rendered correspond to standard market conditions. Group overheads are divided among the segments according to the solvency assessment base as well as cost ratios. Costs of Group projects

are also allocated to the individual segments. Equity is basically allocated for 10% of the allocated asset item for refinancing purposes. For the remaining 90%, amounts owed to credit institutions and debts evidenced by certificates are allocated in relation to the refinancing of Österreichische Volksbanken-AG.

The same measurement and accounting principles used in the consolidated financial statements are applied to segment reporting. The business segments are managed according to the income statement items given in segment reporting as well as the carrying amounts given. As management is carried out on the basis of factors including net interest income, interest income, interest expenses and income from companies measured at equity are not given separately. For the same reason, the carrying amount of participations recognised at equity is also not reported.

Corporates

The Corporates segment comprises the small and medium-sized companies, corporates and international profit centres as well as the profit centres housing construction- and model financing, which were assigned to the Domestic Retail segment the year before, with Investkredit Bank AG being responsible for management of operations. Volksbank Malta Limited and VB Factoring Bank AG are also included in this segment. The comparative figures have been restated accordingly.

Retail

The Retail segment consists of banks in Central and Eastern Europe, and movable property leasing business areas. Banks CEE consists of Volksbank International AG with its subsidiaries in Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Romania and Ukraine. The domestic movable property leasing companies forming part of the VB Leasing Finanzierung Group and the Central and Eastern European companies affiliated with the VB Leasing International Group operate within the leasing division. In the business year 2010 the domestic retail segment was dissolved, due to the sale of Immo-Bank, Ärztebank, VB Wien and VB Linz+Mühlviertel. 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 retail banks is shown in the segment Investment Book/Other Operations. The comparative figures have been restated accordingly.

Real Estate

This segment comprises the real estate leasing and lending business areas of Investkredit Bank AG as well as the real estate leasing activities of the Immoconsult Leasing Group and the international project development activities concerning commercial real estate of Premiumred Real Estate Development GmbH. The real estate asset management activities of the Europolis subgroup also fall within the scope of this segment which is shown in the disposal group.

Financial Markets

The profit centre Group Treasury is beside raising liquidity in the money and capital markets responsible for the management of VBAG's trading book and offers clients the full range of standard money market products. Additionally, the profit centre Volksbank Investment is included in this segment, which is responsible for the administration of investment funds and issuing of guarantee-certificates.

Investment Book/Other Operations

As 2010 all activities relating to the investment book of VBAG were summarised organisationally, the business Capital Markets is now displayed in the Investment Book/Other Operations segment. In addition all other activities which cannot be clearly assigned to any one of the segments described above are enclosed here. Investment income and loss absorption which the parent company received from unconsolidated subsidiaries are reported under net interest income. Net interest income shows a highly increase caused by the interest rate elasticity (adjustments to the decline in the level of interest rates took place more rapidly on the asset side quicker than on the liabilities side), which depressed net interest income in the previous year.

The majority of net fee and commission income relates to income from the settlement of management fees. Income from payment transactions is also reported here. The activities of Treasury, which are carried out on the basis of general bank management, are reported under net trading income. General administrative expenses include payments settled through fee and commission income and other operating income as well as provisions recognised for projects which need to be carried out due to regulatory requirements. The other operating result includes income from accounting for services. In 2009 income from financial investments contains impairments on participations and shares in the amount of euro 230 million, income from a swap reversal and the result from transactions for own account. Furthermore, the result from the disposal group retail banks was allocated here, as the Domestic Retail segment was dissolved.

Consolidation

Consolidation issues are reported separately from other activities in the column Consolidation. Since the business year 2010, the consolidation of investment income and loss absorption from fully consolidated subsidiaries is reported in the segment Investment Book/Other Operations. The comparative figures have been restated accordingly. The other items contain amounts resulting from the consolidation of income and expenses not carried out within a segment.

Secondary segment reporting is based on the geographical markets in which the VBAG Group operates. All activities focused on Austria as well as Central Europe are presented. Other markets not constituting a major part of the Group's business operations are grouped under other markets. Geographical segment reporting is based on the location of the respective companies' head offices. All consolidation amounts that are not accounted for in the regions Central and Eastern Europe or Other Markets relate to Austria.

a) Segment reporting by business segments

| Euro thousand | Corporates | Retail | Real Estate | Financial Markets | Investment Book/Other Operations | Consolidation | Total |
|---|------------|------------|-------------|-------------------|----------------------------------|---------------|------------|
| Net interest income | | | | | | | |
| 2010 | 125,615 | 558,533 | 90,081 | 37,063 | -32,945 | -2,088 | 776,259 |
| 2009 | 108,449 | 547,534 | 51,717 | 22,607 | -143,108 | 9,320 | 596,519 |
| Risk provisions | | | | | | | |
| 2010 | -25,327 | -302,469 | -38,916 | 359 | 2,045 | 0 | -364,308 |
| 2009 | -384,722 | -267,392 | -157,474 | -238 | -41,922 | 0 | -851,748 |
| Net fee and commission income | | | | | | | |
| 2010 | 16,165 | 87,635 | 3,781 | 52,748 | 15,249 | -8,672 | 166,906 |
| 2009 | 13,778 | 86,147 | 1,051 | 82,133 | 23,846 | -6,185 | 200,771 |
| Net trading income | | | | | | | |
| 2010 | 1,072 | 16,522 | -1,078 | 29,016 | -4,344 | -1,533 | 39,655 |
| 2009 | 680 | 3,509 | 2,111 | 63,013 | 5,796 | -11,965 | 63,143 |
| General administrative expenses | | | | | | | |
| 2010 | -73,458 | -358,628 | -43,779 | -48,797 | -44,378 | 17,914 | -551,126 |
| 2009 | -72,107 | -344,047 | -34,953 | -43,425 | -57,782 | 13,827 | -538,487 |
| Other operating result | | | | | | | |
| 2010 | -1,402 | -24,284 | 10,678 | 0 | -963 | -5,620 | -21,592 |
| 2009 | 897 | 6,943 | 3,024 | 131 | 15,136 | -4,997 | 21,135 |
| of which impairment of goodwill | | | | | | | |
| 2010 | 0 | -7,573 | 0 | 0 | 0 | 0 | -7,573 |
| 2009 | 0 | -4,232 | 0 | 0 | 0 | 0 | -4,232 |
| Income from financial investments | | | | | | | |
| 2010 | 3,143 | 7,542 | -8,479 | 796 | 39,786 | 0 | 42,788 |
| 2009 | -1,029 | -3,926 | 70 | 501 | -249,114 | 0 | -253,498 |
| Income from the disposal group | | | | | | | |
| 2010 | 0 | 0 | 6,320 | 0 | -4,077 | 0 | 2,243 |
| 2009 | 0 | 0 | -252,990 | 0 | 71,702 | 0 | -181,288 |
| Annual result before taxes | | | | | | | |
| 2010 | 45,807 | -15,149 | 18,609 | 71,185 | -29,627 | 0 | 90,825 |
| 2009 | -334,054 | 28,768 | -387,443 | 124,724 | -375,448 | 0 | -943,453 |
| Income taxes including taxes of disposal group | | | | | | | |
| 2010 | -17,550 | -19,161 | -20,534 | -17,966 | 40,871 | 0 | -34,340 |
| 2009 | 32,450 | -8,101 | 74,971 | -30,358 | -248,552 | 0 | -179,590 |
| Annual result after taxes | | | | | | | |
| 2010 | 28,258 | -34,310 | -1,925 | 53,218 | 11,244 | 0 | 56,484 |
| 2009 | -301,604 | 20,667 | -312,473 | 94,366 | -624,000 | 0 | -1,123,043 |
| Total assets | | | | | | | |
| 31 Dec 2010 | 7,522,300 | 16,511,555 | 6,558,529 | 2,881,483 | 30,926,909 | -17,935,932 | 46,464,844 |
| 31 Dec 2009 | 9,592,928 | 16,812,337 | 7,167,683 | 2,840,243 | 34,353,188 | -21,620,786 | 49,145,593 |
| Loans and advances to customers | | | | | | | |
| 31 Dec 2010 | 6,384,515 | 12,661,008 | 4,265,806 | 0 | 2,221,847 | -1,918,238 | 23,614,938 |
| 31 Dec 2009 | 7,176,804 | 12,340,241 | 4,262,756 | 0 | 2,188,754 | -1,835,037 | 24,133,518 |
| Amounts owed to customers | | | | | | | |
| 31 Dec 2010 | 828,408 | 4,890,608 | 125,025 | 1,329,611 | 384,061 | -245,781 | 7,311,931 |
| 31 Dec 2009 | 559,691 | 4,739,259 | 620,432 | 1,443,467 | 362,575 | -258,860 | 7,466,565 |
| Debts evidenced by certificates, including subordinated liabilities | | | | | | | |
| 31 Dec 2010 | 3,455,600 | 416,225 | 245,964 | 0 | 17,291,934 | -3,424,289 | 17,985,435 |
| 31 Dec 2009 | 4,036,750 | 408,720 | 772,366 | 0 | 17,957,645 | -3,863,435 | 19,312,047 |

b) Segment reporting by regional markets

| Euro thousand | Austria | Central and Eastern Europe | Other Markets | Total |
|-----------------------------------|----------|-------------------------------|---------------|----------|
| Net interest income | | | | |
| 2010 | 144,884 | 549,957 | 81,417 | 776,259 |
| 2009 | 9,947 | 499,210 | 87,362 | 596,519 |
| Risk provisions | | | | |
| 2010 | -52,373 | -296,316 | -15,619 | -364,308 |
| 2009 | -394,125 | -259,846 | -197,777 | -851,748 |
| Net fee and commission income | | | | |
| 2010 | 74,846 | 87,663 | 4,397 | 166,906 |
| 2009 | 106,727 | 86,258 | 7,786 | 200,771 |
| Net trading income | | | | |
| 2010 | 23,349 | 14,552 | 1,754 | 39,655 |
| 2009 | 58,833 | 5,665 | -1,354 | 63,143 |
| General administrative expenses | | | | |
| 2010 | -183,805 | -346,365 | -20,956 | -551,126 |
| 2009 | -182,016 | -335,006 | -21,464 | -538,487 |
| Other operating result | | | | |
| 2010 | -6,530 | -28,427 | 305 | -21,592 |
| 2009 | 19,937 | 151 | 1,047 | 21,135 |
| Income from financial investments | | | | |
| 2010 | 1,961 | 6,360 | 34,467 | 42,788 |
| 2009 | -228,382 | 122 | -25,239 | -253,498 |
| Income from the disposal group | | | | |
| 2010 | -44,068 | 46,607 | -296 | 2,243 |
| 2009 | 54,492 | -232,198 | -3,582 | -181,288 |
| Annual result before taxes | | | | |
| 2010 | -28,676 | 34,032 | 85,469 | 90,825 |
| 2009 | -554,588 | -235,644 | -153,221 | -943,453 |

52) Risk report

General

Assuming and professionally managing the risks connected with business activities is a core function of every bank. VBAG performs the key tasks of implementing and supporting processes and methods for identifying, managing, measuring and monitoring all risks related to banking operations at VBAG Group level.

To this end, the following various risks are addressed in the context of the risk strategy specified annually by the Managing Board on the basis of risk policy principles in force across the Group:

- Credit risk (counterparty risk)
- Market risk (interest rate risk, foreign exchange risk, option risk, commodity risk, risks relating to assets and credit spread risk)
- Operational risk
- Liquidity risk
- Investment risk
- Real estate risk and
- Other risks

Current developments

The ongoing economic and financial crisis had a strong impact on the risk management activities of VBAG in 2010 as well.

These activities focused on further developing the methods and content of the risk management processes. The extension of the risk policy guidelines, new risk committees and newly regulated credit processes helped to speed up the decision-making process while simultaneously improving the quality of decision-making tools even further.

These activities were supported by additional quality assurance processes that were used to ensure data quality in the long term as well as for RWA optimisation measures. Mapping of transactions relevant to credit risk in IT systems was improved with regard to minimising RWA burden. At the same time, the Basel II calculation engine was calibrated in coordination with the Austrian Supervisory Authority to optimise RWA.

In respect to the model used to calculate the own funds required for the credit risk for regulatory purposes, preliminary discussions took place with the Austrian Financial Market Supervisory Authority (FMA) regarding the application of the IRB approach for the bank's domestic portfolio. Group-wide activities to change the standard approach banks in CEE over to the IRB approach were stepped up through the "IRB-Roll Out CEE" project.

The measurement, limiting and management of credit risks were improved considerably through the use of an internally developed credit portfolio model. Since mid-2010, the credit risk on the basis of credit value at risk has been reported periodically, thus supplementing regular risk reporting. The process of compiling a monthly credit risk report was further accelerated and enhanced to include new data and tables.

The model used since 2009 to quantify the credit spread risk was developed into a two-phase model that allows risk-sensitive limiting and will round off the limit system for this area. In terms of structural liquidity risk management, the current developments on the financial market as well as heightened regulatory requirements led to the implementation of new methods and models, the definition of key rate indicators, and the development of a limit system.

Stress testing remained a focal point in 2010 as well. The method used to execute total bank risk stress tests was further refined and implemented within the organisation by working groups with participants from the areas of market and risk management. Contingency planning also played an important role. To supplement the business continuity management already implemented, VBAG has been working on implementing a contingency plan for liquidity and capital emergencies since summer 2010. In a series of workshops with the Managing Board, the potential impact on VBAG's capital and/or liquidity situation was discussed based on predefined extreme "emergency" scenarios and a set of emergency countermeasures were developed. Furthermore, a corresponding contingency process was developed including the necessary committees and crisis teams.

a) Risk management structure and basic principles of risk policy

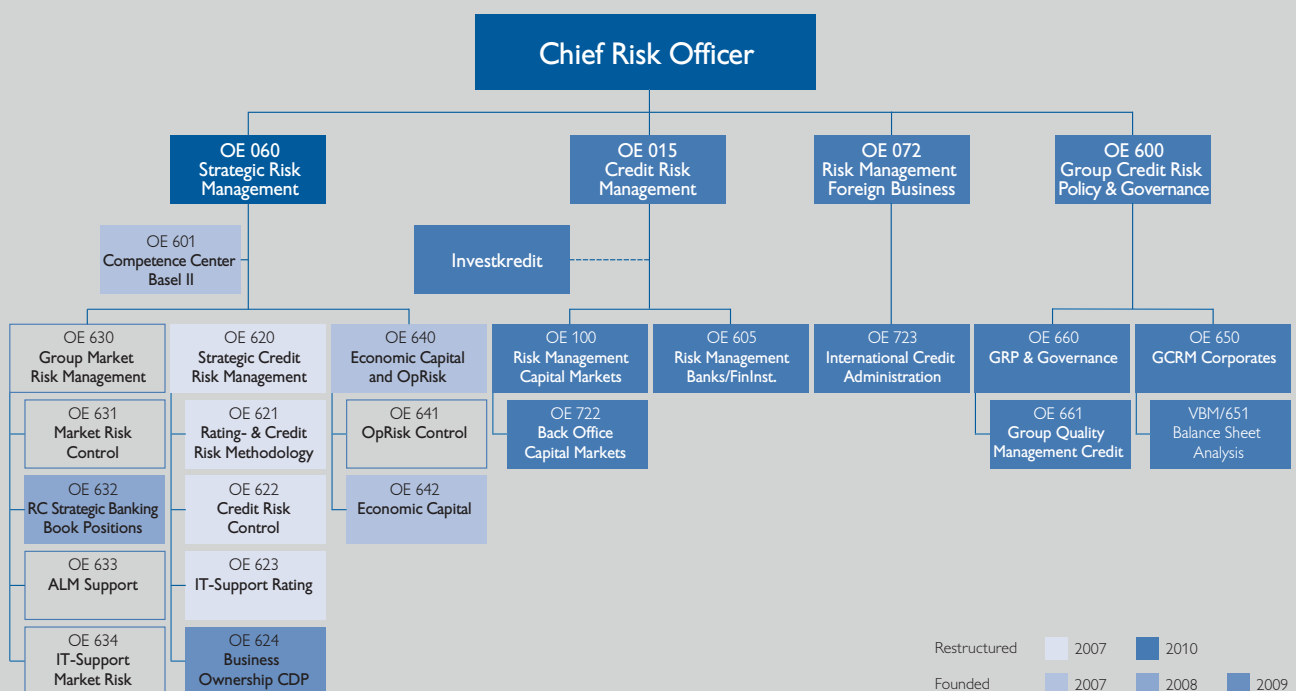
Risk management structure

The VBAG Group has implemented all organisational precautions necessary to meet the requirements of a modern risk management system as formulated, for example, in the minimum standards for the lending business. There is clear separation of market and risk assessment, measurement and control. For security reasons and in order to prevent conflicts of interest, these tasks are performed by different organisational units.

The department is headed by Michael Mendel in his capacity as the Group's Chief Risk Officer. Mendel is also the acting Chairman of VBAG's Managing Board. All centrally managed and regulated risk management activities in the VBAG Group are concentrated in his Managing Board function: strategic risk management, incorporating the sub-areas of the Basel II competence centre, credit risk, market risk and operational risk management and risk control for the entire bank as well as competence-led, centrally organised operational risk management and balance sheet analysis. For reasons of cost effectiveness and to optimise reflows, receivables management is performed locally in the individual sub-groups and subsidiaries.

At the start of the year, operational risk management was restructured at Group level and the back offices of Investkredit and VBAG were combined in one area. This means that the back offices for the corporates and real estate segments as well as banks and strategic capital market investments are joined in one organisational unit. A dedicated Group Risk Control unit has also been created, which combines risk management principles, balance sheet analysis and quality management for lending processes.

The following diagram provides an overview of the department's current organisational structure.



Basic principles of risk policy

The basic principles of risk policy encompass the standards valid within the Group for dealing with risks and are determined by the Managing Board together with risk appetite. A broadly shared understanding of risk management throughout the Group is the foundation for developing risk awareness and a risk culture within the company.

Clear organisational structures: Particular attention is paid to the separation of risk-taking on the one hand and calculating risk and specifying risk standards on the other (risk controlling/risk management). Clear separation of functions within the VBAG Group ensures that conflicts of interest are avoided.

Systems and methods: Uniform risk measurement methods form the basis for comparing and aggregating risks within the VBAG Group. They are also an important element in developing effective internal limit structures for the Group and calculating utilisation of limits. Major focus is placed on standardised risk management systems, including with regard to cost-effectiveness and conserving resources. Contingency plans ensure that the necessary system availability is maintained.

Limit system: All measurable risks in the VBAG Group are subject to a limit structure that is in turn subject to ongoing operational monitoring. The "no risk without limit" principle applies. Risks for which current theory does not provide sufficiently exact measurement methods or instruments are considered either on the basis of regulatory equity requirements or conservative calculation methods, taking stress assumptions into consideration, or in the form of safety buffers. The prudence principle is applied in such cases.

Risk reporting: In the VBAG Group, prompt, regular and comprehensive risk reporting is implemented in various forms, including a Group risk report. This is an important element for identifying, measuring, managing and monitoring risks within the Group. It is produced on a quarterly basis and covers all relevant types of risk (market, interest rate, liquidity, credit spread, credit, real estate and operational risk). The Group risk report periodically informs the Managing Board of the Group of the development of risk-bearing ability and the risk situation of the Group and focuses on a quantitative presentation of management-related information on the risk categories addressed, which is supplemented by brief assessments of the situation and further qualitative information where appropriate. During preparation of the report, particular emphasis is placed on data quality in order to ensure the findings are meaningful. In addition to the quarterly report, there have been an increasing number of monthly reports since 2010.

Processes: Functioning processes form the basis of risk management. Developing these processes and integrating them into day-to-day business procedures is thus a key risk management task in the VBAG Group. The new Risk Management area, which also includes a unit for managing the quality of lending processes, is set to make this task even more efficient in future.

New product launches: An efficient, system-supported approval process for products of VBAG Treasury has been in place since 2003 and is improved and developed on an ongoing basis. A focus here is on correctly mapping all risks in the risk management systems. Particular attention is paid to ensuring that it is possible to carry out an independent assessment. This also applies to closed positions. This ensures that the legal requirements for presenting counterparty default risk and collateral management requirements are met.

A standard procedure for introducing new products in the VBAG Group has been in place since 2008. In addition to the proper recording of all risks and their correct entry in controlling and accounting systems, the emphasis is on mapping them in the centralised systems of the Group, thus ensuring meaningful standardised risk reports and correct external reporting.

Backtesting: As estimations relating to the greatest probability of default (PD), loss given default (LGD), exposure at default (EAD), credit conversion factor (CCF) and value at risk (VaR) are always based on past values, their accuracy must be validated periodically by way of backtesting. In the VBAG Group, backtesting reports are prepared for credit and market risk in all cases. Although the frequency of reporting depends on the type of risk, the reports are produced at least once a year. The Managing Board is promptly informed of the findings. Any findings giving cause for concern (e.g. the number of outliers is too high from a statistical perspective) lead to an immediate analysis of the calculation methods or the models.

Stress testing: Credit and market risks in the VBAG Group undergo regular stress tests. The crisis scenarios in such tests are designed in such a way that the occurrence of very unlikely but not impossible events is simulated. Based on this approach, atypical tail losses, among other things, can be identified and analysed. This method is a useful supplement to the VaR method, particularly in relation to fat tails.

While risk type-specific stress tests and sensitivity analyses have been regularly performed for some time now, stress tests across multiple risk types have also been carried out regularly since 2009. This process initially involves defining economic crisis scenarios (mild and severe recession scenarios) and deriving the changed risk parameters for the individual risk categories and segments from this. In addition to the risk side, the effects of the crisis scenarios on the risk-covering equity are analysed. Finally, the various effects of the crisis scenarios on the risk-bearing ability of VBAG are compiled in a stressed risk sustainability account.

The total bank risk stress tests performed in 2010 had an observation period of one year. The results showed that VBAG is able to bear risks in both the mild and severe recession scenarios. The equity ratios required for regulatory purposes also remained above the minimum legal requirements when stress assumptions were applied.

b) Regulatory requirements

Regulatory requirements are split into three pillars within VBAG in accordance with Basel II. Pillar 1, minimum capital requirements, regulates the calculation of the minimum capital requirements for credit risks, market risks and operational risks. Pillar 2, supervisory review, defines minimum requirements of banks' risk management systems as part of ICAAP (internal capital adequacy assessment process – see also Point c)). Pillar 3, disclosure, regulates disclosure for market participants.

Pillar 1 minimum capital requirements in the VBAG Group

In accordance with Managing Board resolutions, the implementation of pillar 1 in the VBAG Group not only fulfils the minimum requirements but, while taking cost efficiency into account, also provides for implementation of internal models in order to improve the risk management systems for all types of risk on an ongoing basis. Thus, at present, the following methods are used to calculate the minimum capital requirements for each type of risk:

- Market risk: internal VaR model since 1 January 2005
- Operational risk: standard approach (in exceptional cases and for a limited period the basic indicator approach) since 1 January 2008
- Credit risk: standard approach and IRB basic approach since 1 April 2008

A project has been set up across the Group in consultation with the supervisory authorities which is intended to ensure that banks using the standard approach are gradually changed over to the IRB approach (IRB roll-out project).

Pillar 2 internal capital adequacy assessment process

The internal capital adequacy assessment process (ICAAP) requires banks to take all necessary measures to guarantee at all times that there are sufficient capital resources for current business activities and those planned for the future as well as the associated risks. Internal methods and procedures developed by the banks may be used for this purpose. The size and complexity of the business activities plays a key role in the design of the strategies, methods and systems required for implementing the ICAAP (proportionality principle). The implementation of the ICAAP at VBAG is explained in more detail in Point c).

Pillar 3 disclosure in the VBAG Group

The requirements of pillar 3 are met through publication of the qualitative and quantitative disclosure requirements defined under the Austrian Financial Market Supervisory Authority (FMA) regulation on implementation of the Austrian Banking Act as it relates to the disclosure obligations of banks, on the Bank's website under Group / Investor Relations / Risk Management as well as in the annual report. This includes ongoing disclosures in accordance with sections 2 to 15 of the FMA Disclosure Regulation in the notes to the annual report and in an additional document which also contains quantitative disclosure of qualifying disclosures under sections 16 to 18 of the FMA Disclosure Regulation. The qualitative requirements of qualifying disclosures are also published in a separate document.

c) Risk strategy and internal capital adequacy assessment process

The Group-wide risk strategy is reassessed and determined by the Managing Board on an annual basis – taking into account results from the internal capital adequacy assessment process (ICAAP) – and forms the basis for a uniform approach to dealing with risks throughout the entire Group. The risk strategy sets out and documents the general framework and principles for risk management to be applied consistently across the Group and the design of appropriate processes and organisational structures in a clear and comprehensible manner. Enhancements of the methods applied for measuring and managing risks are integrated into the risk strategy via the annual update process.

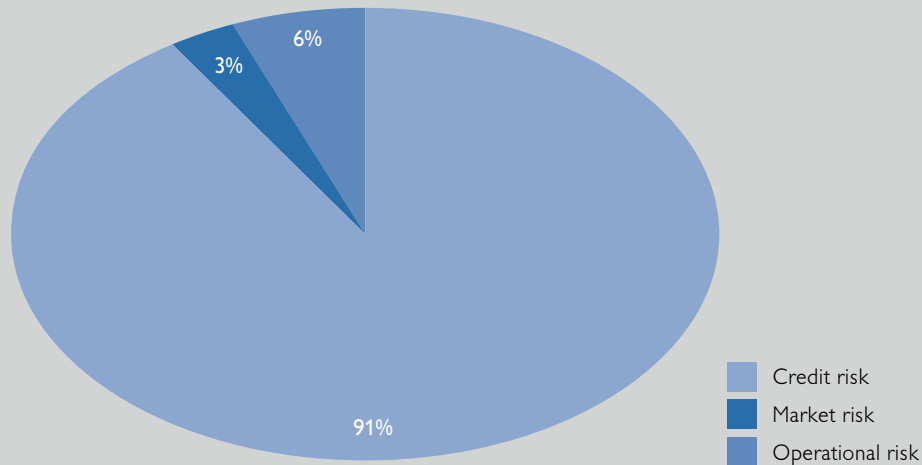
VBAG has established the ICAAP as a revolving management circuit in accordance with international best practice. This starts with defining a risk strategy, then goes through the process of identifying, quantifying and aggregating risks, and finishes by determining risk-bearing ability, allocating capital and establishing limits, leading to ongoing risk monitoring. The individual elements of the circuit are performed with varying regularity (daily for measurement of trading book market risk, monthly for creation of the risk sustainability account and annually for risk assessment and risk strategy). All the activities described in the circuit are examined at least once a year to ensure that they are up to date and adequate and are adjusted to current underlying conditions if necessary.

In line with this principle and based on risk assessments conducted across the Group as a whole, the VBAG Group regularly ascertains what risks are present in ongoing banking operations within the Group as well as their significance and the danger they potentially pose for the Group. This process involves both a quantitative assessment of individual types of risk and an assessment of the existing methods and systems for monitoring and managing risks (qualitative assessment). The risk assessment concept is based on a scoring procedure, thus providing a comprehensive overview of the risk situation in the VBAG Group. Risk assessment is carried out electronically via the OpRisk platform BART, thus increasing transparency and considerably improving workflow management.

The results of the risk assessments are compiled in a risk map in which the individual types of risk are allocated to the subsidiaries according to their significance. The results of the risk assessments also flow into the risk strategy. The basis for the quantitative implementation of the ICAAP in the VBAG Group is the risk sustainability account, which demonstrates that adequate risk-covering capital is in place at all times to provide sufficient cover for risks that have been entered into and which also ensures such cover is available for the future. For this purpose, firstly all relevant individual risks are aggregated into a total bank risk on both an economic and regulatory basis. The existing previously defined risk-covering capital is then compared with this total bank risk.

In the course of the risk monitoring process, the risk-bearing ability is calculated, compliance with the overall bank risk limit resolved by the Managing Board is monitored on a monthly basis and the Group risk report is produced.

As at 31 December 2010, the regulatory overall risk position is composed as follows:



In 2010, economic risk measurement was promoted in addition to regulatory observations. The aim is to implement value at risk methods to the fullest extent possible in the economic risk measurement procedure. The term economic capital describes the minimum economic capital necessary from an economic perspective based on the result of a risk measurement. Combining risk measurement and the income statement makes risk-adjusted income management possible. Standard performance measurement methods such as return on equity (ROE) are supplemented by the meaningful return on economic capital (ROEC) measurement, which takes adequate account of risks and facilitates comparison of segment performance, thus laying the foundation for value-oriented bank management. Initial ROEC test calculations were performed in the fourth quarter of 2010 in collaboration with Controlling and took into account all major risks for the individual management portfolios (segments and profit centres).

d) Credit risk

Definition

In the VBAG Group, general credit and default risk and counterparty default risk in derivative transactions are categorised under credit risk.

General credit risk denotes potential losses in value that may arise from the default of business partners who constitute borrowers at the VBAG Group.

The VBAG Group defines counterparty risk as the risk that a business partner in an over-the-counter (OTC) derivative transaction will not meet its contractual obligations or will not fully meet them, thus causing VBAG Group an actual loss resulting from the positive fair value of the derivative transaction (replacement risk).

Organisation and risk strategy

Strict separation of sales and risk management units is in place in all VBAG Group units that generate credit risk. All case-by-case decisions are made under strict observance of the principle of dual control, which led to stipulation of clear processes for the collaboration between the risk management units in the subsidiaries and risk management at Group level. For large-volume transactions, processes have been created to ensure the involvement of operational Group risk management and the Group Managing Board in risk analyses and credit decisions. Limit systems that combine the decision-making competences of the individual corporate units in a single framework play a key role in this process.

Measuring and controlling the credit risk also necessitates the development of sophisticated models, systems and processes tailored to the bank's own portfolio. The aim is firstly to structure and improve credit decision making and secondly to use such instruments and their findings as a basis for portfolio management. When implementing these systems, the VBAG Group paid particular attention to ensuring that all rating systems used in the Group show a comparable probability of default (PD) and are connected with the VB master scale, which comprises a total of 25 rating categories. The PD band used enables both comparison of internal ratings with the classifications of external rating agencies and, most importantly, comparison of credit ratings across countries and customer segments.

The process initiated last year in the area of corporate lending used to identify early risk features of borrowers will this year be extended to include a reporting component that is currently being developed as part of a project.

Group credit risk manual

The Group credit risk manual (GCRM) regulates credit risk management throughout the VBAG Group in a binding fashion. It encompasses the existing processes and methods for managing, measuring and monitoring credit risks within the Group.

The aim of the GCRM is to stipulate and document the general framework and principles for measuring and managing credit risks to be applied consistently across the Group and the design of appropriate processes and organisational structures in a clear and comprehensible manner. The manual lays the foundation for implementing the risk strategy in operations as regards credit risk components, setting the basic risk targets and limits that are to guide business decisions in line with the main areas of business focus.

The GCRM applies to all fully consolidated entities, unless otherwise specified. This also applies to new fully consolidated entities provided that the entity is part of the scope of full consolidation of the VBAG Group with legally binding effect.

Without exception or limitation, as part of their general duty of care in the interest of the entities, the Managing Boards and managing directors of all Group entities must ensure that the GCRM finds application in their respective entities on both a formal and a de facto basis. The GCRM finds application either through being put into force in its entirety at the entity or through the content of the GCRM being integrated into the entity's own credit risk manual. General deviations from Group standards on account of specialised business activity or specific local conditions are possible in principle but require the approval of the Group Managing Board.

The GCRM is a living document that is regularly expanded and adapted to current developments and changes within the VBAG Group.

The development and presentation of rating procedures as well as the estimation and validation of risk parameters are not the purpose and object of the manual. These items and their implementation within the organisation are explained in separate documentation.

Loan portfolio and credit value at risk

The term economic capital describes the minimum economic capital necessary from an economic perspective based on the result of a risk measurement. Along with regulatory capital, it is held for the purpose of covering unexpected losses exceeding expected losses. In future, calculation of the economic capital requirements needed for the credit risk will be based on the credit value at risk (CVaR) method. For this purpose, the VBAG Group has selected an analytical calculation method based on an actuarial approach. In particular, a CreditRisk+ model adapted in line with internal requirements will be used for modelling the default risk in the loan portfolio.

From the first quarter of 2010, the CVaR method will be used at Group level as a basis for the following tasks:

- Breaking down the CVaR into individual segments and customers
- Identifying portfolio concentrations
- Analysing the development of the CVaR in portfolio and new business
- Individual address analysis
- Identifying the major drivers behind CVaR changes (collateral, new business, default rate, etc.)

The CVaR for the credit risk is also used for the following purposes as part of general bank management:

- Calculating economic capital
- Ensuring comparability of the risk situation for different types of risk (e.g. credit risk and market risk)
- Calculating risk-adjusted performance ratios (e.g. ROEC)
- Allocating capital

The CVaR results also serve as a means of obtaining additional information for portfolio analysis and management. A corresponding report is compiled every month.

An important aim of using credit risk methods and instruments is preventing loss through identifying risks at an early stage. In this process, the VBAG Group pays particular attention to ensuring that the systems primarily serve to support the persons performing the tasks. Thus, in addition to the quality of the methods, great importance is attached to the training, qualifications and experience of the employees.

Risk management and controlling

Limits

Limits exist within VBAG aimed at monitoring, controlling and restricting the risk of individual exposures and risk clusters.

- Credit limits for individual customers
- Credit limits for groups of affiliated customers
- Portfolio limits

When limits are defined, with regard to individual customers and groups of affiliated customers a distinction is made between governments, banks and others, with the latter category subsuming both corporate and retail customers. The limits are set depending on the rating category and the counterparty's own funds, the maximum remaining term of the transaction and the Group member's own funds and earnings power. In the Corporates and Retail segments, the limits generally relate to the credit scope granted after deducting collateral (unsecured risk). The setting of limits is monitored at individual transaction level on a continual basis as part of the operational risk management of the sub-institutions and is supported by centrally produced analyses.

At present, when setting limits for portfolios, the VBAG Group primarily uses country risk limits with the aim of limiting the transfer risk. The countries are divided into risk groups and markets based on external ratings and business strategy.

Concentration risks

Concentration risks are quantified and assessed on a Group-wide basis on the one hand via the CVaR report created each month and on the other hand on a quarterly basis during creation of the Group risk report. This includes, for example, concentrations at individual customer level for corporates, banks and the public sector.

Rating systems

Standardised models are applied across the Group to determine credit ratings (the VB rating family) and to determine the loss amount in the event of default. The expected likelihood of each customer defaulting is estimated across the VB rating family and expressed via the VB master scale. The concept behind the VB master scale allows for the comparison of borrower credit ratings across regions and customer groups.

The rating classes in rating category 5 cover the reasons for defaulting on a loan applied across the Group and are also used for reporting non-performing loans (NPL). Loans from parts of rating category 4 and loans past due more than 60 days are defined as problem loans. An in-depth description of rating methods can be found in the disclosure in accordance with section 16 of the FMA Disclosure Regulation on the VBAG homepage.

Counterparty risk

As an approximation function for the potential future exposure in relation to the counterparty risk, add-on factors that are dependent on the term and type of the underlying derivative transaction (interest rates, currencies, shares, and commodities) are used and expressed as a percentage of the face value. When calculating the exposure, the sum of positive fair value and the relevant add-on value is included.

Legally enforceable netting agreements are in place with key counterparties of VBAG, which have been taken into consideration since the end of 2009 for internal risk management and determining capital requirements. VBAG does not use an internal model to calculate counterparty risk.

The amount of the counterparty limits (off-balance limits) for derivative transactions with banks and financial institutions depends on the following criteria:

- Amount of the counterparty's own funds
- Amount of the VBAG Group member's own funds
- Intensity of the business relationship with the counterparty (strategically important, small number of transactions, sporadic)
- Legally enforceable netting agreements in place

The terms of the off-balance limits set are determined taking the counterparty risks into consideration.

The Group market risk management department is responsible for monitoring the counterparty limits for trading that are set in line with various maturity bands. As mentioned above, the inclusion of derivative transactions in the off-balance lines is based on the principle of positive fair value plus a term-dependent add-on for counterparties without legally enforceable netting agreements. If valid netting agreements are in place, positive and negative fair values are netted and any cash collateral is taken into account.

For institutional counterparties without netting, the amount of the add-ons is based on section 234 (2) Austrian Solvency Regulation. The add-on calculation is carried out in accordance with section 259 Austrian Solvency Regulation applying the off-balance netting. More conservative markups are used for internal risk management for non-credit institutions.

The inclusion of concluded transactions in the limits naturally takes place in real time. Utilisation reports and any overdraft reports are made available to the credit and trading departments concerned on a daily basis.

Collateral management in derivative trading

As part of internal risk management in the VBAG Group, a daily comparison of the fair value of derivative transactions is currently performed with over 70 partners for transactions concluded on the basis of framework contracts (ISDA – International Swaps and Derivatives Association, Austrian or German framework contract) or credit support annex contracts. If the fair values exceed certain contractually defined thresholds, these surpluses must be covered by collateral. The repo transactions with almost 80 contractual partners are also examined with regard to the

amount of collateral. In line with agreed margin calls, collateral is mostly transferred in the form of cash or government bonds in euro. Of the current number of 72 CSA contracts in existence, five would be affected by a rating downgrade by VBAG. In the event of the VBAG rating being downgraded by two rating categories, in the worst case an additional cash collateral requirement in the amount of euro 18 million would arise as a result of reduction of the threshold.

Credit risk reporting

Credit risk reporting for VBAG is performed on a monthly basis and provides a detailed presentation as at reporting date of the existing credit risk in the VBAG Group. Corresponding reports are created for the Group and the major Group units (VBAG, VBI, IK and Europolis). The information is also included in the credit risk section of the Group risk report.

The reports contain a quantitative presentation of management-related information on the credit risk, which is supplemented by a brief assessment of the situation and further qualitative information where appropriate. The following analyses form part of the report:

- Portfolio distributions – monthly
- Development of new business – monthly
- Credit rating distributions – monthly
- Non-performing loans – monthly
- Credit risk concentrations – quarterly
- Country group analyses – quarterly
- Customer segments (customer segment split) – quarterly
- Sector distributions (commerce) – quarterly

These analyses are presented according to different sizes and ratios: unsecured exposure, total exposure, expected loss, existing and planned risk provisions and average risk costs.

A CVaR report is also created every month that details the amount of the unexpected loss at Group level and why this changed between reporting dates and breaks this information down into segments and individual commitments.

In future, some of this information is also to be included in the Group risk report.

The key ratios used to describe credit risks for the various business segments as at the balance sheet date and in comparison to the previous year are shown in the following tables and are excerpts taken from the Group risk report. The previous year's figures have not been adapted in respect to the disposal group or possible reclassifications in the segments, but correspond to the figures published in 2009.

Presentation of loans and advances to credit institutions and customers according to credit quality and allocation to the individual risk categories.

| Euro thousand | Loans and receivables to credit institutions and customers | |
|---|--|-------------------|
| | 31 Dec 2010 | 31 Dec 2009 |
| Gross carrying amount | 30,046,816 | 30,130,288 |
| Risk provision | 1,522,532 | 1,245,350 |
| Carrying amount | 28,524,284 | 28,884,937 |
| Receivables impaired | | |
| Risk category 1 (1A - 1E) | 53,307 | 47,408 |
| Risk category 2 (2A - 2E) | 111,663 | 160,371 |
| Risk category 3 (3A - 3E) | 1,622,105 | 1,887,063 |
| Risk category 4 (4A - 4E) | 745,673 | 701,616 |
| Risk category 5 (5A - 5E) | 2,623,073 | 1,885,427 |
| Risk category 6 (NR) | 17,344 | 24,745 |
| Gross carrying amount | 5,173,165 | 4,706,629 |
| Risk provision | 1,465,652 | 1,166,608 |
| Net carrying amount | 3,707,512 | 3,540,021 |
| Receivables not impaired but past due 90 days | | |
| Risk category 1 (1A - 1E) | 20,423 | 0 |
| Risk category 2 (2A - 2E) | 84 | 4,689 |
| Risk category 3 (3A - 3E) | 35,483 | 11,510 |
| Risk category 4 (4A - 4E) | 32,262 | 14,216 |
| Risk category 5 (5A - 5E) | 235,594 | 104,266 |
| Risk category 6 (NR) | 453 | 50 |
| Gross carrying amount | 324,300 | 134,733 |
| Receivables neither impaired nor past due | | |
| Risk category 1 (1A - 1E) | 6,374,309 | 5,499,199 |
| Risk category 2 (2A - 2E) | 2,201,442 | 2,714,641 |
| Risk category 3 (3A - 3E) | 10,999,629 | 11,902,985 |
| Risk category 4 (4A - 4E) | 3,712,991 | 3,611,978 |
| Risk category 5 (5A - 5E) | 626,680 | 399,848 |
| Risk category 6 (NR) | 634,300 | 1,160,275 |
| Gross carrying amount | 24,549,351 | 25,288,926 |
| Portfolio based allowance | 56,880 | 78,742 |
| Total net carrying amount | 28,524,284 | 28,884,937 |

Classification to the individual risk categories is carried out according to internal rating categories at VBAG. Receivables in risk category 1 have the highest rating (lowest expected default rate), while receivables in risk category 4 have the lowest rating and receivables in risk category 5 constitute defaulted receivables (= non-performing loans, NPLs). The distribution of risk provisions is also clarified accordingly. It must be noted that the gross carrying amount of the individual impaired loans and receivables does not correspond to the total of the NPLs. If the rating of a defaulted customer improves, the customer is assigned to a better (= performing) rating category, the impairment is reduced accordingly and the customer is no longer designated as an NPL. Receivables in risk category 6¹ are receivables for which there is no external rating and for which there is no regulatory requirement to produce an internal rating.

The defaulted loans or NPLs are assigned to risk category 5 at VBAG and allocated to the individual rating categories based on the reason for the default. This means, for example, that rating category 5A denotes those borrowers that are past due by more than 90 days.

¹ This also concerns ratings that have not been prepared in every small number of cases.

The following table shows the distribution of non-performing loans across the default rating categories.

| EUR Tsd. | Loans and receivables to credit institutions and customers | | | |
|---|--|------------------|------------------|------------------|
| | 31 Dec 2010 | | 31 Dec 2009 | |
| | Gross | Net | Gross | Net |
| Receivables impaired | | | | |
| Rating 5A | 375,531 | 177,458 | 291,459 | 122,443 |
| Rating 5B | 848,158 | 369,021 | 619,007 | 279,089 |
| Rating 5C | 1,016,768 | 600,885 | 734,327 | 403,491 |
| Rating 5D | 381,098 | 87,412 | 233,736 | 82,748 |
| Rating 5E | 1,518 | 157 | 6,898 | 2,355 |
| Total | 2,623,073 | 1,234,933 | 1,885,427 | 890,126 |
| Receivables not impaired but past due 90 days | | | | |
| Rating 5A | 81,563 | 81,563 | 34,387 | 34,387 |
| Rating 5B | 35,458 | 35,458 | 17,931 | 17,931 |
| Rating 5C | 62,929 | 62,929 | 39,302 | 39,302 |
| Rating 5D | 55,644 | 55,644 | 12,613 | 12,613 |
| Rating 5E | 0 | 0 | 33 | 33 |
| Total | 235,594 | 235,594 | 104,266 | 104,266 |
| Receivables neither impaired nor past due | | | | |
| Rating 5A | 173,335 | 173,335 | 137,007 | 137,007 |
| Rating 5B | 162,566 | 162,566 | 79,988 | 79,988 |
| Rating 5C | 275,506 | 275,506 | 178,226 | 178,226 |
| Rating 5D | 15,214 | 15,214 | 4,528 | 4,528 |
| Rating 5E | 59 | 59 | 99 | 99 |
| Total | 626,680 | 626,680 | 399,848 | 399,848 |
| Total | 3,485,347 | 2,097,207 | 2,389,541 | 1,394,240 |

The following table shows the gross and net carrying amounts of the receivables according to their respective risk categories.

| Euro thousand | Loans and receivables to credit institutions and customers | |
|---------------------------|--|-------------------|
| | Gross | Net |
| 31 Dec 2010 | | |
| Risk category 1 (1A - 1E) | 6,448,040 | 6,447,866 |
| Risk category 2 (2A - 2E) | 2,313,189 | 2,296,191 |
| Risk category 3 (3A - 3E) | 12,657,218 | 12,608,749 |
| Risk category 4 (4A - 4E) | 4,490,927 | 4,427,221 |
| Risk category 5 (5A - 5E) | 3,485,347 | 2,097,207 |
| Risk category 6 (NR) | 652,096 | 647,052 |
| Total | 30,046,816 | 28,524,284 |
| 31 Dec 2009 | | |
| Risk category 1 (1A - 1E) | 5,546,606 | 5,546,373 |
| Risk category 2 (2A - 2E) | 2,879,701 | 2,874,770 |
| Risk category 3 (3A - 3E) | 13,801,559 | 13,678,880 |
| Risk category 4 (4A - 4E) | 4,327,810 | 4,216,852 |
| Risk category 5 (5A - 5E) | 2,389,541 | 1,394,240 |
| Risk category 6 (NR) | 1,185,071 | 1,173,822 |
| Total | 30,130,288 | 28,884,937 |

Individual impairment in risk category 5 generally does not cover the entire gross value of outstanding receivables, as collateral is taken into account but other provisions (portfolio provisions) are not, and this does not always need to result in complete impairment of the defaulted receivable in cases of restructuring (going concern consideration when recognising risk provisions).

The following table shows the share represented by defaulted and non-defaulted receivables in total receivables.

| Euro thousand | Receivables total | | Receivables in loss | | Receivables alive | |
|----------------------------------|-------------------|-------------------|---------------------|------------------|-------------------|----------------|
| | Exposure | Unsecured | Unsecured | Risk provision | Unsecured | Expected Loss |
| 31 Dec 2010 | | | | | | |
| Corporates | 6,513,968 | 3,916,589 | 484,699 | 370,692 | 3,431,890 | 71,800 |
| Real Estate | 4,066,659 | 1,696,867 | 339,452 | 164,613 | 1,357,415 | 21,082 |
| Retail CEE | 10,618,593 | 4,175,386 | 731,152 | 626,240 | 3,444,234 | 66,514 |
| Leasing | 2,718,656 | 1,089,905 | 223,652 | 205,877 | 866,253 | 19,422 |
| Financial Markets | 3,944,950 | 3,439,553 | 0 | 0 | 3,439,553 | 1,501 |
| Investment Book/Other Operations | 2,183,991 | 2,146,613 | 31,587 | 20,718 | 2,115,026 | 5,823 |
| Total | 30,046,816 | 16,464,912 | 1,810,540 | 1,388,140 | 14,654,372 | 186,142 |
| 31 Dec 2009 | | | | | | |
| Corporates | 7,075,830 | 4,913,026 | 524,756 | 345,368 | 4,388,270 | 42,487 |
| Real Estate | 3,143,421 | 1,367,812 | 130,868 | 104,373 | 1,236,943 | 14,557 |
| Retail CEE | 10,356,192 | 3,765,170 | 390,058 | 363,502 | 3,375,112 | 42,216 |
| Leasing | 2,811,188 | 823,043 | 150,120 | 141,990 | 672,923 | 18,670 |
| Financial Markets | 4,503,861 | 4,493,861 | 37,817 | 14,783 | 4,456,044 | 1,521 |
| Retail Domestic | 2,239,797 | 1,315,090 | 29,566 | 25,285 | 1,285,524 | 7,316 |
| Total | 30,130,288 | 16,678,001 | 1,263,185 | 995,301 | 15,414,816 | 126,766 |

Across the Group, default follows the definition given by the Austrian Solvency Regulation for banks which employ an approach based on internal ratings when calculating own funds. Defaulted receivables are compared with the amount of individual impairments recognised and performing receivables are compared with the loss expected for the following year. The expected loss is based on internal credit ratings, the economic collateral situation and the loss amount expected in the event of default derived from this. Defaulted receivables generally result in risk provisions which are less than the unsecured exposure, as in addition to provisions based on individual impairments, there are also lump sum impairments and portfolio provisions that are not included in the above table.

The following table shows the value of collateral assigned to the individual receivables.

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|---|--------------------|--------------------|
| Collaterals for individual impairment loans and receivables | 2,402,556 | 2,289,901 |
| Liquid funds | 35,668 | 44,869 |
| Securities | 16,914 | 41,095 |
| Mortgages | 2,157,166 | 1,954,243 |
| Guarantees | 94,496 | 49,437 |
| Movable Goods | 92,455 | 164,226 |
| Others | 5,858 | 36,031 |
| Collaterals for loans and receivables not impaired but past due 90 days | 231,331 | 83,921 |
| Liquid funds | 34,954 | 1,482 |
| Securities | 460 | 0 |
| Mortgages | 187,740 | 77,532 |
| Guarantees | 5,790 | 1,223 |
| Movable Goods | 1,130 | 893 |
| Others | 1,257 | 2,790 |
| Collaterals for loans and receivables which are neither impaired nor past due | 10,948,017 | 11,078,464 |
| Liquid funds | 417,212 | 502,606 |
| Securities | 68,061 | 109,761 |
| Mortgages | 7,257,284 | 7,268,750 |
| Guarantees | 748,941 | 721,698 |
| Movable Goods | 1,837,019 | 2,208,637 |
| Others | 619,501 | 267,013 |
| Total value of collaterals | 13,581,904 | 13,452,287 |

The key form of collateral in the lending business is mortgages. Movable property collateral derives from the leasing units of the Group and mainly constitutes private passenger cars.

The following table shows the regional distribution of utilisation across strategic segments.

| Euro thousand | Austria | EEA incl. Switzerland | EU Central- and Eastern Europe | Non EU Europe | USA und Canada | Others | Total |
|--------------------------------------|------------------|-----------------------|--------------------------------|------------------|----------------|----------------|-------------------|
| 31 Dec 2010 | | | | | | | |
| Corporates | 3,566,144 | 1,743,232 | 843,422 | 233,029 | 46,563 | 81,578 | 6,513,968 |
| Real Estate | 713,564 | 479,875 | 2,597,736 | 166,430 | 4,665 | 104,388 | 4,066,659 |
| Retail CEE | 68,714 | 387,896 | 8,069,125 | 2,070,855 | 18,922 | 3,081 | 10,618,593 |
| Leasing | 591,204 | 52,991 | 1,751,013 | 318,976 | 0 | 4,473 | 2,718,656 |
| Financial Markets | 3,352,525 | 546,602 | 556 | 654 | 32,975 | 11,637 | 3,944,950 |
| Investment Book/ Other Operations | 1,470,537 | 507,892 | 116,008 | 7,688 | 62,350 | 19,516 | 2,183,991 |
| Total | 9,762,687 | 3,718,489 | 13,377,861 | 2,797,632 | 165,475 | 224,672 | 30,046,816 |
| 31 Dec 2009 | | | | | | | |
| Corporates | 3,234,249 | 1,862,398 | 1,476,434 | 368,712 | 39,578 | 94,459 | 7,075,830 |
| Real Estate | 579,622 | 505,896 | 1,812,873 | 142,271 | 6,257 | 96,502 | 3,143,421 |
| Retail CEE | 17,818 | 309,975 | 8,030,223 | 1,806,615 | 5,637 | 185,924 | 10,356,192 |
| Leasing | 539,295 | 49,267 | 1,859,613 | 362,988 | 5 | 20 | 2,811,188 |
| Financial Markets | 3,515,829 | 649,257 | 30,366 | 10,709 | 281,061 | 16,639 | 4,503,861 |
| Retail Domestic | 1,760,207 | 415,598 | 51,648 | 4,444 | 7,899 | 0 | 2,239,797 |
| Total | 9,647,021 | 3,792,391 | 13,261,156 | 2,695,739 | 340,437 | 393,543 | 30,130,288 |

The distribution of the receivables portfolio across the main regions which are used within the Group for controlling purposes shows a focus on countries in the CEE region which are members of the EU and the Austrian market. There is hardly any significant lending in the CIS region, which falls under the region "Non EU Europe". There were barely any noteworthy shifts year-on-year. Changes occurred in the segments year-on-year due to internal management deliberations and as a result of the disposal of investments.

The following table shows the distribution of the portfolio by sector and customer segment.

| Euro thousand | Public sector | Banks | Corporates | Retail SME | Retail Privat | Special finance | not attributable | Total |
|--------------------------------------|----------------|------------------|-------------------|------------------|------------------|------------------|------------------|-------------------|
| 31 Dec 2010 | | | | | | | | |
| Corporates | 78,231 | 273,896 | 5,180,041 | 81,498 | 327,647 | 572,474 | 181 | 6,513,968 |
| Real Estate | 6,300 | 5,695 | 1,759,129 | 6,846 | 3,304 | 2,283,027 | 2,357 | 4,066,659 |
| Retail CEE | 195,790 | 648,291 | 2,604,567 | 1,046,142 | 4,927,505 | 1,196,298 | 0 | 10,618,593 |
| Leasing | 22,657 | 10,003 | 304,856 | 2,030,681 | 345,009 | 1,015 | 4,435 | 2,718,656 |
| Financial Markets | 0 | 3,933,199 | 3,784 | 0 | 0 | 0 | 7,967 | 3,944,950 |
| Investment Book/ Other Operations | 153,230 | 1,560,795 | 449,335 | 1,535 | 4,724 | 3,212 | 11,161 | 2,183,991 |
| Gesamt | 456,207 | 6,431,879 | 10,301,711 | 3,166,702 | 5,608,189 | 4,056,026 | 26,102 | 30,046,816 |
| 31 Dec 2009 | | | | | | | | |
| Corporates | 107,934 | 278,891 | 5,764,243 | 175,055 | 57,854 | 691,852 | 0 | 7,075,830 |
| Real Estate | 10,205 | 46,414 | 1,189,081 | 81,277 | 3,516 | 1,812,928 | 0 | 3,143,421 |
| Retail CEE | 217,492 | 824,360 | 2,253,141 | 1,228,878 | 4,579,480 | 1,252,840 | 0 | 10,356,192 |
| Leasing | 21,217 | 8,346 | 259,072 | 2,200,501 | 322,008 | 44 | 0 | 2,811,188 |
| Financial Markets | 67,484 | 4,016,423 | 411,768 | 8,186 | 0 | 0 | 0 | 4,503,861 |
| Retail Domestic | 8,447 | 787,249 | 931,896 | 93,105 | 348,170 | 70,930 | 0 | 2,239,797 |
| Total | 432,778 | 5,961,684 | 10,809,202 | 3,787,002 | 5,311,029 | 3,828,593 | 0 | 30,130,288 |

The sectors represent the way in which the receivables portfolio is broken down within the Group for controlling purposes, while the break-down according to customer segment conforms to the customer groups as defined by the Austrian Banking Act. Again, there were barely any noteworthy shifts in distribution by customer group.

Loan collateral

Use of loan collateral

The use and management of loan collateral are regarded as important components of credit risk management in the VBAG Group. Alongside borrowers' creditworthiness, they are a decisive factor in determining the credit risk of an exposure. The primary significance of loan collateral is in making provision for unforeseeable future risks from loan exposures, thus limiting the risk of loss arising from a loan exposure in the event of insolvency or restructuring.

The types of collateral used within the VBAG Group and the way in which these are handled are presented in detail in two documents: the economic collateral catalogue and the Basel II collateral handbook.

These categorise collateral according to both legal hedging transactions and by the type of goods on which they are based. In this process, information is provided for each type of collateral as to whether it is economically suitable collateral or collateral recognised by regulatory requirements and can thus be used to reduce economic risk and/or regulatory minimum equity requirements.

In the VBAG Group, a key requirement when selecting a type of collateral is its congruence with the loan to be secured. If collateral is created for a loan exposure, it must be objectively valued in accordance with binding Group-wide valuation rules. Furthermore, there are clearly defined guidelines and processes for creating, managing and realising loan collateral. The soundness of all loan collateral is examined regularly. Periodicity largely depends on the type of collateral and is regulated on a standard basis throughout the Group.

Valuation of loan collateral

In each case, the starting point for considering collateral in terms of the lending process is the current fair value, market value, nominal value or repurchase value. The corresponding deductions are subsequently applied to this value in each case for the purposes of credit risk mitigation. The different types of collateral are valued based on the following initial values:

| Collateral | Initial value |
|---------------------------|----------------------------|
| Financial collateral | Fair value / nominal value |
| Real estate collateral | Fair value / market value |
| Other tangible collateral | Fair value |
| Amounts receivables | Nominal value |
| Life insurance | Surrender value |
| Guarantees | Nominal value |
| Credit derivatives | Nominal value |

The initial valuation method used for loan collateral is appropriately documented together with the valuation results for ongoing examination.

The most important types of collateral

Loan collateral should correspond with the type of loan to be secured. As such, capital investment loans should be secured by the assets to be financed, provided these are sound and the guarantor disposes of them for the term of the loan. During selection of loan collateral, the cost/benefit ratio is taken into consideration so that sound loan collateral that requires low levels of processing and costs as well as loan collateral that is actually realisable can be selected first. For this reason, tangible collateral, such as real estate collateral, and financial collateral, such as cash or securities collateral, are given priority.

Distribution of economic loan collateral in the VBAG portfolio:

| Collaterals Euro thousand | Allowable amount | |
|------------------------------|-------------------|-------------------|
| | 31 Dec 2010 | 31 Dec 2009 |
| Financial collateral | 1,078,666 | 699,813 |
| Real estate collateral | 9,602,189 | 9,300,526 |
| Other tangible collateral | 1,933,701 | 2,373,756 |
| Accounts receivables | 61,510 | 49,329 |
| Life insurance | 56,611 | 256,505 |
| Guarantees | 849,227 | 772,358 |
| Total | 13,581,904 | 13,452,287 |

Real estate collateral is by far the most important type of collateral in the VBAG Group. Other tangible collateral constitutes moveable property in the leasing business. The values shown represent the recognised value of the collateral (after measurement and capping by the amount of the secured receivable).

Whether or not personal collateral is recognised depends largely on the quality of the guarantor and its close association with the borrower.

According to the right granted by means of personal collateral, the following liability instruments are recognised in the VBAG Group:

Personal Collateral

Abstract guarantees
Guarantees and payer liability (pursuant to section 1357 Austrian Civil Code)
Deficiency guarantee (pursuant to section 1356 Austrian Civil Code)
Draft guarantee
Strict letter of comfort

Distribution of personal collateral in the VBAG portfolio:

| Personal guarantees Euro thousand | Allowable amount | |
|---|------------------|----------------|
| | 31 Dec 2010 | 31 Dec 2009 |
| Abstract guarantees | 456,826 | 447,947 |
| Guarantees | 161,991 | 82,328 |
| Joint security / Guarantees and payer liability (pursuant to section 1357 Austrian Civil Code) | 97,739 | 119,116 |
| Second degree security / Deficiency guarantee (pursuant to section 1356 Austrian Civil Code)* | 15,786 | 19,659 |
| Second degree security / Ordinary guarantee (pursuant to section 1356 Austrian Civil Code)* | 33,330 | 30,856 |
| Guarantee of a bill of exchanges acc. Bill of Exchange Act (Joint security) | 60,155 | 61,482 |
| Strict letter of comfort | 23,400 | 10,971 |
| Total | 849,227 | 772,358 |

* only with default guarantees of public bodies

Abstract guarantees are the most important type of personal collateral. Personal collateral in accordance with section 1356 and section 1346 of the Austrian Civil Code is only recognised if this is granted by government bodies or is provided with counter-liability on the part of government bodies. The values shown represent the recognised value of the collateral (after measurement and capping by the amount of the secured receivable).

e) Market risk

Definition

Market risk is the risk that the value of an asset item will change as a result of changes to the price of value-determinant market risk factors. VBAG draws a distinction between the following market risk sub-groups:

- Interest rate risk
- Foreign currency risk
- Commodity risk
- Risks relating to assets
- Option risks
- General credit spread risk

Organisation and risk strategy

Market risk in the trading book

Market risks in trading in the VBAG Group are managed and monitored by the independent Group market risk management department, which is based in strategic risk management. Besides producing a risk and income presentation on a daily basis and specifying the limit structure based on the economic capital made available by the Managing Board, the department's main tasks include administration of front-office systems, collateral management, enhancement of risk measurement systems and monitoring the market risk and counterparty limits.

Interest rate risks in the investment book

Entering into interest rate risks is a completely normal part of banking business and is a key source of income. However, excessive interest rate risks represent a significant threat to the earnings and capital situation. Accordingly, an effective risk management system that monitors and limits the interest rate risk in line with the scope of business is vital for maintaining the bank's ability to bear risk.

Functional separation of the units that enter into interest rate risks and those that monitor such risks is in place.

The asset liability committee (ALCO) is the coordination body for managing the ALM processes and is convened quarterly in line with the rules of procedure or at short notice if required.

Asset liability management (ALM) is responsible for ensuring the ALM organisation is adequate, chairs the meetings of the ALCO and devises the bases and analyses relevant for decision-making.

The Group ALM support group is responsible for specifying risk measurement methods and enhancing them on an ongoing basis. Preparing evaluations and analyses, setting parameters and monitoring limits also fall within its remit. The reports it produces serve as a decision-making tool for the ALCO in performance of its management tasks.

At the end of 2010, the interest rate sensitivities of the VBAG Group (the impact of the shift of the yield curve by one basis point) were distributed as follows across the major currency areas:

| Euro thousand | |
|---------------|-------------|
| Currency | 31 Dec 2010 |
| EUR | -86 |
| USD | -70 |
| CHF | -90 |
| JPY | -2 |
| GBP | 3 |
| Others | 221 |
| Total | 473 |

Here, netting takes place within the currencies (positive and negative) but added across the currencies (irrespective of being plus and minus).

The declared aim of interest rate risk management is to identify all material interest rate risks from assets, liabilities and off-balance positions in the investment book. This requires analysis of both the income effect and the present value effect of interest rate changes using simulation scenarios in the form of statistical and dynamic reports that also incorporate new business.

The following interest rate risks are relevant to the VBAG Group:

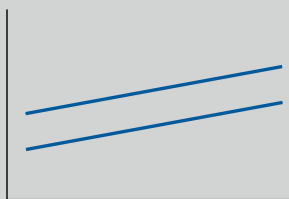
Repricing risk

Repricing risk arises due to time differences in the remaining maturity (fixed-interest instruments) or in the period until the interest rate is next fixed (variable-interest instruments) for receivables, liabilities and off-balance positions. It manifests itself in changes in the present value and future earnings of the banks brought about by changes in interest rates.

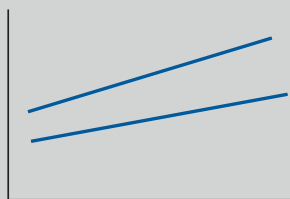
Yield curve risk

Yield curve risk results from disadvantageous changes in an interest rate curve, for example:

Parallel shift



Change in gradient



Change in curve



Basis risk

In this context, basis risk results from imperfect correlations between the interest rates levied and paid on various financial instruments with otherwise similar characteristics, such as the same maturities.

Explicit/implicit risk from options

An option is the right, but not the obligation, of an option holder to buy, sell or otherwise change the cash flow of a financial contract. Options may stand alone or be embedded in other financial instruments.

Here, the implicit risk of options denotes the risk from options embedded in receivables, liabilities and off-balance positions.

Examples of implicit options are

- Bonds with call options – the right to repurchase the bonds prior to maturity
- Bonds with put options – the right to return the bonds prior to maturity
- Deposits with the right to terminate – e.g. non-maturity deposit instruments

Here, the explicit risk of options denotes the risk from standalone, interest rate-related options (asymmetrical interest rate derivatives).

Examples of explicit options are

- Cap & floor
- Options on a bond
- Swaptions

Strategic investment book positions

Particular attention is paid to strategic investment book positions (SIBP). These essentially include all bonds, credit default swaps and securitisations. Credit linked notes, syndicated loans, investment and hedge funds and shares in the nostro portfolio of the VBAG Group are also recognised, but are of less significance. These positions are brought to the attention of the Managing Board on a quarterly basis as part of a specific report. The SIBP report is broken down into a portfolio section and a risk section.

The SIBP portfolio report describes assets with regard to their fair values and carrying amounts and presents them in structural analyses according to various characteristics, such as asset class, IFRS treatment, credit rating, sector, currency or duration. All portfolios are presented on the basis of the end of the respective quarter and their quarterly performance. Qualitative changes in the portfolio are described by means of migration matrices and ratios such as migration drift or migration activity for each individual asset class.

Portfolio structure according to IAS 39 categories

| Euro thousand | Bond | Securisation | Syndicated loans & SSD | Fund & Equity | CLN, LPN & CL-SSD | Total |
|--|------------------|------------------|---------------------------|------------------|----------------------|------------------|
| 31 Dec 2010 | | | | | | |
| At fair value through profit or loss | 219,472 | 160,194 | 0 | 82,235 | 2,798 | 464,698 |
| Available for sale | 4,082,197 | 30,176 | 0 | 39,554 | 62,375 | 4,214,301 |
| Held to maturity und loans & receivables | 1,823,617 | 1,350,829 | 300,633 | 2,888 | 10,377 | 3,488,344 |
| Total | 6,125,286 | 1,541,199 | 300,633 | 124,676 | 75,550 | 8,167,344 |
| 31 Dec 2009 | | | | | | |
| At fair value through profit or loss | 440,681 | 268,384 | 0 | 124,590 | 13,837 | 847,492 |
| Available for sale | 3,665,179 | 33,528 | 0 | 40,135 | 86,097 | 3,824,939 |
| Held to maturity und loans & receivables | 2,117,234 | 1,407,102 | 464,774 | 1,596 | 34,706 | 4,025,411 |
| Total | 6,223,093 | 1,709,014 | 464,774 | 166,320 | 134,640 | 8,697,841 |

Only some of the figures in the SIBP report include deferred interest. Furthermore, participation capital held in the investment book, bonds not eligible for the capital market and short-term government securities are not recorded as these are excluded due to technical or regulatory requirements rather than for strategic reasons.

Exposure with regard to European peripheral countries (Portugal, Ireland, Italy, Greece and Spain) is in a single-digit percentage of the total exposure of the strategic investment book positions. Of this, VBAG's greatest exposure relates to Italy – followed by Spain, Portugal, Ireland and Greece.

Portfolio distribution by credit rating

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|-------------------|------------------|------------------|
| 1A | 2,420,860 | 2,924,615 |
| 1B - 1C | 1,293,171 | 1,301,804 |
| 1D - 2 A | 2,245,832 | 2,282,337 |
| 2B - 3A | 1,464,461 | 1,322,125 |
| 3B - 4E (NIG) | 596,894 | 625,169 |
| 5A - 5E (Default) | 48,877 | 82,964 |
| No rating | 97,249 | 158,827 |
| Total | 8,167,344 | 8,697,841 |

Since no ratings are provided by the established rating agencies for fund & equity, a rating is not specified for this class in the relevant row.

Portfolio distribution by sector

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|-------------------|------------------|------------------|
| Financial sector | 2,449,205 | 2,316,993 |
| Public sector | 3,120,364 | 3,351,049 |
| Corporates | 1,057,022 | 1,284,459 |
| No classification | 1,540,753 | 1,745,340 |
| Total | 8,167,344 | 8,697,841 |

Securitisations and (in part) fund & equity are not assigned to a sector since their individual components may belong to different sectors.

The SIBP risk report has been prepared for the asset classes bonds and credit default swaps since 2009. The portfolio is broken down into 26 risk clusters on the basis of the criteria of currency, credit rating and sector. Republic of Austria exposure is presented separately in an additional risk cluster. The systemic credit spread is measured for each cluster on the basis of corresponding market indexes and a risk-free interest rate curve. This data is presented with daily-basis historical data going back to 2003. Quarterly changes to the credit spread are determined on the basis of this, which are in turn used to calculate the credit spread value at risk on the basis of a historical simulation. The SIBP risk report presents the credit spread value at risk, the conditional credit spread value at risk and a credit spread value at risk standardised on the basis of euro 100 million for each of the risk clusters described above, each with a 99% confidence level (holding period of 1 quarter). Taking into account the diversification effects between the individual risk factors, the report also shows the credit spread risk on a value at risk basis overall for the respective rating levels, the IFRS categories "at fair value through profit or loss" and "available for sale" and the overall portfolio.

As at 31 December 2010, the credit spread value at risk for the bond asset class (without bonds in default) was euro 210 million (31 December 2009: euro 310 million).

The credit spread value at risk is also included in the risk sustainability account as part of risk control for the entire bank. A sensitivity evaluation based on a 10 bp shift has been implemented along the same lines as a second risk concept for the risk clusters and factors described above, and is presented in the SIBP risk report.

A change in the credit spread of 10 bp would lead to a change in the net present value in the bond portfolio of euro 21 million (31 December 2009: euro 26 million), whereby euro 0.8 million (31 December 2009: euro 1.5 million) would be recognised in income and euro 14 million (31 December 2009: euro 17 million) would be recognised in equity (valuation reserve). The rest is attributed to bonds in the category "held to maturity and loans & receivables".

A risk limit has been introduced for the asset classes bonds and credit default swaps based on the risk measurement described, which will trigger pre-defined escalation procedures in the event of a limit being exceeded.

Limiting has also been put in place in the form of volume limits for securitisations at sub-asset class level, together with appropriate escalation procedures.

As well as the portfolio and risk report, carrying out various stress tests is also an important aspect of risk management for SIBP. Uniform Group-wide standards based on economic Group research are vital for risk management here. The implications of the macroeconomic environment for credit spreads for bonds and credit default swaps is assessed on the basis of historical data using a multivariate factor model. Using this estimated correlation, the stressed characteristics are determined for credit spreads based on the macroeconomic specifications. In this way, stress test results can be provided on an economic basis for the bond and credit default swap portfolio, which are then included in the economic total bank risk stress test. Stress test results are also provided for SIBP on a regulatory basis for the total bank risk stress test. These stress tests take place every six months.

All of the models described here are subject to regular backtesting in strategic risk management and are further developed on an ongoing basis in collaboration with other key departments.

Risk management and controlling

Market risk in the trading book

The key task in risk monitoring is estimating possible loss that could arise from unfavourable market developments on a daily basis. These value at risk calculations are performed using the internationally recognised software program KVaR+ using the method of historical simulation and essentially include the following calculation steps: following identification and definition of the market risk factors to be included in the modelling process, historical changes are identified from the time series of the market risk factors. The historic simulation method is based on the assumption that future changes can be forecasted from these historically observed changes.

To identify the future (hypothetical) development of market risk factors required for the VaR calculation, in each case the historically observed changes are added as an alternative to the current development of a risk factor, thus producing a hypothetical distribution for the future development of individual market risk factors. In the next step, hypothetical portfolio values are defined for the scenarios generated in this way that are then used to calculate the profit and loss distribution by mapping the differences between the hypothetical future and currently observed portfolio value. The VaR is obtained by applying the relevant quantile to the empirically calculated profit and loss distribution. The time series length used at VBAG corresponds with the minimum legal requirement of one year.

The amount of VaR is ascertained from the 1% quantile of the hypothetical profit and loss distribution, thus meeting the legal requirement of assuming a one-sided forecast interval with a probability level of 99% in the VaR calculation. VBAG calculates the VaR for a holding period of one day, which is then multiplied by the root of ten for the purpose of extrapolating a ten-day VaR. The capital requirements of products that are not integrated into the internal VaR model are covered in the standard procedure.

In December 2004, the Austrian Financial Market Supervisory Authority issued approval for calculating the capital requirements for market risk in the trading book in accordance with the model selected by VBAG. The VaR calculations cover the market risk in interest rate and currency-based positions pursuant to section 22o (2) no. 2 and 12 Austrian Banking Act and the risk in commodity positions pursuant to section 226 (6) Austrian Solvency Regulation (formerly section 3 (6) Austrian Regulation on Internal Models for the Limitation of Market Risk) and the general position risk in assets pursuant to section 22o (2) no. 5-7 Austrian Banking Act. Since the 2006 fiscal year, the residual components of the specific position risk in assets pursuant to section 22o (2) no. 3 Austrian Banking Act have been covered by the internal model. Based on the positive test results, the multiplier for calculating the equity was set at three.

The plausibility and reliability of the risk ratios is reviewed daily by way of backtesting. In this process, the potential risk amounts calculated by the model on a daily basis are compared ex post with the trading results, whereas the Austrian supervisory authorities favour the use of hypothetical trading results. An exception (outlier) is deemed to exist if a negative trading result exceeds the potential risk amount calculated by the model.

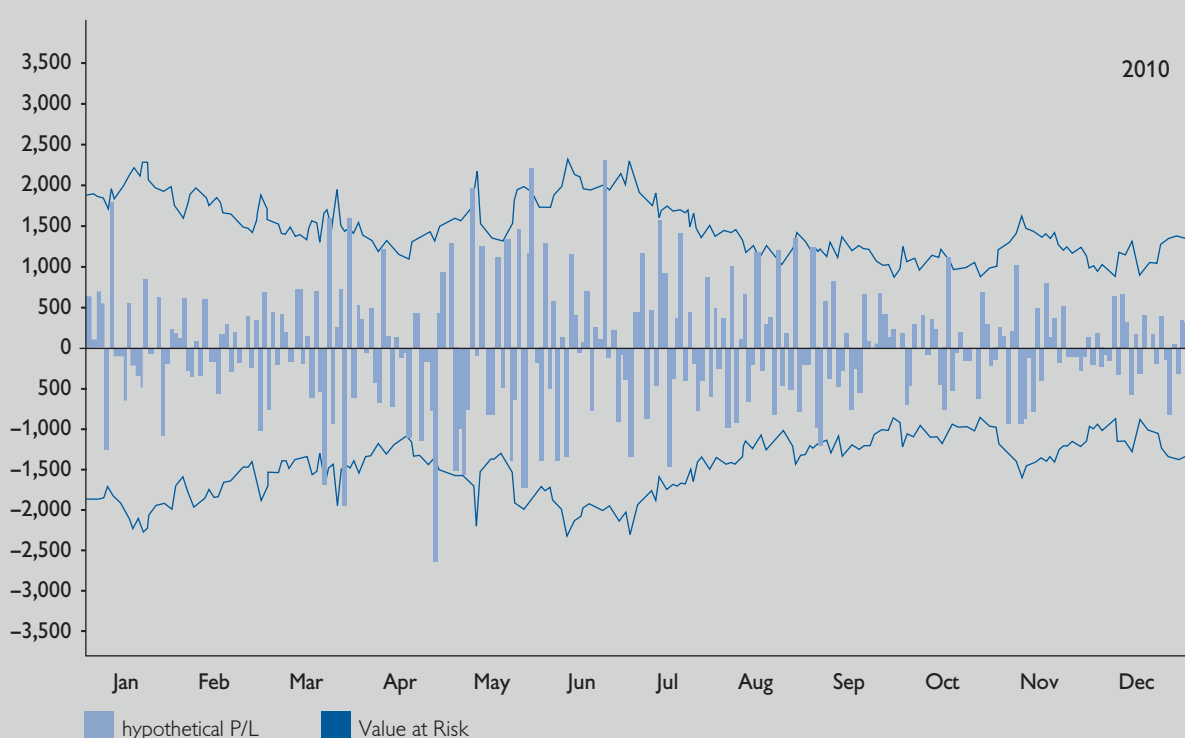
Backtesting at VBAG is based on hypothetical trading results and assumes that the portfolio is maintained at a constant level. The portfolio used as the basis for the VaR calculation is then revalued the following day with the current prices/results of the valuation models.

If the VaR determined ex ante is exceeded during the backtesting, an appropriate cause analysis is performed and immediately forwarded to the Austrian Financial Market Supervisory Authority (FMA) and the Austrian National Bank.

In 2010, there were two backtesting outliers. The best possible multiplier (three) for calculating the capital requirements will therefore be retained.

Backtesting results for the 2010 trading book

Euro thousand



A hierarchical limit system approved by the Managing Board is a key element of market risk management. The desired higher degree of diversification in the portfolios and the trading strategy are key factors in the development of this limit structure. In addition to VaR, a further series of risk ratios are calculated up to department level. These chiefly include interest rate sensitivities and option risk ratios (delta, gamma, vega, rho).

Volume limits for all currencies and product groups limit the liquidity risk. Management action triggers and stop loss limits are also in place. Besides the KVaR+ risk engine, the front office systems Kondor+ and Bloomberg TS are available for daily risk controlling. The external pricing software UnRisk is also used to support the valuation of structured products. Comprehensive position data management and daily market data checks ensure optimal data quality.

As the effects of extreme situations on earnings cannot be covered by VaR, stress tests using around 80 historical and portfolio-specific worst case scenarios are performed monthly or as required. These crisis tests are mandatory under section 22p Austrian Banking Act for banks that use an internal model for calculating the regulatory capital requirements for market risk in the trading book.

The crisis tests are of both a quantitative and a qualitative nature. The quantitative criteria determine plausible crisis scenarios with which the banks could be confronted. Qualitative criteria ensure that two important objectives of the crisis tests are brought to the fore: assessing whether the bank's own funds can absorb potential major losses and identifying measures with which the bank can reduce its risk and retain its equity.

The VBAG risk monitoring office performs extensive crisis tests on a monthly basis. For VBAG, extensive means that crisis tests are performed across all trading book portfolios. Once a month and at least once a quarter, an expert committee analyses the results, which are also subject to limits, and documents them in detail. Quarterly reports are also submitted to the supervisory authorities (Austrian Financial Market Supervisory Authority and the Austrian National Bank).

Quantitative standards, which VBAG meets by conducting crisis tests, concern the plausibility of the selected scenarios. Plausible scenarios to which the bank may be exposed in the course of critical market events are determined. For selecting scenarios, VBAG has chosen to apply four methods which are in turn divided into two categories, namely non-portfolio-specific and portfolio-specific methods:

Non-portfolio-specific methods:

- Historical crises
- Standardised scenarios
- Historical simulation

Portfolio-specific methods:

- Scenario building by expert committees

Historical crises

Here, crises that have occurred in the past, for example 11 September 2001, are implemented as scenarios and applied to the current portfolio, with the largest one-day return implemented as a crisis over the observed time interval.

Standardised scenarios

When implementing these scenarios, VBAG mostly uses the scenario suggestions of the Austrian National Bank in Volume 5 of the guide series on conducting crisis tests. The following standard scenarios are among those implemented:

- Parallel shifts in interest rate curves
- Tilts in interest rate curves
- Changes in exchange rates
- Significant changes in share indexes
- Changes in volatilities

The scope of the changes made is also based on the suggestions of the Austrian National Bank guide series.

Historical simulation

With this method, the portfolio is valued using the VaR approach of historical simulation. The simulated changes in value are sorted in ascending order and the largest loss incurred is used as the stress test result. To investigate extremely negative scenarios, the largest losses incurred are added at sub-portfolio level independently of the days on which they occurred, thus deliberately negating portfolio effects.

Scenario building by expert committees (worst case scenarios)

These scenarios stress all relevant risk types and attempt to find the most unfavourable possible impact for the VBAG treasury portfolio. At VBAG, such scenarios are sought subjectively and empirically. VBAG has established an expert committee comprising representatives from trading and market risk management that constructs and discusses various scenarios that would have a decisive influence on trading positions which, although generally unlikely, are still possible.

Extreme developments on the market are discussed and analysed in detail in the expert committee of VBAG with a view to identifying any potential need to adjust the expert scenarios. With the exception of the FSAP bottom-up scenarios in 2008, extreme scenarios have been implemented and further adjustments discussed (particularly with regard to market liquidity risk) but were not deemed necessary by the experts, as the trading book of VBAG only contains highly liquid positions for the most part.

Valuations

In accordance with section 198 Austrian Solvency Regulation, banks must value each position allocated to the trading book pursuant to section 22n Austrian Banking Act at market prices at least once a day. The positions must be valued based on close-out prices obtained from independent sources. If a direct valuation at market prices is not possible, in accordance with section 199 Austrian Solvency Regulation banks are permitted to perform a valuation using model prices.

VBAG has mapped all trading book positions in a Kondor+ front office and risk management system that is directly linked to various price information systems. This means that the market prices for different products are updated in real time. Products that are not referenced to any direct price are valued with valuation models using market data (market risk factors) in this standard software.

Structured or exotic products whose model prices cannot be calculated in the standard software are valued using an external price calculator whose model results are compared with tradable prices on the market as part of a test phase during model testing.

The systems described above ensure a daily, independent valuation of trading book positions.

Well-organised, efficient processes and procedures are an important component of risk management. The process for launching new treasury products, which falls under the remit of the Group market risk management department, also plays an important role in this context.

All the rules and organisational processes connected with measuring and monitoring market risks are compiled in the VBAG market risk manual. The manual also stipulates the limit structure and escalation procedures in the event of limits being exceeded.

Interest rate risks in the investment book

The risk measurement system records all the main forms of interest rate risk, such as basis and option risks. All Group positions sensitive to interest rate movements are included. Risk reporting takes place on a monthly or an ad hoc basis whenever necessary. The objective of risk management is to keep the bank's interest rate risks within specific parameters defined by the bank itself.

Positions with no specific lock-in period, which are primarily core deposit products such as savings deposits, current account deposits and loans with no fixed maturity are incorporated in the risk measurement using fictions. The assumptions were made based on statistical analyses or experience values or using expert opinions. The assumptions made were documented, are adhered to at all times and regularly reviewed with regard to their validity. Any deviations are also documented and displayed, provided that they are justified by facts. To approximate the basis risk within the gap process report, products (interest rate swaps, bonds, loans) whose lock-in period is not equal to the interest rate adjustment and is greater than or equal to one year are placed in maturity bands by replicating fixed-interest portfolios. This relates to those positions for which interest rates are fixed in line with secondary market rates of return (SMR) or a constant maturity swap (CMS).

Risk reports

A building block of reporting is the gap report, which also forms the basis for interest rate risk statistics in line with the gap analysis method. To determine the gaps, products sensitive to interest rate movements are allocated to the appropriate maturity band according to their remaining maturity or the points at which interest rates are to be fixed. Initial risk ratios are obtained from calculating the net positions and weighting them using the associated weighting factors. A further risk ratio is obtained by then correlating the present value risk calculated in this way with the own funds.

As an additional step, a gap report is produced that approximates the basis risk, e.g. of positions that are linked to secondary market rates of return, by replicating fixed-interest portfolios.

Additional present value reports are produced to obtain further ratios. Besides parallel shifts, tilts in interest rate curves are used. These scenarios and stress tests are regularly examined as to their validity and may be added to or replaced.

Currently, the following scenarios are implemented:

- Parallel shift of +1 bp, +10 bp, +25 bp and +50 bp
- Parallel shift of -1 bp, -10 bp, -25 bp and -50 bp

Stress testing refers to the development of scenarios for extreme market conditions. Interest rate shocks that can lead to extraordinary losses for the bank are a fixed component of stress tests in risk management.

Currently, the following stress tests are performed:

- Parallel shift of +100 bp and +200 bp
- Parallel shift of -100 bp and -200 bp
- Tilt/money market +100 bp, capital market -100 bp
- Risk stress tests are conducted half-yearly as part of the ICAAP. The scenarios used (mild and severe recession) are determined and examined in advance.

As well as the maximum limit defined by the Supervisory Authority of 20% of eligible qualifying capital with a standardised interest rate curve shift of 200 bp based on interest rate risk statistics, further, and in many cases considerably lower, limits are defined and monitored for the purpose of limiting internal risk across the Group.

At VBAG, limits are set using the interest rate sensitivity limit (PVBPs) and gap volume limits for the main currencies (EUR, USD, CHF, JPY).

Group gap report

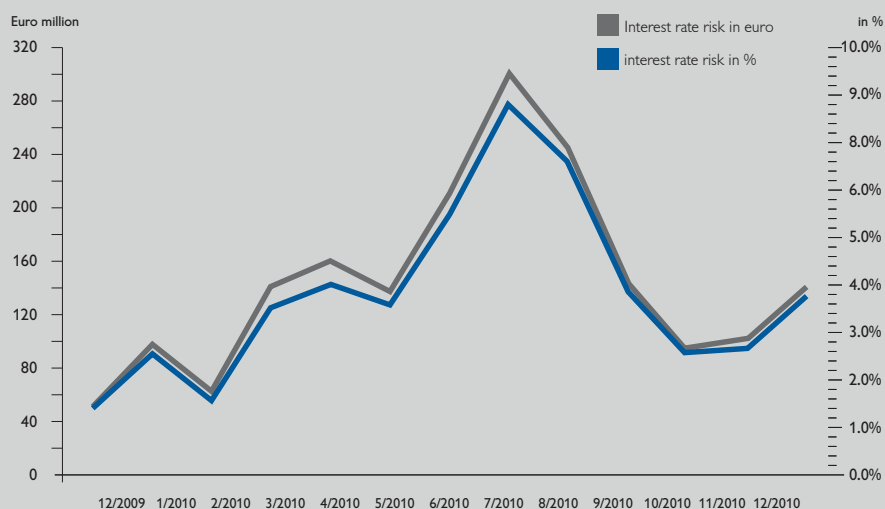
Absolute interest rate risk has increased year-on-year from euro 50.8 million (1.48% of own funds) to euro 126.3 million (3.78% of own funds).

In comparison to the comparative period, these changes totalled euro 75 million on an absolute basis or an increase of 2.3 percentage points in relation to own funds. This table shows the distribution of the interest rate risk in the event of a shift of +200 bp across the four main currencies. Other represents a collective item for any items present in the Group in further currencies.

| Euro thousand Currency | 2010 | | 2009 | |
|---------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|
| | Interest rate risk | In % of qualifying capital | Interest rate risk | In % of qualifying capital |
| EUR | 61,128 | 1.83% | 13,340 | 0.39% |
| USD | 1,065 | 0.03% | 1,775 | 0.05% |
| CHF | 34,943 | 1.05% | 7,365 | 0.21% |
| JPY | 602 | 0.02% | 9,461 | 0.28% |
| Others | 28,541 | 0.85% | 18,898 | 0.55% |
| Total | 126,278 | 3.78% | 50,838 | 1.48% |

Interest rate risk development

This graph shows the net present value interest rate risk in millions of euro (left axis) and in relation to eligible qualifying capital (right axis) over time. In the 2010 business year, a stable interest rate risk was apparent which was low in relation to own funds. Maximum utilisation in the 2010 business year was 8.7% (July 2010), and the smallest utilisation was 1.78% (February 2010).



f) Operational risk

Definition

The VBAG Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. Beyond the stipulations of banking law provisions, VBAG also takes legal risks and reputational risks, such as those arising from disruptions to business processes, into account in the risk assessment.

Organisation and risk strategy

Both quantitative and qualitative methods are used in the measurement of operational risks. The line management responsible for managing operational risks receives support from the OpRisk control function based in strategic risk management. Local business line operational risk managers in the business units, risk committees based in some Group member units and close collaboration with other Group functions such as audit, compliance, legal as well as security, safety and insurance management ensure optimum and comprehensive management of operational risks.

Risk management and controlling

Since January 2008, capital requirement has for the most part been based on the standard approach (exception: VB Ukraine and VB Banja Luka are using the basic indicator approach up to and including 2010).

The following policies and principles derived from the risk strategy apply to OpRisk management at VBAG:

- The foremost aim of the entire OpRisk management process is to optimise processes to decrease the likelihood of events occurring and/or the impact of operational losses.
- Events must be documented fully and in a sufficiently comprehensible manner to enable third-party experts to make use of the documentation. Since 2004, operational events throughout the Group have been recorded in a standardised fashion. The resulting transparency with regard to the events that have occurred makes it possible to produce a risk assessment derived from historical data.
- The methods, systems and processes in OpRisk management must be adapted to the respective institution in observance of Group requirements in line with the proportionality principle.
- The adequacy of management and monitoring measures and other measures aimed at minimising risk must be reassessed taking the risk potential into consideration on a continual basis and at least once a year. Risk maps are produced and risk and control assessments are performed during workshops and consultations with experts and the results reported to line management and risk management as well as to management/the Managing Board. Management measures relevant in this context include awareness-raising initiatives/training, ensuring confidentiality, availability and integrity of customer and company data and operational contingency planning, as well as, in particular, adequate separation of responsibilities and application of the principle of dual control. These internal control and management measures integrated in business processes provide for an appropriate and acceptable level of risk within the organisation and ensure sustainable business performance.
- (Remaining) operational risks that cannot be prevented, reduced or transferred must be formally and verifiably accepted by the risk owner.
- Implementation of additional management and monitoring measures and further measures aimed at minimising risk must be monitored and the effectiveness of the measures assessed as part of periodic audits. The effectiveness of operational risk management is also confirmed by way of periodic independent audits.

In addition to the systematic assessment of operational risks, work on enhancing the early warning system (key risk indicators), detailed consideration of risk scenarios posing a threat to the company and appropriate precautionary measures for hedging risks is in progress. In particular, the management of misappropriation risk and external fraud risks were the focus of initiatives in 2010 as well.

Changes in the 2010 business year

Extensive training (introduction to OpRisk management, training sessions aimed at promoting risk and safety awareness and technical training for the OpRisk platform etc.) has significantly raised employees' awareness of the issue. Furthermore, by means of targeted awareness training measures such as the electronic OpRisk newsletter and regular meetings with the OpRisk point of contact, the employees concerned have been quickly provided with the latest information.

The existing risk and control assessments have been revised in order to update the assessment of the current risk situation.

In the course of operating contingency planning, analyses were carried out and the optimisation of processes continued to be pushed as an aim of risk controlling. Emergency drills were carried out in selected units.

g) Liquidity risk

Definition

Liquidity risk is defined as the risk of not being able to meet payment obligations on their due date or not being able to raise the liquidity required at the conditions expected as and when necessary. Liquidity risk is controlled by means of monitoring surpluses from the allocation of cash flows of all asset and liability items to defined maturity bands.

Organisation and strategy

ALM and liquidity management

Operative liquidity management, short-term reporting and long-term, strategic liquidity management are all combined within one unit in the ALM division. ALM/liquidity management is the central department in the Group for all liquidity issues. These include in particular liquidity pricing (transfer pricing), Group-wide, central management of collateral, establishing the funding structure, managing available liquid assets and ensuring compliance with the refinancing strategy.

In addition, liquidity management is documented via the liquidity manual and the liquidity emergency manual.

Risk management and controlling

ALM and liquidity management

Through the use of both tried-and-tested instruments and newly developed tools, operational liquidity management ensures compliance with legal provisions, daily reporting and liquidity provision within the Group within short timeframes.

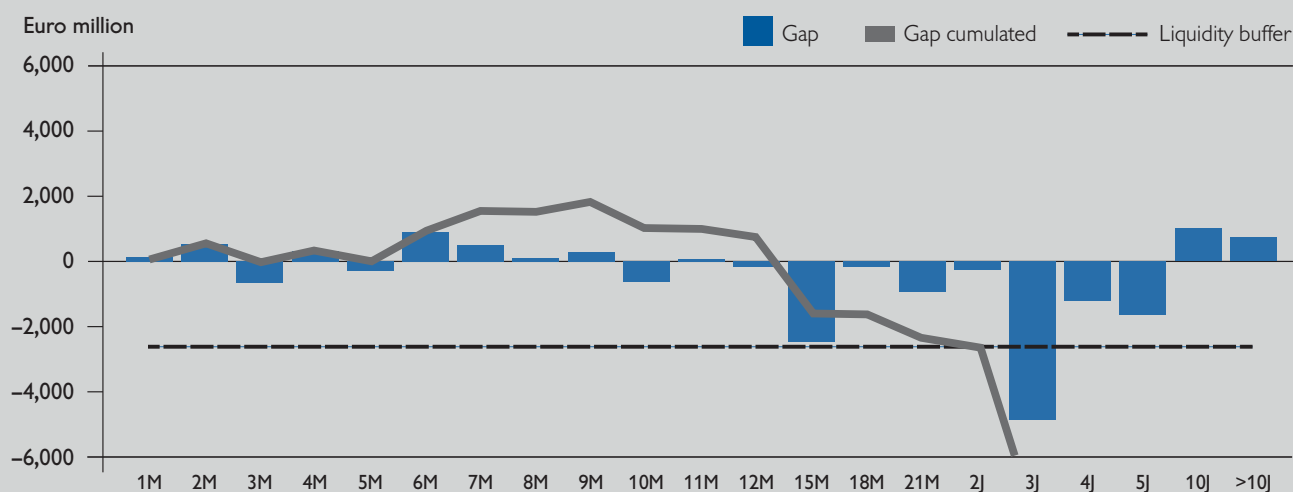
Operational liquidity management comprises five key tasks:

1. Cash management, supported by a real-time cash management system, provides for prompt management of the nostro accounts maintained by VBAG in all currencies as well as funding of CLS netting positions. An intraday comparison of data from cash management with the cash flows from day-to-day liquidity planning is performed. Further cash management tasks included monitoring the TARGET II platform and Austrian National Bank accounts and monitoring large-volume payments.
2. The management of ECB eligible collateral (eligible bonds and credit claims) and the initiation/use of ECB refinancing enables optimal use of the collateral portfolio, taking planning data and cash management requirements into consideration.
3. Liquidity planning is carried out on a daily basis for the next 31 days and on a weekly basis for the next 12 months. The enhanced planning tool allows for a liquidity outlook based on the net cash flow in all currencies up to product level. Daily modelling of cash flows is carried out at product level and includes market, institution and product-specific data and daily valuation of all items mapped in foreign currencies in order to be able to model liquidity requirements arising from currency fluctuations.
4. Compliance with the legal provisions of section 25 Austrian Banking Act in connection with managing ECB collateral and monitoring liquid funds is a key element of liquidity management and have a decisive influence in ALM together with liquidity planning.
5. Planning and complying with the minimum reserve provisions (compliance) for VBAG and the association of Volksbanks while taking liquidity planning into account and regularly reporting to the Managing Board are also part of the task area.

Risk reports

To present the structural liquidity risk management in the bank, the Group market risk management department creates a liquidity gap report that takes into account both deterministic and stochastic capital cash flows and interest rate cash flows of on- and off-balance sheet products. The cash flows are calculated and modelled in their original currency first of all and are then aggregated and translated into euro. Surplus cover and deficits from the cumulative cash flows are identified and analysed using the GAP method. The report visualises the net cash flows for each maturity band, the cumulative cash flow and the liquidity buffer. The liquidity buffer comprises all available and unencumbered assets accepted as collateral by the ECB and SNB.

Liquidity gap report for VBAG Group as at 31 December 2010



The most important key rate indicator, the structural survival period, is determined from the point at which the cumulative cash flow and liquidity buffer lines intersect. The structural survival period is 23 months.

h) Real estate risk

Definition

VBAG defines real estate risk as the risk that potentially negative changes in value in the Group's own real estate portfolio will come about as a result of a general fall in value or rent.

Organisation and strategy

In this context the focus is placed on real estate risk entered into as part of asset management. As regards project companies, particular attention is paid to overlaps with investment risk and credit risk. The sale of Europolis has reduced the volume of the portfolio under observation by more than 80%.

Risk management and controlling

In order to control real estate risks at portfolio level, VBAG developed a dedicated internal approach based on a value at risk model to quantify the real estate risk. Since 2010, the results have been included in the ongoing risk reporting process.

Risk reports

Real estate risk reporting at portfolio level is carried out quarterly as part of the Group risk report.

i) Other risks

In terms of other risks, the VBAG Group is confronted with strategic risk, reputational risk, equity risk and business risk. Although other risks are not of key significance to the VBAG Group, they are intrinsic to its operations.

While business risk is to be quantified using value at risk in future, this type of measurement is not possible for the other risk sub-groups of strategic risk, reputational risk and equity risk. Mainly organisational measures are implemented for the management of other risks.

A capital buffer is therefore defined in order to protect against other risks and the risk arising from market value changes of investment valuations.

53) Fully consolidated companies ¹⁾

| Company names and headquarters | Type* | Equity interest | Share in voting rights | Nominal capital in euro thousand |
|---|-------|-----------------|------------------------|----------------------------------|
| "VBL POSREDNIK" d.o.o.; Sarajewo | SO | 49.36% | 49.95% | 1 |
| "VBRO Services" SRL; Bukarest | HD | 50.66% | 50.83% | 7 |
| "VBV iota" - IEB Holding GmbH; Wien | SO | 33.33% | 33.33% | 36 |
| 3V-Immobilien Errichtungs-GmbH; Wien | HD | 100.00% | 100.00% | 35 |
| 4P - Immo. Praha s.r.o.; Praha | SO | 75.00% | 75.00% | 8 |
| ACP IT-Finanzierungs GmbH; Wien | FI | 75.00% | 75.00% | 150 |
| ARENATURIST VILE d.o.o.; Zagreb | SO | 100.00% | 100.00% | 1,155 |
| AWP Liegenschaftsverwaltung GmbH; Wien | HD | 100.00% | 100.00% | 145 |
| Back Office Service für Banken GmbH; Wien | HD | 98.89% | 98.89% | 327 |
| Banka Volksbank d.d.; Ljubljana | KI | 48.91% | 48.91% | 43,140 |
| Bedellan Properties Limited; Limassol | SO | 65.00% | 65.00% | 11 |
| BEVO-Holding GmbH; Wien | SO | 51.00% | 51.00% | 35 |
| Bonifraterska Development Sp.zoo; Warszawa | SO | 100.00% | 100.00% | 132 |
| Cefin Real Estate BV SRL; Bukarest | SO | 52.00% | 52.00% | 13,000 |
| Com Park Kft.; Budapest | SO | 65.00% | 65.00% | 11 |
| Edesiana Ltd.; Limassol | SO | 100.00% | 100.00% | 1 |
| EPC Kappa Limited; Limassol | SO | 100.00% | 100.00% | 11 |
| EPC Lambda Limited; Limassol | SO | 75.00% | 75.00% | 11 |
| EPC Ledum Limited; Limassol | SO | 100.00% | 100.00% | 11 |
| EPC Omikron Limited; Limassol | SO | 65.00% | 65.00% | 55 |
| EPC Pi Limited; Limassol | SO | 65.00% | 65.00% | 2 |
| EPC Platinum Limited; Limassol | SO | 100.00% | 100.00% | 2 |
| EPC Rho Limited; Limassol | SO | 65.00% | 65.00% | 2 |
| EPC Three Limited; Limassol | SO | 65.00% | 65.00% | 2,491 |
| EPC Two Limited; Limassol | SO | 65.00% | 65.00% | 969 |
| Europolis ABP Kft.; Budapest | SO | 51.00% | 51.00% | 110 |
| Europolis AG; Wien | HD | 100.00% | 100.00% | 5,000 |
| Europolis Bitwy Warszawskiej Sp.z.o.o.; Warszawa | SO | 51.00% | 51.00% | 13 |
| EUROPOLIS CE Alpha Holding GmbH; Wien | HD | 65.00% | 65.00% | 36 |
| EUROPOLIS CE Amber Holding GmbH; Wien | SO | 100.00% | 100.00% | 35 |
| EUROPOLIS CE Gamma Holding GmbH; Wien | HD | 65.00% | 65.00% | 35 |
| EUROPOLIS CE Istros Holding GmbH; Wien | SO | 100.00% | 100.00% | 35 |
| EUROPOLIS CE Kappa Holding GmbH; Wien | HD | 100.00% | 100.00% | 35 |
| EUROPOLIS CE Lambda Holding GmbH; Wien | HD | 75.00% | 75.00% | 35 |
| EUROPOLIS CE Ledum Holding GmbH; Wien | HD | 100.00% | 100.00% | 35 |
| Europolis CE My Holding GmbH; Wien | HD | 75.00% | 75.00% | 35 |
| EUROPOLIS CE Omikron Holding GmbH; Wien | HD | 65.00% | 65.00% | 35 |
| EUROPOLIS CE Pi Holding GmbH; Wien | HD | 65.00% | 65.00% | 35 |
| EUROPOLIS CE Rho Holding GmbH; Wien | HD | 65.00% | 65.00% | 35 |
| Europolis CE Sigma Holding GmbH; Wien | HD | 65.00% | 65.00% | 35 |
| Europolis CE Tau Holding GmbH; Wien | HD | 65.00% | 65.00% | 35 |
| EUROPOLIS CE Tilia Holding GmbH; Wien | SO | 65.00% | 65.00% | 35 |
| Europolis City Gate Kft.; Budapest | SO | 65.00% | 65.00% | 47 |
| EUROPOLIS Duat Holding GmbH & Co OG; Wien | HD | 100.00% | 100.00% | 2,907 |
| Europolis Harbour City s.r.o.; Bratislava | SO | 65.00% | 65.00% | 23,629 |
| Europolis Infopark Ingtatlanüzemeltő Kft.; Budapest | SO | 51.00% | 51.00% | 19 |
| Europolis IPW Kft.; Budapest | SO | 65.00% | 65.00% | 181 |
| Europolis Lipowy Office Park Sp.z.o.o.; Warszawa | SO | 100.00% | 100.00% | 18 |
| Europolis M1 Kft.; Budapest | SO | 51.00% | 51.00% | 198 |
| Europolis Orhideea B.C. SRL; Bukarest | SO | 65.00% | 65.00% | 21,668 |
| Europolis Park Blonie Sp. z.o.o.; Warszawa | SO | 65.00% | 65.00% | 275 |
| Europolis Park Bucharest Alpha S.R.L.; Bukarest | SO | 65.00% | 65.00% | 12,802 |
| Europolis Park Bucharest Beta S.R.L.; Bukarest | SO | 65.00% | 65.00% | 1,800 |
| Europolis Park Bucharest Delta S.R.L.; Bukarest | SO | 65.00% | 65.00% | 0 |
| Europolis Park Bucharest Gamma S.R.L.; Bukarest | SO | 65.00% | 65.00% | 2,000 |

| Company names and headquarters | Type* | Equity interest | Share in voting rights | Nominal capital in euro thousand |
|--|-------|-----------------|------------------------|----------------------------------|
| Europolis Park Bucharest Infrastructura S.R.L.; Bukarest | SO | 65.00% | 65.00% | 600 |
| EUROPOLIS PHEME Holding GmbH; Wien | HD | 100.00% | 100.00% | 18 |
| Europolis Real Estate Asset Management GmbH; Wien | SO | 100.00% | 100.00% | 35 |
| Europolis Real Estate Asset Management Kft.; Budapest | SO | 100.00% | 100.00% | 11 |
| Europolis Real Estate Asset Management LLC; Moskau | SO | 99.99% | 99.99% | 644 |
| EUROPOLIS REAL ESTATE ASSET MANAGEMENT LTD.; Limassol | SO | 100.00% | 100.00% | 2 |
| Europolis Real Estate Asset Management S.R.L.; Bukarest | SO | 100.00% | 100.00% | 231 |
| Europolis Real Estate Asset Management s.r.o.; Praha | SO | 100.00% | 100.00% | 40 |
| Europolis Real Estate Asset Management Sp. z o.o.; Warszawa | SO | 100.00% | 100.00% | 126 |
| EUROPOLIS Sarisu Holding GmbH; Wien | SO | 100.00% | 100.00% | 35 |
| Europolis Saski Crescent Sp.z.o.o.; Warszawa | SO | 51.00% | 51.00% | 13 |
| Europolis Saski Point Sp. z.o.o.; Warszawa | SO | 51.00% | 51.00% | 13 |
| Europolis Sema Park S.R.L.; Bukarest | SO | 65.00% | 65.00% | 26,170 |
| Europolis Sienna Center Sp. z.o.o.; Warszawa | SO | 51.00% | 51.00% | 1,152 |
| EUROPOLIS Technopark s.r.o.; Praha | SO | 51.00% | 51.00% | 8 |
| EUROPOLIS Zagrebtower d.o.o.; Zagreb | SO | 65.00% | 65.00% | 2,079 |
| Gefinag-Holding AG; Wien | HD | 100.00% | 100.00% | 436 |
| Grieshofgasse 11 Liegenschaftsverwaltungs GmbH; Wien | FI | 100.00% | 100.00% | 35 |
| GUB-Holding GmbH; Wien | SO | 100.00% | 100.00% | 18 |
| Heilbad Sauerbrunn Betriebsgesellschaft m.b.H. & Co.KG.; Bad Sauerbrunn | SO | 100.00% | 100.00% | 3,511 |
| IC Investment Corporation Limited; Msida, Malta | HD | 100.00% | 100.00% | 7 |
| IKIB alpha Beteiligungsholding GmbH; Wien | SO | 100.00% | 100.00% | 35 |
| IKIB beta Beteiligungsholding GmbH; Wien | SO | 100.00% | 100.00% | 35 |
| IKIB gamma Beteiligungsholding GmbH; Wien | SO | 100.00% | 100.00% | 8,000 |
| IKIB Mittelstandsfinanzierungs AG; Wien | SO | 100.00% | 100.00% | 7,300 |
| Immocon Alpha Leasinggesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 18 |
| Immocon Beta Leasinggesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 18 |
| Immocon Delta Leasinggesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 36 |
| Immocon Gamma Leasinggesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 36 |
| Immocon Psi Leasinggesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 18 |
| Immocon Rho Leasinggesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 18 |
| Immoconsult "Citycenter" Leasinggesellschaft m.b.H.; Wien | FI | 51.00% | 51.00% | 18 |
| Immoconsult Asset Leasing GmbH; Wien | FI | 100.00% | 100.00% | 18 |
| Immoconsult drei Liegenschaftsvermietung Gesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 36 |
| Immoconsult eins Liegenschaftsvermietung Gesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 18 |
| Immoconsult Herkules Leasinggesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 73 |
| IMMOCONSULT LEASING ROMANIA IFN S.A.; Bukarest | FI | 100.00% | 100.00% | 169 |
| Immoconsult Leasinggesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 3,270 |
| Immoconsult neun Liegenschaftsvermietung Gesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 19 |
| Immoconsult Prater I Leasinggesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 18 |
| Immoconsult Projektentwicklung GmbH; Wien | HD | 100.00% | 100.00% | 18 |
| Immoconsult zwei Liegenschaftsvermietung GesmbH.; Wien | SO | 100.00% | 100.00% | 18 |
| Immokik s.r.l.; Bukarest | FI | 50.92% | 50.92% | 1 |
| Imobilia Kik s.r.o.; Praha | FI | 100.00% | 100.00% | 8 |
| Imobilia Sen s.r.o.; Praha | FI | 100.00% | 100.00% | 8 |
| Imobilia Spa s.r.o.; Praha | FI | 100.00% | 100.00% | 16 |
| Intermed Consulting & Management S.R.L.; Bukarest | SO | 65.00% | 65.00% | 0 |
| Investkredit Bank AG; Wien | KI | 100.00% | 100.00% | 46,000 |
| Investkredit Funding II Ltd.; St. Helier - JERSEY | HD | 60.09% | 100.00% | 10 |
| Investkredit Funding Ltd.; St. Helier - JERSEY | HD | 60.09% | 100.00% | 10 |
| Investkredit International Bank p.l.c.; Sliema | KI | 60.09% | 100.00% | 65,000 |
| Investkredit Investmentbank AG; Wien | KI | 100.00% | 100.00% | 5,088 |
| Investkredit-IC Holding alpha GmbH; Wien | SO | 100.00% | 100.00% | 35 |
| Investkredit-IC Holding beta GmbH; Wien | SO | 100.00% | 100.00% | 35 |
| Leasing - west Gesellschaft m.b.H. & Co. Kommanditgesellschaft; Kufstein | FI | 100.00% | 100.00% | 1,124 |
| Leasing-west Gesellschaft m.b.H.; Kufstein | FI | 100.00% | 100.00% | 36 |

| Company names and headquarters | Type* | Equity interest | Share in voting rights | Nominal capital in euro thousand |
|--|-------|-----------------|------------------------|----------------------------------|
| Leasing-west GmbH, BRD; Kiefersfelden | FI | 100.00% | 100.00% | 51 |
| Magyarországi Volksbank zrt; Budapest | KI | 48.67% | 49.72% | 54,204 |
| Mithra Holding Gesellschaft m.b.H.; Wien | SO | 100.00% | 100.00% | 18 |
| Mithra Unternehmensverwaltung Gesellschaft m.b.H.; Wien | HD | 100.00% | 100.00% | 18 |
| OLYMPIA Mladá Boleslav s.r.o.; Praha | SO | 51.00% | 51.00% | 80 |
| OLYMPIA Teplice s.r.o.; Praha | SO | 51.00% | 51.00% | 80 |
| Oprah Enterprises Limited; Limassol | SO | 100.00% | 100.00% | 3 |
| ÖVAG FINANCE (JERSEY) LIMITED; St. Helier - JERSEY | HD | 100.00% | 100.00% | 0 |
| PJSC Volksbank; Lviv | KI | 50.95% | 50.95% | 33,739 |
| Poland Central Unit 1 Sp. z.o.o.; Warszawa | SO | 75.00% | 75.00% | 2,956 |
| PPI ONE Ltd.; Limassol | SO | 100.00% | 100.00% | 9 |
| Premiumred Polska spzoo; Warszawa | SO | 100.00% | 100.00% | 12 |
| PREMIUMRED Real Estate Development GmbH; Wien | SO | 100.00% | 100.00% | 18 |
| Premiumred Romania S.R.L.; Bukarest | SO | 100.00% | 100.00% | 0 |
| PRI FIVE Limited; Limassol | SO | 100.00% | 100.00% | 2 |
| PRI TWO Ltd.; Limassol | SO | 100.00% | 100.00% | 7 |
| Privatinvest d.o.o.; Ljubljana | HD | 48.91% | 48.91% | 2,296 |
| RCP Alfa s.r.o.; Praha | SO | 51.00% | 51.00% | 40 |
| RCP Amazon s.r.o.; Praha | SO | 65.00% | 65.00% | 40 |
| RCP Beta s.r.o.; Praha | SO | 65.00% | 65.00% | 2,945 |
| RCP Delta s.r.o.; Praha | SO | 65.00% | 65.00% | 40 |
| RCP Gama s.r.o.; Praha | SO | 65.00% | 65.00% | 3,868 |
| RCP ISC s.r.o.; Praha | SO | 65.00% | 65.00% | 40 |
| REWO 10 Limited; Limassol | SO | 100.00% | 100.00% | 2 |
| REWO 90 Limited; Limassol | SO | 100.00% | 100.00% | 2 |
| REWO Holding GmbH; Wien | SO | 100.00% | 100.00% | 18 |
| S.C. IMMOROM DELTA SRL; Bukarest | SO | 100.00% | 100.00% | 4,251 |
| Selini Holding GmbH; Wien | SO | 100.00% | 100.00% | 35 |
| Terminál Közép Európai Kft.; Budapest | SO | 75.00% | 75.00% | 12 |
| TK Czech Development IX s.r.o.; Praha | SO | 100.00% | 100.00% | 4 |
| TzOV "Europolis Property Holding"; Kiev | SO | 65.10% | 65.10% | 18,198 |
| TzOV "Europolis Real Estate AM"; Kiev | SO | 100.00% | 100.00% | 200 |
| TzOV "Logistik-Tsentr A"; Kiev | SO | 65.10% | 65.10% | 1,106 |
| Új Garai tér Ingatlanforgalmi Kft.; Budapest | SO | 48.67% | 49.72% | 2,518 |
| Unternehmensbeteiligungs Gesellschaft mit beschränkter Haftung; Wien | SO | 100.00% | 100.00% | 73 |
| UVB-Holding GmbH; Wien | SO | 100.00% | 100.00% | 35 |
| VB Factoring Bank Aktiengesellschaft; Salzburg | KI | 100.00% | 100.00% | 2,907 |
| VB GFI AG; Wien | HD | 100.00% | 100.00% | 1,000 |
| VB Leasing CZ. spol.s.r.o.; Brno | FI | 50.00% | 50.00% | 142,770 |
| VB LEASING d.o.o.; Zagreb | FI | 50.11% | 50.13% | 10,131 |
| VB Leasing doo Beograd; Novi Beograd | FI | 49.72% | 49.72% | 4,047 |
| VB Leasing Finanzierungsgesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 18 |
| VB LEASING POLSKA S.A.; Wroclaw | FI | 50.00% | 50.00% | 2,023 |
| VB LEASING ROMANIA IFN S.A.; Bukarest | FI | 50.13% | 50.17% | 240 |
| VB Leasing Services, spol. s.r.o.; Brno | FI | 50.00% | 50.00% | 407 |
| VB LEASING SK. spol. s.r.o.; Bratislava | FI | 49.55% | 49.60% | 4,149 |
| VB LEASING Sprostredkovateľská s.r.o.; Bratislava | SO | 49.55% | 49.60% | 5 |
| VB Technologie Finanzierungs GmbH; Wien | FI | 100.00% | 100.00% | 100 |
| VB Vermögensanlage Gesellschaft m.b.H.; Wien | SO | 100.00% | 100.00% | 73 |
| VB-Holding Aktiengesellschaft; Wien | SO | 100.00% | 100.00% | 73 |
| VBI Beteiligungs GmbH; Wien | SO | 51.00% | 51.00% | 35 |
| VBI Holding GmbH; Wien | SO | 100.00% | 100.00% | 36 |
| VBKA-Holding GmbH; Wien | SO | 100.00% | 100.00% | 35 |
| VBL BROKER DE ASIGURARE SRL; Bukarest | SO | 50.13% | 50.17% | 6 |
| VBL SERVICES DOO BEOGRAD; Beograd | FI | 50.00% | 50.00% | 78 |
| VB-Leasing International Holding GmbH; Wien | SO | 50.00% | 50.00% | 5,603 |
| VBS HISA d.o.o.; Ljubljana | FI | 49.96% | 49.96% | 626 |

| Company names and headquarters | Type* | Equity interest | Share in voting rights | Nominal capital in euro thousand |
|---|-------|-----------------|------------------------|----------------------------------|
| VBS Leasing d.o.o.; Ljubljana | FI | 49.96% | 49.96% | 28,973 |
| VBV Anlagenvermietungs- und Beteiligungs-GmbH; Wien | FI | 100.00% | 100.00% | 35 |
| VBV Holding GmbH; Wien | FI | 100.00% | 100.00% | 36 |
| VBV zwölf Anlagen Vermietung Gesellschaft m.b.H.; Wien | SO | 100.00% | 100.00% | 18 |
| V-Dat Informatikai Szolgáltató és Kereskedelmi Kft.; Budapest | HD | 48.67% | 49.72% | 1,450 |
| Verwaltungsgenossenschaft der IMMO-BANK eG; Wien | SO | 86.89% | 86.89% | 2,887 |
| VIBE-Holding GmbH; Wien | SO | 100.00% | 100.00% | 35 |
| Victoria International Property SRL; Bukarest | SO | 65.00% | 65.00% | 0 |
| VIVH AG; Wien | SO | 100.00% | 100.00% | 5,000 |
| VOGEVA - Gebäudevermietung Gesellschaft m.b.H.; Wien | FI | 100.00% | 100.00% | 36 |
| Volksbank a.d. Banja Luka; Banja Luka | KI | 50.98% | 50.99% | 12,132 |
| Volksbank a.d.; Beograd | KI | 49.42% | 49.42% | 55,123 |
| VOLKSBANK BH d.d.; Sarajewo | KI | 48.68% | 49.90% | 24,031 |
| Volksbank CZ, a.s.; Praha | KI | 50.05% | 50.24% | 80,020 |
| Volksbank d.d.; Zagreb | KI | 50.58% | 50.67% | 83,384 |
| Volksbank Ingatlankezelő Kft; Budapest | HD | 48.67% | 49.72% | 5,936 |
| Volksbank International AG; Wien | KI | 51.00% | 51.00% | 64,385 |
| Volksbank Invest Kapitalanlagegesellschaft m.b.H.; Wien | KI | 100.00% | 100.00% | 2,500 |
| Volksbank Leasing BH d.o.o.; Sarajewo | FI | 49.36% | 49.95% | 2,124 |
| Volksbank Malta Limited; Sliema | KI | 100.00% | 100.00% | 167,821 |
| Volksbank Romania S.A.; Bukarest | KI | 50.66% | 50.83% | 133,659 |
| VOLKSBANK Slovensko, a.s.; Bratislava | KI | 47.62% | 50.41% | 33,207 |
| Volksin d.o.o.; Zagreb | HD | 51.00% | 51.00% | 924 |
| Warsaw Towers Sp. z o.o.; Warszawa | SO | 51.00% | 51.00% | 13 |

¹⁾ all fully consolidated companies are under direct or indirect control of VBAG

54) Companies measured at equity

| Company names and headquarters | Type* | Equity interest | Share in voting rights | Nominal capital in euro thousand |
|--|-------|-----------------|------------------------|----------------------------------|
| GEF Beteiligungs-AG; Wien | SO | 49.94% | 49.94% | 7,300 |
| TRASTONA HOLDINGS LIMITED; Nicosia | SO | 40.00% | 40.00% | 2 |
| VBV delta Anlagen Vermietung Gesellschaft m.b.H.; Wien | SO | 40.00% | 40.00% | 36 |
| VBV zeta Beteiligungen Anlagen Vermietung GmbH; Wien | SO | 29.85% | 29.85% | 7,300 |

* Abbreviations

KI credit institutions

FI Financial institution

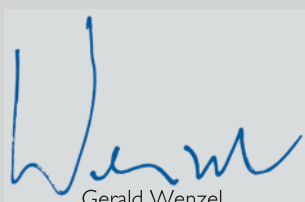
HD banking related auxiliary service

SO other enterprises

STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial positions 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 the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.

Vienna, 10 March 2011



Gerald Wenzel

Chairman of the Managing Board
Finance, Human Resources, Law, Organisation/IT, 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

AUDITOR'S REPORT

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Österreichische Volksbanken-AG, Wien, for the year from 1 January 2010 to 31 December 2010. These consolidated financial statements comprise the consolidated balance sheet as of 31 December 2010, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year ended 31 December 2010 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2010 and of its financial performance and its cash flows for the year from 1 January to 31 December 2010 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements.

In our opinion, the management report for the Group is consistent with the consolidated financial statements.

Vienna, 10 March 2011

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by

| | |
|----------------------------------|-----------------------------|
| Martin Wagner | Bernhard Mechtler |
| Certified Public Accountant | Certified Public Accountant |
| (Austrian Chartered Accountants) | |

This report is a translation of the original report in German, which is solely valid.



Independent Assurance Statement on the “Corporate Responsibility Report 2010” of Österreichische Volksbanken-Aktiengesellschaft

We were engaged by the management of

**Österreichische Volksbanken-Aktiengesellschaft,
Vienna**

to provide limited assurance on the “**Corporate Responsibility Report 2010**”, which is integrated in the Annual Report.

Scope

The legal representatives of the Company are responsible for the preparation of the Report including the identification of the content, taking into account the criteria stated in the Sustainability Reporting Guidelines Vol. 3 of the Global Reporting Initiative (GRI). This responsibility also includes the determination of objectives in terms of the sustainability performance and reporting of Österreichische Volksbanken-Aktiengesellschaft, including the identification of stakeholders and material issues, selection and application of appropriate methods to prepare the Sustainability Report, and the establishment, implementation and maintenance of appropriate internal management and control systems, insofar as they are significant for the preparation of the Sustainability Report.

Our responsibility is to carry out a limited assurance engagement and to express a conclusion on this Report. We conducted our engagement in accordance with the International Standard on Assurance Engagements ISAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information.

Accordingly we comply with the requirements of the IFAC Code of Ethics for Professional Accountants, among others, to ensure our independence.

The engagement was performed to give limited assurance to the readers of the Report that the content of the Report is stated fairly and free from material errors.

Procedures carried out to obtain limited assurance are aimed at determining the plausibility of the information and are less extensive than procedures used in a reasonable assurance engagement.

Work undertaken

We carried out the following procedures in relation to the information in the **Corporate Responsibility Report 2010 of Österreichische Volksbanken-Aktiengesellschaft**:

- Assessment of the plausibility of data and data validation processes at Group level
- Inquiries of data trends (including discussions with management);




- Interviewing staff responsible for the analysis and reporting of data and the accompanying explanations to these indicators;
- Inspection of documentation of systems and processes on information management, internal controls and processing of data;
- Interviewing staff at Group-level and inspection of internal and external documents to determine whether qualitative information is supported by sufficient evidence;
- Evaluation of overall presentation of information within the scope of our engagement.

Conclusion (limited assurance)

Based on the procedures performed, nothing has come to our attention that causes us to believe that the information in the **Corporate Responsibility Report 2010 of Österreichische Volksbanken-Aktiengesellschaft** is not presented fairly, in all material respects, in accordance with the fundamental criteria.

Vienna, 1 April 2011

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft



Peter Ertl

Wirtschaftsprüfer



i.V. Roland Strauss

i.V. Roland Strauss



UN GLOBAL COMPACT PROGRESS REPORT



Commitment to the UN Global Compact

The UN Global Compact brings together companies with the aim of promoting human rights and labour, protecting the environment and combating corruption. It was created in 1999 by Kofi Annan. The VBAG has been a member of the UN Global Compact since 2010. It undertakes to submit an annual report on the progress it has made towards the ten principles of the compact (Communication of Progress). VBAG is an active member of the Austrian network of the UN Global Compact. It took part in meetings of the network in the year under review. In 2010, the focal point was placed on the issue of combating corruption. In February 2011, the Austrian members of the UN Global Compact were invited to the new headquarters of VBAG for this year's first meeting.

Description of practical measures and implementation processes

Human Rights

Principle 1

Businesses should support and respect the protection of internationally proclaimed human rights within their scope of influence, and make sure that they are not complicit in human rights abuses.

In the period under review, no projects in which fundamental human rights were compromised were financed, nor were there any conflicts with non-government organisations in this regard. The measure to adopt a human rights clause in contracts when procuring giveaways has been incorporated in the current sustainability programme.

Principle 2

Labour standards

Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining,

The freedom to negotiate and the right to collective bargaining are guaranteed in every country in which VBAG is represented.

Principle 4

the elimination of all forms of forced and compulsory labour,

In 2010, the works council was represented by two members of the Corporate Responsibility core team (2009: one member).

Principle 5

the effective abolition of child labour, and

The planned human rights clause in the procurement of giveaways addressed above will outlaw child and forced labour. VBAG signed the Austrian Diversity Charter in the year under review. The monitoring of key indicators of diversity was expanded (e.g. staff turnover and training according to diversity aspects, employees according to nationality).

Principle 6

the elimination of discrimination in respect of employment and occupation.

The newly opened building is free of barriers. Registered partners have been entitled to all company benefits (employee conditions, works council gifts, etc.) since 2010 (cf. page 45).

Environmental protection

Principle 7

Businesses should support a precautionary approach to environmental challenges,

The proportion of district heating used was increased from 45% to 95%, various activities to save electricity were implemented. A photovoltaic plant went into operation at the new headquarters. A Corporate Carbon Footprint was calculated for the first time (for details, please see pages 40). Environmental measures were also implemented at Volksbank International AG (cf. page 202). The financing of renewable energy projects was expanded (cf. page 65f and, for Volksbank International AG, page 73). The marketing of sustainable investment products was intensified (cf. page 92f). A package of measures for products in the field of VB Leasingfinanzierungsges.m.b.H. was compiled (cf. page 74 and 202).

Principle 8

undertake initiatives to promote greater environmental responsibility, and

Principle 9

encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

Principle 10

Businesses should work against corruption in all its forms, including extortion and bribery.

Measures can be found in the chapter on Corporate Governance and ethical practice (cf. page 16). The corporate governance officer is a member of the CR core team.

Measurement of results

The guideline on sustainability reporting for the Global Reporting Initiative (GRI) forms the basis for reporting the quantitative measurement of results as required by the ten principles of the UN Global Compact. Several indicators provide information on the progress being made towards the individual principles, and a reference to these can be found in the GRI Content Index on the pages immediately following this section.

CASH FLOWS TO STAKEHOLDERS ACCORDING TO GRI

In the course of Corporate Responsibility reporting, basic economic data is presented from perspectives that differ from those commonly used in financial reporting. The goal of sustainability reporting is to offer an overview of how the economic performance of the bank is distributed among the stakeholders, including shareholders, the public sector, employees, capital backers, suppliers and commercial partners.

The presentation complies with the international standards of the Global Reporting Initiative (GRI, EC1 and EC4 indicators). Wages and salaries comprise all cash flows to employees, including amounts paid to authorities on behalf of employees (taxes, employee contributions and unemployment insurance). Operating costs correspond to administrative expenses pursuant to the consolidated financial statements and include all expenses required to operate the company, such as rent, power, communication and training as well as advertising, IT, legal and advisory costs. Interest expenses pursuant to the consolidated financial statements represent a significant item. For a bank, they are a disclosure that is not comparable with other sectors, as they concern liabilities that serve not only its own account but primarily the acquisition of assets, which generate interest income. The dividends disclosed include the total of all dividends to shareholders that were paid out in the year in question. As total assets represent the key indicator of economic performance for a bank, the two GRI indicators "sales" and "retained monetary value" are not disclosed.

The development of the cash flows to stakeholders reflects the recent difficult times during the international financial crisis. Notable savings can be seen in operating costs. In contrast, wage and salary costs have experienced only a moderate fall. The tax contribution has declined; the dividend to the shareholders has been suspended.

VBAG cash flows to stakeholders according to GRI EC1¹⁾

| | Unit | 2008 | 2009 ²⁾ | 2010 | Change 2008 – 2010 |
|--------------------|-------------|---------|--------------------|---------|-----------------------|
| Wages and salaries | EUR million | 308.4 | 270.1 | 291.3 | -5.53 % |
| Operating costs | EUR million | 275.2 | 230.4 | 220.1 | -20.04 % |
| Interest expenses | EUR million | 2,269.3 | 1,584.9 | 1,237.4 | -45.47 % |
| Dividends | EUR million | 37.7 | 2.7 | 0.0 | -100.00 % |
| Tax contribution | EUR million | 35.2 | 28.2 | 32.0 | -9.00 % |

The taxes disclosed represent all business taxes paid (company tax, income tax, real estate tax, etc.). No deferred taxes are included. Significant public sector contributions according to GRI are financial subsidies for which no consideration is paid. The participation capital from the Austrian government that was utilised to VBAG during the financial crisis in 2009 bears interest at a rate of 9.3% for the first five years and therefore does not come under this definition. Significant public sector financial subsidies with no consideration were not utilised in the period under review.

1) All disclosures cover the entire VBAG Group including all activities in Austria and abroad.
2) The disclosures from the Corporate Responsibility Report 2009 have been adapted by the disposal groups in accordance with IFRS 5.



CORPORATE RESPONSIBILITY PROGRAMME 2010 - 2011

The combined CR-objectives and -actions of VBAG are presented here. The following table offers an overview on the achievements of the Sustainability Programme 2010, which was announced in the previous CR Report. In addition, objectives and actions for 2011 and beyond are also presented. Unless otherwise indicated, these will be implemented or systematically expanded by the end of 2011.

- ☒ Action from 2010 programme concluded/objective achieved
- ☐ Action from 2010 programme not concluded/objective not achieved
- ➔ To be continued in the 2011 programme
- NEW** New objectives in the 2011 programme

ENVIRONMENT

Status

GENERAL

Actions:

Ecoprofit

Participation in the Ecoprofit development programme of the City of Vienna to increase ecological efficiency and reduce operating costs

NEW

Seamless recording of energy consumption data

Collect electricity and heating consumption for all locations in Vienna owned by VBAG by 2011; seamless recording of the energy consumption data of all locations owned by VBAG and of the new Group headquarters

NEW

Energy and data security training

Awareness of new employees concerning energy and data security to be raised on first day of work (CheckIn event, welcome e-mail); data security training using the Wissen intern nutzen programme ("Using knowledge internally" – WIN); exclusive use of encrypted USB sticks

NEW

ENERGY

Objective:

To increase the proportion of office space supplied with district heating to 98%

☐

➔

Actions:

Switch to district heating

All central Group locations will switch to district heating

☒

District heating at Kolingasse 17

2011: Connection of the building at Kolingasse 17, after which the coverage of the district heating supply will reach 98%

NEW

Objective:

To reduce electricity consumption: the goal from the 2010 programme has been reformulated, as no specific electricity consumption can currently be calculated as a result of the relocation to the new headquarters

➔

Actions:

Printer pools and multifunction devices

Multifunction devices will be procured as central printer pools; reduction of devices will save energy and reduce maintenance costs

☒

Shorter PC boot time

The boot time will be optimised so that employees can be motivated to switch off their PCs in the evening

☒

Use of virtual servers or reduction of server hardware

Old servers that are replaced will be examined to see whether virtualisation can be implemented; synergy effects attributable to the centralisation of the IT systems and virtualisation will lead to server consolidation

☒

➔

A+ cooling devices and dishwashers

Cooling devices and dishwashers should fulfil the requirements of Energy Class A+ in the course of the relocation to the new headquarters

☒

Energy measurement before/after short training session

The electricity consumption of a department will be measured before and after a short training session on energy-saving behaviour in order to highlight and communicate potential savings

NEW

OTHER ACTIONS – ELECTRICITY FROM RENEWABLE ENERGY

Photovoltaic plant

Photovoltaic plant (covering an area of 351 m²) at the new headquarters

☒

Green electricity tariff

Switch to electricity tariff based on completely renewable energy sources by 2012

NEW

ENVIRONMENT

Status

TRAVEL

Actions:

Vehicle purchase based on ecological criteria – for car pools – upper limit for grams per km of CO₂ ☐A CO₂ threshold is planned for company vehicles in the future; if a car exceeds the value, an amount (penalty) will be collected on the basis of the applicable emission standards*Note: energy-efficient models have been selected, but without a specific CO₂ ceiling***Software for logging company vehicle mileage** ☐

New software will be procured which can record distance in km as well as fuel consumption

Air and rail miles ☒

Data will be prepared for an annual survey

*Note: air miles were collected in 2010, but not rail miles***New business travel guideline with sustainable criteria** ☒

The following aspects are to be considered: safety, environmental awareness and reasonableness in terms of health

WASTE

Actions:

Reusable containers ☒

The staff restaurant at the new headquarters has switched to reusable containers

Information about waste disposal ☐

Waste management will be integrated in employee training

Collection of old mobile phones **NEW**

Collection of old private mobile phones for the benefit of the Integrationshaus refugee support project

PAPER

Objective:

Chlorine-free bleached paper to make up 100% of the printing and copying paper offered by Purchasing ☐ →

Action:

Purchasing guidelines for chlorine-free paper ☐

Adapting the purchasing guidelines for the procurement of chlorine-free bleached printing and photocopying paper from May 2010 (TCF)

Objective:

50% of the printing and copying paper to have a certified eco label; new goal for 2011 is to complete changeover to eco label paper ☐ →

Actions:

Paper with eco label ☐ →

The supplier will be changed so that paper with eco labels can be purchased (Austrian eco label, Blue Angel, Nordic Swan or EU eco label);

2011 will see a complete changeover of copier paper to products with an eco label

Awareness of paper with the eco label ☐

Staff responsible for the paper used by the floor printer will be made aware of paper bearing the eco label

Note: no longer necessary as a result of the complete changeover to eco label paper in 2011

Objective:

To reduce paper consumption in 2010 by 10% to approximately 6,513 sheets per employee ☐ →

Actions:

Awareness about saving paper ☒

Actions to promote awareness among all employees

Grey-scale printing ☒

In the new centralised printer pools, the standard configuration has been set to "grey-scale printing"

Duplex printing ☐ →

Duplex printing as standard configuration in EDP; info mail to all employees; e-mails include the signature supplement that printing out e-mails can be avoided in order to protect the environment

VB-Leasing: "Paperless Office" project **NEW**

Switch to electronic handling of leasing contracts



CORPORATE RESPONSIBILITY PROGRAMME 2010 - 2011

ENVIRONMENT

Status

OTHER PURCHASING ISSUES

Actions:

Supplier management with sustainability criteria

Re-evaluation of suppliers by 2012, including incorporation of sustainability criteria in the supplier database



Promotion of awareness about consumables

The consumption of office material will be reduced through actions to promote awareness



Sustainability criteria for giveaways

In particular with regard to human rights and health aspects

NEW

Sustainability criteria for cleaning services

Integration of sustainability aspects in the 2011 tender

NEW

Eco ballpoint pens

All employees will receive an info mail on possible purchase

NEW

IT HARDWARE

Objective:

To reduce the energy consumption of office equipment

NEW

Action:

Recording of energy consumption of office equipment

Adaptation of the property recordings to establish the energy consumption in the area of office automation

NEW

Objective:

To offer each IT customer the possibility of recycling their old hardware

NEW

Action:

Development of IT recycling processes

Elaboration of a process for IT recycling and recording as an offer for all customers; selection of recycling partner in the area of IT based on ecological perspectives

NEW

EMPLOYEES

HEALTH PROGRAMME

Objective:

Health programme with medicals, vaccinations, consulting and sporting activities to be maintained and some to be enhanced



Actions:

Commissioning of Vitareal Vienna health centre

Measure originally planned for 2010: a multipurpose room for events and health programmes will be set up in the new Group headquarters; the health programme will be expanded by offers in the new multipurpose room; amendment for 2011: opening of the health centre at Kolingasse 17



Cycle parking places at the new building

Cycle parking places will be created at the new Group headquarters



Info on cycling to work

Promotion of awareness for employees to cycle to work



Allowance for sports equipment

The sports sections of ÖVAG were supported through various measures, such as the financial aid for competitions, the purchase of athletic equipment, etc.

Note: this activity will continue indirectly through the support of the sports sections



WORK-LIFE BALANCE

Objective:

To reduce the average carry-over leave per employee to a maximum of 5 days by the end of 2012



Action:

Reduction of holiday

The management will negotiate with the employees on the reduction of carry-over leave and the current utilisation of holiday



EMPLOYEES

Status

WORK-LIFE BALANCE

Objective:

To reinforce awareness of the issue and to increase support activities for the realisation of a sensible work-life balance

NEW

Actions:

Financing for kindergartens of the kindercompany

☑

VBAG will cover 50% of day care costs, thus halving the rate for employees; this 50% support will be available for handicraft contributions, boarding, multilingual support, etc. after free kindergartens are introduced in Vienna

Coaching offer

☑

→

When necessary, coaching can be organised via the company doctor or the Personnel Department; confidentiality will be guaranteed

Coaching/Supervision

NEW

Broadening of the coaching pool

Workshops on issues relating to work-life balance

NEW

Workshops for employees and management staff to be offered (e.g. relaxation techniques)

TRAINING AND CONTINUING EDUCATION

Objective:

To maintain the budget for training and continuing education at 3% of the personnel costs

☑

→

Actions:

Continuous development of the programme

☑

→

Development will be constantly adapted to the current requirements and continuously enhanced
The trainer pool, service provider, terms and conditions, contents, etc., are tailored to requirements

To intensify use of training subsidies

☑

→

Subsidy possibilities of the Wiener ArbeitnehmerInnen Förderungsfonds (Vienna Employment Promotion Fund – waff) and of the Arbeitsmarktservice (Public Employment Service Austria – AMS), etc., will be better utilised

Objective:

To expand WIN training in 2010 and increase the number of training offers by 5%

☑

→

Note: the number of participants has increased, target no longer comparable as a result of the divestiture of VB Wien

Action:

Increase in WIN training

☑

→

New offers within the framework of the WIN programme (Wissen intern nutzen – “Using knowledge internally”):
colleagues pass on their knowledge

Objective:

To increase the competence management for employees and management staff

NEW

Actions:

Career planning

☑

→

A project on “Job families” and a project on “Talent management” will be implemented;
a clear framework will be created for specialised and management careers: training streams,
precondition chains, salary bands, etc.

*Note: adaptation through competence management as part of the merger of Volksbank AG – Investkredit
or “Wissensroadmap” (“Knowledge roadmap”) pilot project at VB Investments*

Specialist careers

NEW

Development of a career stage concept for the establishment of an attractive specialist career

Trainee programme

NEW

Launch of a Group-wide trainee programme

OTHER ACTION

Information on training leave

☐

Employees are to be informed more effectively about the option of training leave

DIVERSITY MANAGEMENT

Objective:

To anchor diversity management in VBAG's corporate culture

☑

→

Actions:

Commitment to diversity

☑

→

The Managing Board is clearly committed to the principles of diversity management



CORPORATE RESPONSIBILITY PROGRAMME 2010 - 2011

EMPLOYEES

Status

DIVERSITY MANAGEMENT

Actions:

Expand diversity indicators

The recording of indicators in the relevant diversity management dimensions will be expanded (e.g. detailed compilation of turnover based on diversity aspects)



Catalogue of diversity actions

An extensive catalogue of actions will be adopted for projects in terms of the individual dimensions; implementation will be commenced



Diversity officer

Establishment of a position with responsibility for diversity at VBAG



Objective:

To promote management careers for women more intensively; to set a quota for the proportion of female management executives that can be realistically achieved



Note: target quotas have to be recalculated on account of the changes to the system boundaries. The original goal of increasing the proportion of female management staff to 25% throughout the Group by 2012 will now have to be adjusted.

Actions:

Promotion of women to management careers

Women will be especially encouraged to pursue management careers



New target quotas for women in management positions

NEW

Target quotas will be recalculated and coordinated with the Managing Board on account of the changes to the system boundaries

Objective:

To sustainably reduce compensatory payments of the Group for the employment of people with disabilities



Note: the compensation remained approximately the same. 2012, no reduction due to the increase in rates is expected. The willingness to support (e.g. wheelchair workplace) is actively promoted.

Action:

Open culture for employees with a disability

In-house "Awareness" to dispel fears associated with reporting a favoured status



OTHER ACTIONS

Tolerance room

Establishment of an inter-denominational "room of tolerance/meditation" in the new building



German language courses

Free German language courses will be offered to employees whose mother tongue is not German



Mentoring

"Nationality" will be incorporated as a topic in the mentoring programme



Equal treatment of registered partnerships

The special administrative law for registered partnerships will be implemented; benefits that VBAG grants to married employees will also be provided to registered partnerships



Training of young employees

The current apprenticeship programme will be expanded, the trainee programme will be relaunched



Note: the trainee programme is no longer active as a result of the divestment of VB Wien

CORPORATES

CORPORATE LENDING

Objective:

School financing: selective customer recruitment of American international schools, other international schools with an institutional or religious background

NEW

Actions:

School financing: (partial) allocation of the KfW global loan

NEW

(Partial) allocation of the global loan from the KfW banking group to German schools abroad through concrete financing

Promote sales activities for school financing

NEW

Dialogue with school sponsoring organisations, networking at conferences

CORPORATE LENDING

Objectives:

Sustainability analysis of sample sectors



To define indicators for family businesses



CORPORATES

Status

CORPORATE LENDING

Action:

Compilation of a database for family business indicators

□

An evaluation with different aspects is possible: loans (volumes and proportions), average loan term and duration of the partnership

Objective:

System-based recording of ecological/social financing

NEW

Action:

Creation of an eco-social loan database

NEW

Preparation of a database solution for identifying ecological/social financing for 2013

OTHER ACTION

Creation of an eco-social loan database/standardisation of eco-social loans

□

Standardisation of the reporting of business loans with high ecological and social benefits

Note: see action above

PROJECT FINANCING

Objectives:

To generate new business of more than EUR 50 million in the areas of wind and photovoltaic power

☑

To tap at least one new market in the area of renewable energy (2011: e.g. Italy, Sweden)

☑

Action:

Promote sales activities for wind/photovoltaic power

☑

→

Through marketing efforts, an intensive cooperation with manufacturers, funds and customers will be sought

Objectives:

New business of more than EUR 100 million in the area of wind and photovoltaics will be sought

NEW

Entering a new market for renewable energy, e.g. Italy, Sweden

NEW

Actions:

Distribution policies for wind and solar forcing

NEW

Further expansion of the ability to arrange of club deals, with Germany remaining the key market

OTHER ACTION

Equator Principles audit

NEW

Audit the criteria for reporting of project financing according to the Equator Principles

RETAIL

VOLKSBANK INTERNATIONAL AG¹⁾ – CORE BUSINESS OF VBI

Objective:

To support sustainable development of the regions as a bank with a cooperative background

NEW

Actions:

Recording of renewable energy projects

NEW

Quarterly recording of the project financing volume in the area of renewable energy for all VBI countries

"Connecting Families"

NEW

Market launch of the product line for migrants in Austria and their families in Bosnia, Croatia, Serbia

Microfinance/Evaluation of other cooperation partners

NEW

Financing and product packages for sole proprietorships and SMEs in cooperation with CoopEst

CEE UNLIMITED

NEW

Continue to support corporate customers from Western Europe to gain a foothold in Central and Eastern Europe

Proportion of primary bank customers

NEW

Standard definition and recording of the proportion of primary bank customers in all VBI countries

VBI EMPLOYEES

Objective:

To offer employees of Volksbank International a selection of further training programmes

NEW

Action:

Central recording of training days

NEW

Central recording of the indicator "average training days per employee" based on different employee categories

1) Volksbank Wien AG and IMMO-BANK AG are no longer included in the report, as these companies have been divested from the Group and integrated in the Volksbank sector. In their place, Volksbank International AG, with individual projects, and VB Leasing Finanzierungsgesellschaft m.b.H. have been added to the Corporate Responsibility process.



CORPORATE RESPONSIBILITY PROGRAMME 2010 - 2011

RETAIL

Status

VBI EMPLOYEES

Objective:

To continually exchange know-how (including on corporate responsibility)

NEW

Actions:

Regular reviews

Minimum of 1 orientation meeting per year for each employee

NEW

Knowledge platform – Sustainable Banking

Knowledge platform and interactive ideas exchange on the subjects network development, cooperation, sustainable banking and corporate responsibility

NEW

ENVIRONMENTAL PROTECTION AT VBI

Objective:

To save 5% of energy costs

NEW

Actions:

Compilation of energy costs

Quarterly compilation of the energy costs and composition of the operating costs of the central locations in the individual VBI countries

NEW

Energy-saving primer

Communication of energy-saving actions to all employees

NEW

Green IT hub

Consolidation of important IT functions in the VBI Group in a joint computer centre

NEW

Objective:

To reduce paper consumption by 5%

NEW

Actions:

Compilation of paper consumption

Record paper consumption at the headquarters of the VBI banks

NEW

Communication on saving paper

Catalogue of actions for avoiding paper for all employees of VBI AG and the VBI banks

NEW

VB LEASING FINANZIERUNGSGES.M.B.H. – MOBILITY

Objective:

To reduce the CO₂ emissions of cars financed by leasing

NEW

Action:

Database compilation

Technical EDP recording of the CO₂ emissions for all cars financed by leasing

NEW

Objective:

To promote ecological mobility

NEW

Action:

Bonus for hybrid and electric vehicles

Creation of a BONUS model for customers when financing a hybrid or electric vehicle

NEW

VB REAL ESTATE SERVICES²⁾

PREMIUMRED REAL ESTATE DEVELOPMENT GMBH

Objectives:

To maintain the high share of Quality Class A real estate at over 75%³⁾

☑

→

All buildings that are newly constructed or under development should be green buildings or meet a comparable standard

☑

→

Actions:

Registration as a green building partner

The registration of VB Real Estate Services as a green building partner will be audited and the necessary criteria coordinated in 2011

☐

→

Green building pre-certification for project developments

Project developments will undergo pre-certification as green buildings

☑

→

2) The structural changes within the Group have had an impact on the align real estate segment. Thus IMMO-BANK AG is no longer included in the report, as the company has been divested from the Group and integrated in the Volksbank sector. IMMO-CONTRACT Maklergesellschaft m.b.H. is no longer a subject of the report on account of the system boundaries that are adapted to the Group Report. The Europolis Group company was sold in 2010 and is therefore similarly not included in this report. The merger of PREMIUMRED Real Estate Development GmbH, Immoconsult Leasinggesellschaft m.b.H. and the Real Estate Financing department of Volksbank AG – Investkredit into the new "Real Estate Services" segment will be concluded by the second half of 2011. Real Estate Services encompasses the broad range of services of a financing, project development and investment partner.

VB REAL ESTATE SERVICES²⁾

Status

Actions:**Design and construct green buildings**

Only office buildings that meet the criteria of green buildings will be constructed/designed

**“Energy-neutral buildings” task force**

Technologies for energy-neutral buildings will be pursued and evaluated regularly by an internal task force

**Objective:**

All buildings that are newly constructed or developed should possess a sustainability certificate

NEW**Actions:****Pre-certification for current designs**

All properties in the design stage will aim to obtain a sustainability certificate (minimum DGNB - German Sustainable Building Council, LEED silver category or comparable system)

NEW**Conferences & talks**

Participate in related conferences and talks in the area of sustainable buildings

NEW**Membership of ÖGNI**

Membership of the ÖGNI – Austrian Sustainable Real Estate Management Council, which was founded in 2009

NEW**Objective:**

To reduce the current consumption values of all properties operated and owned by VB Real Estate Services

NEW**Actions:****Energy audits**

Audits will be conducted on the existing properties in order to optimise their consumption values and operating costs

**Adaptation of tenant manual**

In order to keep tenants informed about how they can make best use of the high green building standards, existing tenant manuals will be adapted after the two properties Horizon Offices and Salomea are completed

**Monitoring of consumption indicators**

Systems to continually monitor consumption indicators (e.g. electricity, heating energy, water, etc.) will be set up and presented in the sustainability report

NEW**IMMOCONSULT LEASINGGESELLSCHAFT M.B.H.****Objective:**

Sustainable financing to make up a proportion of at least 10% of all financing conducted

**Action:****Promote the sale of sustainable leasing products**

Sales promotion activities for leasing financing for solar plants, small hydropower plants, retirement homes or other projects with an ecological/social focus

NEW**Objective:**

To promote sustainable leasing products

**Action:****Investigate new leasing products that support energy efficiency**

Note: the measure has been adjusted. The economic conditions meant that the original action to offer leasing products could not be implemented. VB Real Estate Services will now establish a task force that will meet regularly to assess other potential future technologies, such as “Building and Renovating with an Energy Efficiency Guarantee” and CO₂-free single-family houses” for their current potential for application.

**REAL ESTATE FINANCING OF VOLKSBANK AG – INVESTKREDIT****Objective:**

To increase the proportion of real estate of energy efficiency class A

**Action:****Energy efficiency indicators**A breakdown of the financing/properties according to energy efficiency classes A-C or of the total energy consumption in kWh/m² will be integrated in the recording schedule and will be automatically retrievable**OTHER ACTIONS****Anchoring of sustainability in the business strategy**

Guidelines on sustainability have been included in the basic principles of risk policy

**Sustainability training**

A first CR Real Estate Dialogue was held



3) The objective has been adjusted as the proportion will fall to under 80% as a result of the sale of North Gate. In addition, a further deterioration in this parameter is to be expected with a market recovery in Budapest.



CORPORATE RESPONSIBILITY PROGRAMME 2010 - 2011

FINANCIAL MARKETS

Status

SUSTAINABLE ASSET MANAGEMENT

Objective:

Proportion of sustainable products (funds & certificates) in the total outstanding volume to reach 12%

NEW

Actions:

Communication on the topic of sustainability

Continue to position VB Investments on the topic of sustainability

☑

→

Auditing of sustainability criteria and certifications

Audit Volksbank Investments products with the goal of obtaining certification for selected products

NEW

EUROSIF transparency logo

Apply for the transparency logo for VB-Mündel-Rent and VB-Ethik-Global

NEW

Objective:

Proportion of sustainable funds to reach 12%

☐

→

Action:

Investigate sustainability certification for funds

Investigate whether sustainability certification for VB-Mündel-Rent and/or VB-Ethik-Global should be implemented

☐

→

Objective:

Increase volume of money invested in VB-Ethik-Global by 5%

☑

→

Action:

Change of VB-Ethik-Global's fund management

Instead of changing from active to passive management, the change to an equity fund (individual security) is planned; reinforced orientation on sustainability indices; continuation of the measure to "investigate sustainability certification for funds"

☐

→

Objective:

Proportion of sustainable certificates to reach 12%

☑

→

Actions:

Ongoing issue of sustainable certificates

New sustainable investment products in the certificate area will be issued on a continuous basis and communicated to investors

☑

Implement sustainable issue through Levade S.A.

Levade S.A. Verbriefungsgesellschaft offers better deposit protection, as the purchased issues legally represent a partial asset

☑

Expansion of sustainability criteria for SI Klassik

Criteria will be expanded: increased orientation on sustainability indices, sustainability rating agencies and companies, prepare sustainability reports in line with Global Reporting Initiative (Level A and A+); continuation of the measure to "investigate sustainability criteria and certifications"

☐

→

REFINANCING AND INTEREST RATE HEDGING

Objectives:

To offer special terms for customers with a sustainable focus

☐

To attract more sustainable customers to refinancing and interest rate hedging

NEW

Actions:

Special terms for refinancing

Criteria will be defined; special credit terms will be granted on fulfilment; the issue of corporate bonds will be more strongly supported

☐

Interest rate hedging

Interest rate hedges will be offered on more favourable terms on fulfilment

☐

Transfer of information

The Volksbanks will be provided with information on this topic by Group Treasury

NEW

Objective:

To certify six treasury experts

NEW

Action:

Certification of treasury experts

Train Volksbanks customer relationship managers as experts in the hedging of interest rate, exchange rate and raw material risks as part of the Treasury Expert Programme

NEW



FINANCIAL MARKETS

Status

GENERAL FINANCIAL EDUCATION – “KNOWLEDGE BRINGS REWARDS”

Objective:

With increased knowledge, customers make the right investment decisions and improve their financial situation



Actions:

Investment seminars

Establishment of an investment seminar as a Volksbank event



Workshop offer for schools

For upper forms with an economic orientation



Fit for Banking

Continue the education campaign by Group Treasury through regional Volksbanks in order to promote the “financial education” of private customers

NEW

Bundle “Fit for Banking” activities

Roll out and market the bundled activities under the “Fit for Banking” umbrella in order to achieve transfer of know-how on financial topics for private customers online and offline

NEW

WOMAN AND MONEY

Objective:

To raise women's awareness of personal financial provision, to reach out to and advise them in the investment area with the aim of financial independence



Actions:

Various communication actions on Woman and Money

2010 event series and network cooperation projects; info brochure and website at www.frauundgeld.at

Continuation of the Woman and Money initiative

Continue the event series and communication actions for “Woman and Money” by Group Treasury, integration of “Fit for Banking” within the framework of a pilot seminar, special events on “Successful networking” for women

NEW

OTHER COMMUNICATION

Action:

Continuation of Kunder gehören gehört (“The customer's voice belongs here”)

Three customer conferences in 2011

NEW

CR BUSINESS MEDIATION PROJECT

Objective:

To develop the CR project and create mediation know-how in the Group



Actions:

Development of mediation skills

Start of internal course in April 2010-2011: training in “Business mediation and mediation skills” in the Group; seminar on “Mediation skills for management”



ISBM 2010

Partner of the “International Summer School on Business Mediation 2010”, Crossing Borders, 22/23 July 2010, Admont



Presentation of the study “Costs of conflict in family businesses”

The presentation of the study had been postponed on account of the study's complex design; a press conference, an internal stakeholder dialogue and a customer event on the communication of the benefits of business mediation are planned



Customer event “Success factor in corporate culture – constructive solutions with business mediation”

For customers in the “Corporates” and “Financial Markets” segment

NEW

Design of a conflict management system based on the implementation of mediation skills

NEW

Workshop “Benefits of Business Mediation” for CR-Core Team

NEW



CORPORATE RESPONSIBILITY PROGRAMME 2010 - 2011

SPONSORSHIP AND COOPERATION PROJECTS

Status

GENERAL

Objective:

Sponsoring activities increasingly lead to mutually beneficial cooperation projects



Actions:

Expansion of corporate volunteering

Conceiving and implementing further opportunities for voluntary service



Supporting the "Gugging Irritations 2" Festival

Art and music festival at the Gugging Art Brut Center



Renunciation of expensive VIP gifts/support of charitable organisations

Expansion of the concept "Gifts with multiple benefits"



Objective:

In the area of social and cultural responsibility – intensify the existing co-operation



Actions:

Cooperation with the Burgtheater in Vienna

Establishment of stakeholder dialogues in the cultural environment of the theatre to the benefit of both partners

NEW

Cooperation with Oikocredit Austria and the Donau-Universität Krems(Danube University Krems)

Continuation of the cooperation commenced in 2010; conclusion of the screenplay competition for the Oikocredit corporate film; presentation of the film

NEW

Intensification of the cooperation with FAIRTRADE

Continuation of the cooperation with the charity of the Vienna Archdiocese, the child protection centre Mirno More, with the Gugging Art/Brut Center, Seedingart and Kunst auf Rädern (Art on Wheels)

NEW



VB LEASING FINANZIERUNGSGESELLSCHAFT M.B.H.

Objective:

To intensify donation activities

NEW

Action:

Vehicles for SOS Children's Village

Nine-seater vehicle for SOS Children's Village

NEW

VOLKSBANK INTERNATIONAL AG

Objective:

To boost the cooperation projects with charitable organisations



Actions:

Support of educational institutions

Since 2008, support of the "StepStone" association, financing of the accommodation costs for Rumanian children in Vienna attending German-language courses



Promotion of international understanding and tolerance

Financial support for 9 children and 3 carers of the "Am Himmel" charity centre to take part in the "Mimo More" peace fleet in Croatia on 18 September 2010



Health support

Financial support for "Biela Pastelka", a centre supporting the treatment of the visually impaired in Slovakia



GREEN EVENTS

Objective:

To establish a Group-wide sustainable event organisation



Action:

Further development of the sustainable objectives in event management

In the areas of catering, merchandising, travel, waste disposal, food offers, integration of social and cultural institutions, incorporation of employees and customers



Objective:

To promote active communication with partners



Action:

Reinforced collaboration with partners who feature sustainability as an integral part of their corporate concept

Partners whose concepts correspond to the principles of green events will be especially considered in tender invitations



ABOUT THE CORPORATE RESPONSIBILITY REPORT

Report profile

This Corporate Responsibility Report of VBAG is published and integrated with the Annual Report. It refers to the period of the 2010 financial year (1 January to 31 December) and cites the indicators of the comparison years 2008 and 2009. It follows up on the previous report, which was issued for 2009. Going forward, we plan to report annually on VBAG's sustainable development.

Principles of the report and determination of the contents

The themes of this report build on VBAG's first Corporate Responsibility Report. They have been selected according to the principles of materiality, stakeholder inclusiveness, sustainability context and completeness in a process spanning several months and involving the Corporate Responsibility core team and the expanded core team. The basis was formed by intensive research on sustainability reports and activities in the international banking sector as well as the requirements of the Global Reporting Initiative (including the Financial Services Sector Supplement) and surveys of various CR rating agencies. These were then examined and, where necessary, expanded by the core team and the expanded core team for relevance to the strategic VBAG segments Corporates, Financial Markets, Retail, Real Estate, Investment Bank/Other Operations Segment as well as to Facility Management, IT, Purchasing, Marketing, Compliance, Risk Management and Human Resources. The works council was involved in the process. The objective was to provide a comprehensive overview of VBAG's sustainability performance. The stakeholders to whom this report is addressed were defined by the project management and can be reached through the integrated Annual Report and website.

Report scope and boundary

The sustainability management of the four strategic segments Corporates, Financial Markets, Retail, Real Estate and of the central Group management is described in this Corporate Responsibility Report, which is integrated in the Group Report. The Sustainability Report deals primarily with VBAG in Austria from the viewpoint of all material economic, ecological and social influences. Social and ecological aspects of Volksbank International AG are now also examined in more detail in the description of the Retail business segment for the first time.

VB Leasing Finanzierungsgesellschaft m.b.H. has also been included in the Corporate Responsibility Report. Structural changes within the Group have led to changes in the system boundary of the report. Thus Volksbank Wien, IMMO-BANK AG and the Bank für Ärzte und Freie Berufe AG are no longer included in the report, as these companies have been divested from the Group and integrated in the Volksbank sector. The sale of Europolis AG, effective on January 1st 2011, has also shifted the system boundary. Other companies of the Volksbank Group, such as the Volksbank primary banks, will subsequently be included in the sustainability process. All of the Volksbank Group will gradually be included in the sustainability reporting.

The indicators of the Sustainability Report are defined in accordance with the indicator protocols of the Global Reporting Initiative.

The point of contact for questions on the report is the VBAG sustainability representative:

Mirjam Ernst

Marketing & Communications
Head of Corporate Marketing & Event Management

Kolingasse 14 – 16, A-1090 Vienna, Austria
Tel.: +43(0)50 4004-3686
E-mail: mirjam.ernst@volksbank.com
www.volksbank.com
www.verantwortung.volksbank.com

Index to the Global Reporting Initiative

| | | 2002 | C | C+ | B | B+ | A | A+ |
|-----------|---------------------|---------------|---|----|---|----|---|----|
| | | in Accordance | | | | | | |
| Mandatory | Self Declared | | | | | | | |
| | Third Party Checked | | | | | | | |
| Optional | GRI Checked | | | | | | | |
| | | | | | | | | |

This Corporate Sustainability Report, which is integrated in the Annual Report, is in accordance with GRI G3 application level A+



INDEX TO THE GLOBAL REPORTING INITIATIVE (GRI)

Including Financial Service Sector Supplement and Communication on Progress according to UN Global Compact

■ comprehensively presented ■ partially presented ■ not relevant □ not reported, **COP1** Communication on Progress according to Principle 1 of UN Global Compact

| Indicator | Degree of compliance | Page |
|--|----------------------|-------------------------|
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| 1.1. Statement from the most senior decision-maker | ■ | 6 |
| 1.2. Description of key impacts, risks and opportunities due to sustainability | ■ | 17-19, 34-35 |
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| 3.12. GRI Index | ■ | 208-210 |
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| Stakeholder Commitment | | |
| 4.14.-4.17. Stakeholder commitment | ■ | 20 |
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| FS1 Description of environmental and social principles for the divisions | ■ | 63, 71, 78, 90 |
| FS2 Description of the procedures for recording and observing environmental and social risks for each division | ■ | 65f, 73f, 80, 92-94 |
| FS3 Processes to monitor the implementation of and compliance with environmental and social obligations by customers <i>Note: these structures are currently under further development</i> | ■ | 65-67 |
| FS4 Measures and processes to increase staff competence regarding environmental and social standards | ■ | 81 |
| FS5 Interactions with customers and other stakeholders on environmental and social risks and opportunities | ■ | 20, 79, 91-93 |
| Impacts of Products and Services | | |
| Product portfolio | | |
| FS6 Proportion of corporate customers according to region, size and sector <i>Note: the system boundaries of the Report only include Austrian companies. Corporate customers of Volksbank International AG are therefore not represented.</i> | ■ | 65 |
| FS7 Monetary value of products with a specific social benefit by division | ■ | 64-66, 73, 80, 92-94 |
| FS8 Monetary value of products with environmental benefit by division | ■ | 65f, 73f, 80, 92-94 |
| Audit | | |
| FS9 Scope of application and frequency of audits on the application of environmental and social guidelines <i>Note: these structures are currently under further development.</i> | ■ | 18 |

| Indicator | Degree of compliance | Page |
|--|----------------------|-----------------|
| Active ownership | | |
| FS10 Number and proportion of companies in investment portfolio with whom interaction has taken place on environmental and social issues in the period under review | ■ | 66, 92-94 |
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| FS12 Voting policies at shareholder meetings on environmental and social issues | ■ | 93 |
| Economy | | |
| Economic performance | | |
| EC1 Direct economic value generated and distributed | ■ | 195 |
| EC1 FSSS <i>Note: no corporate volunteering is currently implemented. Management costs for social initiatives are not on a significant scale.</i> | ■ | 25 |
| EC2 Financial implications, risks and opportunities due to climate change | ■ | 34f, 40, 63, 78 |
| EC3 Coverage of defined benefit plan obligations | ■ | 42 |
| EC4 Significant financial assistance from government <i>Note: see information on government participation capital.</i> | ■ | 195 |
| Market presence | | |
| EC6 Policy, practices and spending on locally-based suppliers <i>Note: sustainability criteria in Purchasing are described in detail. Regionalities are taken into account in the Retail segment. However, regionality is not otherwise a key sustainability criterion in Purchasing. The share of purchasing attributable to locally-based suppliers is thus not quantitatively presented.</i> | ■ | 40f |
| EC7 Local hiring | ■ | |
| Indirect economic impact | | |
| EC8 Investments in infrastructure and services provided primarily for public benefit <i>Note: these types of investments are not made at VBAG.</i> | ■ | |
| Environment | | |
| Material | | |
| EN1 Materials used by weight or volume <i>Note: for a bank, this mainly concerns paper.</i> | ■ | 40 |
| EN2 Percentage of materials used that are recycled input materials <i>Note: for a bank, this mainly concerns paper. The recycling percentage will be increased through the planned use of ecolabel paper.</i> | ■ | 40 |

| Indicator | Degree of compliance | Page |
|------------------------------------|--|---------------------|
| Energy | | |
| EN3 COP7,8 | Direct energy consumption by primary energy source | 38 |
| EN4 COP7,8 | Indirect energy consumption by primary energy source | 39 |
| EN6 COP7,8 | Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives | 65f, 73f, 80, 92-94 |
| EN7 COP7,8 | Initiatives to reduce indirect energy consumption and reductions achieved | 38-41 |
| Water | | |
| EN8 COP7,8 | Total water withdrawal by source <i>Note: no disclosure is possible as lump-sum billing occurs at most VBAG locations.</i> | |
| Biodiversity | | |
| EN11 COP7,8 | Location and size of land in or adjacent to protected areas <i>Note: all ownership is in urban areas.</i> | |
| EN12 COP7,8 | Impacts on biodiversity in protected areas and areas of high biodiversity value <i>Note: not currently relevant, as no current noteworthy activity in financing mining activities.</i> | |
| Emissions, effluents, waste | | |
| EN16 COP7,8 | Total direct and indirect greenhouse gas emissions (including FSSS additions) <i>Note: including business travel, but without messenger services</i> | 40 |
| EN17 COP7,8 | Other relevant greenhouse gas emissions | |
| EN18 COP7,8 | Initiatives to reduce greenhouse gas emissions and reductions achieved | 38-41 |
| EN19 COP7,8 | Emissions of ozone-depleting substances | |
| EN20 COP7,8 | NO _x , SO _x and other significant air emissions | |
| EN21 COP7,8 | Total water discharge | |
| EN22 COP7,8 | Total weight of waste (including FSSS addition) <i>Note: the volume of waste paper is reported, IT waste is not shown separately</i> | 40 |
| EN23 COP7,8 | Significant spills | |
| Products and services | | |
| EN26 COP9 | Initiatives to mitigate environmental impacts of products and services | 65f, 73f, 80, 92-94 |
| EN27 | Reused or recycled packing material | |
| Compliance | | |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations <i>Note: no significant fines had to be paid for environmental issues in the period under review.</i> | |

| Indicator | Degree of compliance | Page |
|---|---|------------|
| Social / Society | | |
| Labour practices and work quality – employment | | |
| LA1 | Total workforce | 41 |
| LA2 COP6 | Employee turnover | 41, 44 |
| Labour/management relations | | |
| LA4 COP1,3 | Collective bargaining agreements <i>Note: disclosure by share of workforce who elects a works council. The interests of 95% of all employees in the VBAG Group are currently represented through elected works councils. The Immo Kapitalanlage AG do not have their own elected works council due to the low number of employees.</i> | |
| LA5 COP3 | Notice periods regarding operational changes <i>Note: ongoing communication with the works councils regarding operational changes takes place. There are no dedicated agreements.</i> | |
| Occupational health and safety | | |
| LA7 COP1 | Injuries, occupational diseases, lost days, absenteeism and fatalities <i>Note: no work-related fatalities occurred in the period under review.</i> | 42 |
| LA8 COP1 | Programmes to assist employees and their families regarding serious diseases <i>Note: prevention of burn-out through work-life balance</i> | 42 |
| Training and education | | |
| LA10 | Average hours of training per year | 44f |
| Diversity and equal opportunity | | |
| LA13 COP1,6 | Composition of governance bodies and workforce | 43-46 |
| LA14 COP1,6 | Ratio of basic salary of men to women <i>Note: a basic commitment to fair income ratios irrespective of gender has been made as part of the Diversity Management project. Monitoring of compliance with this principle has been initiated. Quantitative indicators are not contained in the current Report.</i> | 43-46 |
| Human Rights | | |
| Investment and procurement practices | | |
| HR1 COP1-6 | Inspection of human rights in investment decisions (including FSSS additions) <i>Note: these structures are currently under further development. Explicit screening did not yet take place in 2010.</i> | |
| HR2 COP1-6 | Screening of suppliers and contractors on human rights <i>Note: explicit screening of suppliers was not held in 2010. For 2010 it will be included in the purchasing corporate responsibility principles.</i> | 40-41, 198 |
| Non-discrimination | | |
| HR4 COP6 | Total number of incidents of discrimination <i>Note: no actions were taken within the system boundaries in the period under review.</i> | 45 |



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■ comprehensively presented ■ partially presented ■ not relevant □ not reported, **COP1** Communication on Progress according to Principle 1 of UN Global Compact

| Indicator | Degree of compliance | Page |
|---|---|-------|
| Freedom of association and collective bargaining | | |
| HR5 COP3 | Safeguarding the right to freedom of association and collective bargaining agreements <i>Note: the Report concerns VBAG in Austria. The right to freedom of association is not at risk within the system boundaries.</i> | |
| Child labour, forced and compulsory labour | | |
| HR6,7 COP4,5 | Measures taken to contribute to the elimination of child labour and forced or compulsory labour <i>Note: no risks currently exist in the direct business activities of VBAG.</i> | |
| Society | | |
| Community | | |
| SO1 | Regulation of the impacts of operations on communities <i>Note: no such explicit programme is currently implemented for VBAG in Austria, as no major changes regarding the start or termination of operations in various communities/regions were recorded or are planned.</i> | |
| FS13,14 | Access to financial services in regions with low populations and weak economic structures and initiatives for access improvements for people with impairments <i>Note: the reporting boundaries encompass the activities of VBAG in Vienna. VBAG operates no retail banking here.</i> | |
| Corruption | | |
| SO2 COP10 | Analysis of business units for risks relating to corruption <i>Note: all business units are subject to control as part of Compliance.</i> | |
| SO3 COP10 | Employee training in organisation's anti-corruption policies and procedures <i>Note: general guidelines on governance and ethics have been developed and will be communicated in 2010. No significant explicit training took place in 2010 with the sole topic of preventing corruption.</i> | |
| SO4 COP10 | Actions taken in response to incidents of corruption <i>Note: no incidents of corruption among employees were found as a result of compliance inspections within VBAG in the period under review. There were no cases in which agreements with business partners were not extended due to incidents of corruption.</i> | |
| Public policy | | |
| SO5 COP10 | Political commitment and lobbying | 6, 20 |

| Indicator | Degree of compliance | Page |
|---------------------------------------|---|------|
| Compliance | | |
| SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | |
| Product Responsibility | | |
| FS15 | Policies on the fair design and sale of products and services <i>Note: the reporting boundaries encompass the activities of VBAG in Austria. VBAG operates no retail banking in Austria.</i> | |
| Customer health and safety | | |
| PR1 COP1 | Assessment of impacts of products and services on customer health and safety | |
| Products and service labelling | | |
| PR3 COP1 | Information on products and services required by law <i>Note: information on the origin, material composition, safe use and disposal of products is not relevant in the banking sector.</i> | |
| FS16 | Initiatives to improve financial knowledge | 92 |
| Marketing communications | | |
| PR6 | Adherence to laws, standards and voluntary codes related to marketing communications ^{*)} | |
| Compliance | | |
| PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services ^{*)} | |

^{*)} Note: No significant fines (above a threshold of euro 15,000) or non-monetary sanctions were incurred for non-compliance with laws and regulations in the period under review.

INDIVIDUAL FINANCIAL STATEMENTS

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| 247 | Statement of all legal representatives |
| 248 | Auditor's report |

Statement of financial position

| | 31 Dec 2010 in euro | 31 Dec 2009 in euro thousand |
|---|--------------------------|---------------------------------|
| Assets | | |
| 1. Cash in hand, balances with central banks | 142,508,807.29 | 790,233 |
| 2. Debt instruments issued by public bodies and similar securities admitted for refinancing at the central bank | 1,438,156,098.28 | 1,471,130 |
| 3. Loans and advances to credit institutions | | |
| a) Due on demand | 1,048,273,290.62 | 2,212,009 |
| b) Other loans and advances | <u>13,422,926,689.10</u> | <u>14,324,223</u> |
| 4. Loans and advances to customers | 5,156,194,570.73 | 16,536,232 |
| 5. Debt securities and other fixed-income | | |
| a) From public issuers | 103,360,392.69 | 91,409 |
| b) From other issuers | <u>5,072,287,776.19</u> | <u>5,673,432</u> |
| Of which: Own debt securities euro 321,333,734.77 (2009: euro 915,234 thousand) | 5,175,648,168.88 | 5,764,842 |
| 6. Shares and other variable-yield securities | 754,972,702.23 | 637,217 |
| 7. Investments in other companies | 72,257,721.31 | 68,422 |
| Of which: In credit institutions euro 45,649,315.43 (2009: euro 45,308 thousand) | | |
| 8. Investments in affiliates | 2,180,332,594.63 | 2,146,311 |
| Of which: In credit institutions euro 887,222,911.30 (2009: euro 901,748 thousand) | | |
| 9. Intangible assets | 7,630,666.81 | 4,628 |
| 10. Tangible fixed assets | 10,818,189.04 | 6,162 |
| Of which: Land and buildings used by the credit institute within the scope of its own activities euro 0.00 (2009: euro 0 thousand) | | |
| 11. Treasury stocks | 12,330,909.90 | 12,979 |
| Of which: Nominal value euro 5,980,399.40 (2009: TEUR 5,827) | | |
| 12. Other assets | 2,727,867,288.30 | 2,959,963 |
| 13. Deferred items | 356,741,414.22 | 365,150 |
| | <u>32,506,659,111.34</u> | <u>34,398,912</u> |
| Off-balance sheet items | | |
| Assets denominated in foreign currencies | 10,888,767,452.46 | 9,888,135 |

Statement of financial position

| | 31 Dec 2010 | | 31 Dec 2009 | |
|---|-------------------------|---------------------------------|------------------|--------------------------|
| | in euro | | in euro thousand | |
| Liabilities and equity | | | | |
| 1. Amounts owed to credit institutions | | | | |
| a) Due on demand | 4,022,855,645.98 | | 4,456,526 | |
| b) With agreed term or period of notice | <u>4,828,254,069.83</u> | 8,851,109,715.81 | <u>5,376,827</u> | 9,833,353 |
| 2. Amounts owed to customers | | | | |
| a) Savings deposits With agreed term or period of notice | 195,535.15 | | 193 | |
| b) Other liabilities | | | | |
| aa) Due on demand | 421,118,057.17 | | 427,988 | |
| bb) With agreed term or period of notice | <u>1,224,372,490.99</u> | <u>1,645,490,548.16</u> | <u>1,351,793</u> | <u>1,779,781</u> |
| | | 1,645,686,083.31 | | 1,779,974 |
| 3. Debts evidenced by certificates | | | | |
| a) Issued debt securities | 12,127,781,016.91 | | 12,701,796 | |
| b) Other debts evidenced by certificates | <u>3,773,301,156.15</u> | 15,901,082,173.06 | <u>3,983,876</u> | 16,685,672 |
| 4. Other liabilities | | 2,843,424,497.57 | | 2,813,239 |
| 5. Deferred items | | 7,150,276.90 | | 9,468 |
| 6. Provisions | | | | |
| a) Provisions for severance payments | 4,943,924.00 | | 4,733 | |
| b) Provisions for pensions | 15,938,324.00 | | 16,256 | |
| c) Provisions for taxes | 21,734,537.71 | | 34,757 | |
| d) Other | <u>90,933,928.86</u> | 133,550,714.57 | <u>61,769</u> | 117,515 |
| 7. Subordinated liabilities | | 548,380,532.33 | | 563,381 |
| 8. Supplementary capital | | 568,800,000.00 | | 568,800 |
| 9. Participation capital 2008 | | 500,000,000.00 | | 500,000 |
| 10. Subscribed capital | | 1,345,173,065.29 | | 1,345,173 |
| 11. Capital reserves | | | | |
| Restricted | | 0.00 | | 299 |
| 12. Retained earnings | | | | |
| a) Statutory reserve | 5,629,969.29 | | 5,630 | |
| b) Other reserves | <u>12,330,909.90</u> | 17,960,879.19 | <u>12,979</u> | 18,609 |
| 13. Liability reserves acc. to section 23 (6) Austrian Banking Act | | 144,341,173.31 | | 163,428 |
| 14. Net profit | | 0.00 | | 0 |
| | | <u><u>32,506,659,111.34</u></u> | | <u><u>34,398,912</u></u> |
| Off-balance sheet items | | | | |
| 1. Contingent liabilities | | | | |
| Liabilities from guarantees and guarantees from collateral | | 3,683,206,655.92 | | 4,184,038 |
| 2. Credit risks | | 4,940,612,551.96 | | 6,232,052 |
| Of which liabilities from repurchasing transactions euro 9,372,551.96 (2009: euro 0 thousand) | | | | |
| 3. Eligible qualifying capital acc. to section 23 (1) Austrian Banking Act | | 2,807,347,934.46 | | 2,858,857 |
| 4. Capital requirement acc. to section 22 (1) Austrian Banking Act of which capital requirement acc. to Section 22 (1) no. 1 and no. 4 Austrian Banking Act euro 970,373,638.05 (2009: TEUR 993,214) | | 1,006,994,638.05 | | 1,039,647 |
| 5. Liabilities denominated in foreign currencies | | 3,339,842,112.34 | | 3,820,024 |

Income statement

| | 2010 in euro | 2009 in euro thousand |
|--|------------------------|--------------------------|
| 1. Interest receivable and similar income | 832,222,852.18 | 925,381 |
| Of which: From fixed income securities | 217,119,484.45 | 250,005 |
| 2. Interest payable and similar expenses | -854,239,831.51 | -1,073,320 |
| I. Net interest income | -22,016,979.33 | -147,939 |
| 3. Income from securities and investments | 28,033,067.48 | 150,725 |
| a) Income from shares, other ownership interests and variable-yield securities | 7,155,647.78 | 12,562 |
| b) Income from investments | 3,378,095.72 | 2,302 |
| c) Income from affiliates | 17,499,323.98 | 135,861 |
| 4. Fee and commission income | 87,710,854.93 | 62,523 |
| 5. Fee and commission expenses | -22,319,773.17 | -24,195 |
| 6. Net trading income | 31,422,753.15 | 124,682 |
| 7. Other operating income | 63,383.48 | 105 |
| II. Operating income | 102,893,306.54 | 165,901 |
| 8. General administrative expenses | | |
| a) Staff expenses | | |
| aa) Wages and salaries | -44,096,999.72 | -41,526 |
| bb) Expenses for statutory social contributions and compulsory contributions related to wages and salaries | -9,359,814.57 | -8,742 |
| cc) Other social expenses | -1,088,660.39 | -791 |
| dd) Expenses for retirement benefits and support | -2,783,804.53 | -2,629 |
| ee) Allocation to provision for pensions | 765,082.00 | -2,197 |
| ff) Expenses for severance payments and contributions to employee welfare funds | -983,576.38 | -1,344 |
| | -57,547,773.59 | -52,835 |
| b) Other administrative expenses | -83,164,699.53 | -76,776 |
| 9. Value adjustments on assets included under items 9 and 10 | -2,731,922.92 | -2,289 |
| 10. Other operating expenses | -240,848.38 | -301 |
| III. Operating expenses | -143,685,244.42 | -132,201 |
| IV. Operating Result | -40,791,937.88 | 33,700 |
| 11. Value adjustments for loans, advances and allocations to reserves for contingent liabilities and for credit risks | -72,016,913.05 | -94,548 |
| 12. Income from the release of value adjustments for loans, advances and reserves for contingent liabilities and for credit risks | 39,512,013.03 | 59,085 |
| 13. Value adjustments for and sales losses from securities valued as financial investments as well as for participations and investments in affiliates | -79,297,468.48 | -806,653 |
| 14. Income from value adjustments for and sales revenue from securities valued as financial investments as well as from participations and investments in affiliates | 120,084,709.26 | 125,803 |
| V. Result from ordinary operations (= amount carried forward) | -32,509,597.12 | -682,613 |

| | 2010 in euro | 2009 in euro thousand |
|--|-----------------------|--------------------------|
| V. Result from ordinary operations (= amount carried forward) | -32,509,597.12 | -682,613 |
| 15. Income taxes | 12,521,849.65 | -109,829 |
| 16. Other taxes, unless shown under item 15 | -45,689.61 | 919 |
| VI. Annual result after taxes | -20,033,437.08 | -791,523 |
| 17. Changes in reserves | 20,033,437.08 | 791,234 |
| Of which: Release of liability reserves acc. to section 23 (6) Austrian Banking Act | 19,086,402.56 | 0 |
| VII. Annual Result | 0.00 | -289 |
| 18. Profit carried forward | 0.00 | 289 |
| VIII. Net profit | 0.00 | 0 |

NOTES FOR THE 2010 BUSINESS YEAR

1. Accounting principles

The annual financial statements have been drawn up by the Managing Board in accordance with the regulations of Austrian corporate and banking law.

They have been prepared in compliance with the principles of proper accounting and the general standard of providing a true and fair view of the assets, liabilities, financial position and profit or loss of the company.

The principle of completeness was complied with in the preparation of the annual financial statements.

In measurements, it was assumed that the company is a going concern.

The principle of individual measurement was applied for assets and liabilities.

In order to comply with the prudence principle, only profits that had actually been realised as at the reporting date were reported. All recognisable risks and impending losses that arose in the 2010 business year or in previous business years were taken into account.

Loans and advances to credit institutions and customers were recognised at the nominal value.

Individual impairment was carried out and provisions were created for recognisable risks relating to borrowers. Provisions were also recognised for potential losses from investments in high-risk countries.

For the item relating to loans and advances to credit institutions, the valuation discretion as per Section 57 (1) of the Austrian Banking Act was used.

Amounts in foreign currencies were generally translated at the middle exchange rates on the balance sheet date, in line with standard banking practice. The currency portfolios were translated at the middle currency rate.

Securities used for ongoing operations were measured as fixed assets, while securities held as current assets were measured according to the strict principle of lower of cost or market. The securitisation portfolio is subject to ongoing impairment testing. Potential impairment is identified in two steps. Firstly, the potential losses in the underlying securitisation portfolios are estimated for all securitisation transactions and are compared with the security buffer (subordination) of the respective securitisation tranche. All items showing potential impairment are then subjected to a detailed cash flow analysis in order to quantify any impairment.

Participations and investments in affiliates were measured at cost or at the fair value as at the balance sheet date, if lower. The fair values of the participations and investments in affiliates were calculated in accordance with the income capitalisation approach. In the case of participations and investments in affiliates that were written down in previous financial years, these impairments were reversed up to – and no higher than – amortised cost, providing there has been an appreciation in value.

Tangible fixed assets (land, buildings and office furniture and equipment) were measured at cost less depreciation. Depreciation and amortisation rates are 2.0% to 2.5% for immovable assets, 10% to 33% for movable assets and 25% for intangible assets.

Additions in the first half of the business year are reduced by the full depreciation or amortisation for the year, while additions in the second half are reduced by half a year's depreciation or amortisation. Low-value assets with an individual cost of up to euro 400 are depreciated in full in the year they are acquired.

Obligations arising from the banking business are recognised at the redemption amount on the balance sheet date.

Issuing costs, commission for additional contributions and premiums and discounts for debts evidenced by certificates are amortised over the term of the liabilities.

Since 1996, there has been a pension fund contract with VICTORIA-VOLKSBANKEN Pensionskassen AG (referred to below as "the pension fund").

For two employees who did not agree to the pension fund solution and for all retired employees, the direct commitments of Österreichische Volksbanken-Aktiengesellschaft remain in place. Österreichische Volksbanken-Aktiengesellschaft will continue to make provisions for pensions for this group.

The cover funds for these pension obligations were calculated in accordance with actuarial principles using the net present value method (Austrian pension insurance tables "AVÖ 2008 P-Rechnungsgrundlagen für die Pensionsversicherung – Pagler&Pagler, Angestelltenbestand"), based on a discount rate of 4%. No fluctuation rate was applied.

Provisions for severance payments were made for legal and contractual claims. The cover funds for these claims amount to 63.3% of the notional provisions for severance payments on the balance sheet date, based on the calculation carried out in accordance with actuarial principles (net present value method) with a discount rate of 4%. No fluctuation rate was applied.

Since 1992, the company has made provisions for jubilee benefits. The provisions were calculated in accordance with actuarial principles with a discount rate of 4%. No fluctuation rate was applied.

Other provisions were recognised in the amount of expected future claims, taking into account all recognisable risks and, depending on the amount, liabilities that have not yet been established.

The option in accordance with section 198 (10) of the Austrian Commercial Code was exercised. The amount eligible for capitalisation of deferred tax assets of the company not recognised on the balance sheet totaled TEUR 99,668 as at 31 December 2010 (31 December 2009: TEUR 73,361).

The nominal values of off-balance sheet transactions are reported in the items under the balance sheet. For these, provisions are recognised if claims are likely.

Derivative financial instruments are measured and reported as follows:

Derivative financial instruments in the investment book

Purchased options, futures, currency options, swaptions and caps and floors that serve to hedge proprietary issues are reported at cost. Premiums received for short positions are recognised as liabilities and premiums paid for long positions are recognised as assets.

For interest rate swaps, pro rata deferred interest is charged up to the balance sheet date.

Forward foreign exchange contracts and currency swaps are measured at the middle rate of exchange. The swap rate is defined on an aliquot basis over the term.

Compensation payments from forward rate agreements to hedge the investment book are amortised over the term.

Derivative financial instruments in the trading book

These include the optional part of structured issues and trading items from exchange-traded futures, options, interest rate swaps, forward rate agreements, swaptions, caps/floors/collars and currency options. They are measured at fair value and the valuation result is recognised in the income statement.

2. Notes to the balance sheet items

2.1. Receivables and balances

2.1.1. Breakdown of loans and advances to and balances with credit institutions and loans and advances to customers not payable on demand

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|---------------------|-------------|-------------|
| Remaining maturity: | | |
| up to 3 months | 6,329,153 | 7,038,217 |
| 3 months to 1 year | 249,500 | 642,162 |
| 1 year to 5 years | 5,141,786 | 4,949,776 |
| more than 5 years | 6,073,483 | 4,418,740 |

2.1.2. Loans and advances to affiliates and companies in which the Group has a participating interest

| Euro thousand | 31 Dec 2010 | | 31 Dec 2009 | |
|---|-------------------------------|----------------------|-------------------------------|----------------------|
| | to affiliated companies | to participations | to affiliated companies | to participations |
| Loans and advances to credit institutions | 8,492,001 | 747,534 | 11,676,789 | 651,388 |
| Loans and advances to customers | 3,686,525 | 57,181 | 2,558,698 | 16,678 |
| Debt securities and other fixed-interest securities | 85,918 | 0 | 75,469 | 0 |
| Shares | 352,300 | 9,192 | 297,851 | 1,950 |
| | 12,616,744 | 813,907 | 14,608,807 | 670,016 |

2.1.3. Classification of the securities in balance sheet items 2, 5 and 6 into listed and unlisted securities

| Euro thousand | Listed | Non-listed |
|---|-----------|------------|
| Debt instruments issued by public bodies and similar securities | 1,400,329 | 0 |
| Debt securities and other fixed-interest securities | 5,117,226 | 0 |
| Equities and other variable-yield securities | 135,719 | 619,017 |

2.1.4. Classification of the listed securities in balance sheet items 2, 5 and 6 into fixed and current assets

| Euro thousand | Fixed Assets | Current Assets |
|---|--------------|----------------|
| Debt instruments issued by public bodies and similar securities | 1,196,016 | 171,053 |
| Debt securities and other fixed-interest securities | 4,537,915 | 147,166 |
| Equities and other variable-yield securities | 1,191 | 15,397 |

As at 31 December 2010, the difference between the cost and the higher fair value of listed securities not designated as fixed assets was TEUR 12,781 (31 December 2009: TEUR 4,434).

2.1.5. Other disclosures regarding securities

Omitted write-ups of securities designated as current assets amounted to TEUR 9,644 (31 December 2009: TEUR 6,090). The value of potential future tax burdens arising from omitted write-ups is TEUR 2,411 (31 December 2009: TEUR 1,523).

The difference, written down on a pro rata basis, between the cost and the repayment amount of securities designated as fixed assets was TEUR 10,507 (31 December 2009: TEUR 4,339).

For securities designated as fixed assets with a volume (carrying amounts as at 31 December 2010) of TEUR 5,203,370 (31 December 2009: TEUR 4,991,735), which were reported above the fair value to the amount of TEUR 4,592,327 (31 December 2009: TEUR 4,317,345) (difference as at 31 December 2010: TEUR 611,043, 31 December 2009: TEUR 674,390), a write-down was not carried out as there was no permanent impairment; the redemption price for these securities is 100%.

Owing to the absence or insufficiency of market liquidity, the informative value of fair values is currently limited in many cases. They are therefore not a reliable measure of the effective impairment of the securities. The securities items affected by inactive markets are largely designated as fixed assets and are periodically examined to determine whether impairments are necessary. Fair values provided by external sources are checked for plausibility on an ongoing basis using available market data. If there is a discrepancy between estimates, the fair value measurement is adjusted. On the whole, fair values adjusted in this way are not material.

The carrying amount of securities sold in repo agreements (genuine repurchase agreements) is TEUR 681,302 (31 December 2009: TEUR 787,488).

The bank keeps a trading book. In 2010, securities with a fair value of TEUR 764,341 (31 December 2009: TEUR 1,072,987) and other financial instruments with a fair value of TEUR 247,769 (31 December 2009: TEUR 275,991) were allocated to this.

Securities that are intended to be held until maturity are reported under fixed assets in accordance with a Managing Board resolution.

2.1.6. Subordinated assets

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|---|--------------------|--------------------|
| Loans and advances to credit institutions | 119,800 | 114,363 |
| Debt securities and other fixed-interest securities | 114,012 | 126,860 |
| Loans and advances to customers | 1 | 113 |
| | 233,813 | 241,336 |

2.2. Participations and investments in affiliates

Breakdown of significant participations and investments in affiliates:

| | Share of VBAG % | Financial Statement | Total asset Euro thousand | Equity total Euro thousand | Equity share of VBAG Euro thousand | Annual result total Euro thousand |
|--|-----------------------|------------------------|------------------------------|----------------------------------|--|---|
| Investkredit Bank AG, Vienna | 100.0 | 31.12.10 | 9,164,268 | 688,325 | 688,325 | 10,682 |
| Allgemeine Bausparkasse registrierte Genossen- schaft mit beschränkter Haftung, Vienna | 2.0 | 31.12.09 | 1,898,026 | 86,115 | 1,755 | 39 |
| VICTORIA-VOLKSBANKEN | | | | | | |
| Versicherungs-Aktiengesellschaft, Vienna | 25.4 | 31.12.09 | 1,496,780 | 63,423 | 16,091 | 5,084 |
| Oesterreichische Clearingbank AG, Vienna | 11.8 | 31.12.09 | 1,407,314 | 179,334 | 21,121 | -162 |
| Volksbank Graz-Bruck e.Gen., Graz | 17.4 | 31.12.09 | 1,315,524 | 94,923 | 3,525 | 1,810 |
| Volksbank Kufstein registrierte Genossenschaft mit beschränkter Haftung, Kufstein | 20.9 | 31.12.09 | 1,267,775 | 66,519 | 8,266 | 563 |
| Volksbank, Gewerbe- und Handelsbank Kärnten AG, Klagenfurt | 25.0 | 31.12.09 | 706,193 | 33,545 | 7,101 | 880 |
| VBI Holding GmbH, Vienna ¹⁾ | 100.0 | 31.12.10 | 704,333 | 697,491 | 697,491 | 8,272 |
| VICTORIA-VOLKSBANKEN | | | | | | |
| Pensionskassen Aktiengesellschaft, Vienna | 47.5 | 31.12.09 | 503,041 | 15,082 | 7,164 | 149 |
| GUB-Holding GmbH, Vienna | 100.0 | 31.12.10 | 486,739 | 486,739 | 486,739 | 67,295 |
| VIBE-Holding GmbH, Vienna | 100.0 | 31.12.10 | 451,607 | 86,147 | 86,147 | -42,006 |
| CEESEG Aktiengesellschaft, Vienna ²⁾ | 1.4 | 31.12.09 | 383,794 | 276,390 | 3,911 | 101,872 |
| DCM DECOMetal GmbH, Fürstenfeld | 1.5 | 31.12.09 | 335,385 | 67,270 | 1,029 | 1,469 |
| Volksbank Aichfeld-Murboden registrierte Genossenschaft mit beschränkter Haftung, Judenburg | 25.2 | 31.12.09 | 224,796 | 9,526 | 2,405 | 19 |
| Volksbank Mürztal-Leoben registrierte Genossenschaft mit beschränkter Haftung, Leoben | 32.6 | 31.12.09 | 219,422 | 11,386 | 1,776 | -2,085 |
| Leasing - west GmbH & Co. KG, Kufstein | 99.0 | 31.12.10 | 151,466 | 17,584 | 17,408 | 742 |
| VICTORIA-VOLKSBANKEN Vorsorgekasse AG, Vienna | 50.0 | 31.12.09 | 94,301 | 3,522 | 1,761 | 126 |
| VB Factoring Bank AG, Salzburg | 100.0 | 31.12.10 | 77,957 | 19,271 | 19,271 | 1,552 |
| Gefinag-Holding AG, Vienna | 100.0 | 31.12.10 | 58,121 | 4,104 | 4,104 | 331 |
| VICTORIA-VOLKSBANKEN Pojistovna a.s., Prague | 15.7 | 31.12.09 | 53,241 | 13,263 | 2,087 | 1,049 |
| VICTORIA-VOLKSBANKEN Poistovna a.s., Bratislava | 15.2 | 31.12.09 | 27,995 | 10,547 | 1,603 | 36 |
| VICTORIA-VOLKSBANKEN Elebitzito Rt., Budapest | 15.3 | 31.12.09 | 22,915 | 4,093 | 626 | 178 |
| Volksbank Invest Kapitalanlagegesellschaft m.b.H., Vienna | 100.0 | 31.12.10 | 19,006 | 3,817 | 3,817 | 3,741 |
| Oberösterreichische Kreditgarantiegesellschaft m.b.H., Linz | 8.9 | 31.12.09 | 16,650 | 10,111 | 897 | -3,366 |
| VICTORIA zivotno osiguranje d.d., Zagreb | 20.1 | 31.12.09 | 9,601 | 5,135 | 1,032 | -266 |
| VIVH AG, Vienna | 100.0 | 31.12.10 | 5,082 | 5,026 | 5,026 | -5 |
| VICTORIA osiguranje d.d., Zagreb | 20.1 | 31.12.09 | 4,320 | 4,165 | 837 | 302 |
| RSV Beteiligungs GmbH, Vienna | 33.3 | 31.12.10 | 3,828 | 3,818 | 1,273 | 3,287 |
| Verwaltungsgenossenschaft der IMMO-BANK regGenmbH, Vienna | 86.9 | 31.12.10 | 3,184 | 3,152 | 2,739 | 167 |

1) former VOBA-Holding GmbH

2) former Wiener Börse AG, Vienna

Relationships with affiliates

Since 2005, Österreichische Volksbanken-Aktiengesellschaft has been the parent group of a group of companies in accordance with section 9 of the Austrian Corporation Tax Act. As at 31 December 2010, the group comprises 65 members (31 December 2009: 63). New group agreements were signed with the following companies for 2010, including tax equalisation agreements.

- VB GFI AG
- UBG Bankenbeteiligungs GmbH
- REWO Holding GmbH

Non-interest-bearing funding has been provided by the company to the following related parties:

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|---|--------------------|--------------------|
| VB-Holding Aktiengesellschaft | 10,503 | 10,503 |
| Mithra Holding Gesellschaft m.b.H. | 8,353 | 8,353 |
| Volksbank Invest Kapitalanlagegesellschaft m.b.H. | 5,000 | 5,000 |
| Volksbanken-Beteiligungsgesellschaft m.b.H. | 2,705 | 2,705 |
| 3V-Immobilien Errichtungs-GmbH | 813 | 24,455 |
| VB ManagementBeratung GmbH | 7 | 1,656 |
| | 27,381 | 52,672 |

The non-interest-bearing funding provided to VB-Holding Aktiengesellschaft and Mithra Holding Gesellschaft m.b.H. is offset by non-interest-bearing deposits in the same amount.

Significant loans have been granted to the following related parties (without guarantees):

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|-------------------------------|--------------------|--------------------|
| Investkredit Bank AG | 5,987,360 | 6,917,501 |
| Volksbank International AG | 1,237,586 | 1,617,257 |
| Volksbank Romania S.A. | 1,004,072 | 1,026,642 |
| Volksbank Serbien A.D. | 456,761 | 380,899 |
| VB Leasing Finanzierungs GmbH | 386,110 | 381,719 |
| Volksbank Malta Limited | 384,177 | 440,712 |
| VIBE-Holding GmbH | 274,736 | 219,475 |
| | 9,730,802 | 10,984,205 |

The income from investments includes the following profit transfers:

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|--|--------------------|--------------------|
| Investkredit Bank AG | 10,682 | -279,224 |
| Volksbank Invest Kapitalanlagegesellschaft m.b.H. | 3,741 | 3,635 |
| VB Factoring Bank Aktiengesellschaft | 1,549 | 1,578 |
| VBI Holding GmbH (former BAVO-Holding GmbH) | 100 | 112,166 |
| Gefinag-Holding AG | 1 | 1 |
| GUB-Holding GmbH | 0 | 10,750 |
| Bank für Ärzte und Freie Berufe Aktiengesellschaft | 0 | 1,347 |
| Volksbank Wien AG | 0 | 4,658 |

Profit transfer agreements subject to civil law have been concluded with the following companies:

- Gefinag-Holding AG, Wien
- Volksbank Invest Kapitalanlagegesellschaft m.b.H., Wien
- VB Factoring Bank AG, Salzburg
- Investkredit Bank AG, Wien

2.3. Fixed assets

The real property value of developed land amounted to TEUR 45 (31 December 2009: TEUR 45). Please refer to page 233 for information on changes in fixed assets.

2.4. Other assets

Breakdown of other assets

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|--|------------------|------------------|
| Fair value of derivative financial instruments | 1,926,612 | 1,738,104 |
| Deferred interest | 691,700 | 794,466 |
| Receivables arising from relationships between Group companies | 54,050 | 177,306 |
| Tax claims | 21,863 | 16,587 |
| Relationships with Volksbanks | 3,787 | 196,041 |
| Other receivables | 29,855 | 37,459 |
| | 2,727,867 | 2,959,963 |

The item other assets includes income in the amount of TEUR 745,258 (31 December 2009: TEUR 895,172) that will not impact cash flows until after the reporting date.

2.5. Obligations

1. Breakdown of amounts owed to credit institutions and customers and not payable on demand

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|--------------------|-------------|-------------|
| Remaining maturity | | |
| up to 3 months | 2,283,287 | 2,114,980 |
| 3 months to 1 year | 406,767 | 967,789 |
| 1 year to 5 years | 1,750,802 | 1,964,827 |
| more than 5 years | 1,611,966 | 1,681,218 |

2. Amounts owed to affiliates and companies in which the Group has a participating interest

| Euro thousand | 31 Dec 2010 | | 31 Dec 2009 | |
|-------------------------------------|-------------------------|-------------------|-------------------------|-------------------|
| | to affiliated companies | to participations | to affiliated companies | to participations |
| Amounts owed to credit institutions | 493,671 | 1,051,325 | 806,460 | 1,049,262 |
| Amounts owed to customers | 208,150 | 47,455 | 183,783 | 38,223 |
| | 701,821 | 1,098,780 | 990,243 | 1,087,485 |

2.6. Other liabilities

Breakdown of other liabilities

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|--|------------------|------------------|
| Fair value of derivative financial instruments | 2,178,108 | 1,639,623 |
| Deferred interest | 622,734 | 691,133 |
| Liabilities arising from relationships between Group companies | 17,438 | 445,440 |
| Tax liabilities | 1,991 | 1,717 |
| Other liabilities | 23,153 | 35,706 |
| | 2,843,424 | 2,813,619 |

The item other liabilities includes material expenses in the amount of TEUR 640,676 (31 December 2009: TEUR 918,163) that will not impact cash flows until after the reporting date.

Composition of contingent liabilities

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|-------------------|------------------|------------------|
| Guarantees | 3,619,164 | 4,091,347 |
| Letter of comfort | 63,400 | 93,628 |
| Letter of credit | 4,490 | 4,859 |
| less provisions | -3,847 | -5,796 |
| | 3,683,207 | 4,184,038 |

Composition of credit risks

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|-----------------------------|------------------|------------------|
| Unutilised loan commitments | 4,931,240 | 6,232,052 |
| Repurchase transactions | 9,373 | 0 |
| | 4,940,613 | 6,232,052 |

Composition of trustee transactions

As per 31 December 2010, there were no trust transactions.

2.7. Provisions

2.7.1. Provisions for deferred taxes

The provision for deferred taxes as per 31 December 2010 was TEUR 21,735 (31 December 2009: TEUR 34,757) and results almost exclusively from the integration of Immoconsult Leasinggesellschaft m.b.H. to Investkredit Bank AG in 2006.

2.7.2. Other provisions

Other provisions include provisions for the following obligations:

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|---|---------------|---------------|
| for interest expenses | 27,280 | 8,799 |
| for risks from participations | 12,000 | 0 |
| for employee benefits | 9,144 | 5,297 |
| for reorganisation and consultancy | 8,722 | 12,084 |
| for income tax of participations | 7,000 | 7,000 |
| for losses and risks from granting loans and guarantees | 3,847 | 6,914 |
| for derivatives | 2,991 | 6,637 |
| for non-used vacations | 2,361 | 2,785 |
| for other obligations and guarantees | 17,589 | 12,253 |
| | 90,934 | 61,769 |

2.8. Equity

As at 31 December 2010, the share capital comprised the following:

| | Euro thousand |
|--|----------------|
| 40,124,990 bearer shares with a nominal value of euro 7.27 | 291,709 |
| 2,666,666 non-voting preferred bearer shares with a nominal value of euro 7.27 | 19,386 |
| 10 registered shares with a nominal value of euro 7.27 | 0 |
| | 311,095 |

As at 31 December 2010, there was unused authorised capital of TEUR 32,000 (approved at the general meeting on 24 May 2006).

In accordance with the resolution adopted by the general meeting on 15 December 2008, a contingent capital increase of up to TEUR 155,548 through the issue of up to 21,395,833 ordinary shares was resolved. This capital increase may only be carried out to the extent that the bearers of the participation capital issued in line with the resolution of the general meeting on 15 December 2008 make use of their conversion rights (contingent capital).

The participation capital issued by Österreichische Volksbanken-Aktiengesellschaft in 2009 with a nominal volume of euro 1,000 million was held entirely by the Republic of Austria as at 31 December 2010.

In addition to the share capital, the company held participation capital with a nominal value of TEUR 1,534,077 as at 31 December 2010; of this participation capital, participation certificates with a nominal volume of TEUR 926 and 695,271 treasury shares were in the portfolio of Österreichische Volksbanken-Aktiengesellschaft, owing to repurchases from third parties.

Treasury stocks

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|---------------------------|-------------|-------------|
| Own shares | 10,729 | 11,598 |
| Own participation capital | 1,602 | 1,381 |
| | 12,331 | 12,979 |

Development

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|------------------------|-------------|-------------|
| As at 1 January 2010 | 5,827 | 12,979 |
| Additions | 157 | 285 |
| Disposal | -4 | -7 |
| Impairments | 0 | -926 |
| As at 31 December 2010 | 5,980 | 12,331 |

Changes in participation certificates in the portfolio of Company were as follows:

| | Number of units | Nominal value euro | Average market price euro |
|------------------------|-----------------|--------------------|---------------------------|
| As at 1 January 2010 | 10,824 | 786,610 | 127.63 |
| Additions | 1,965 | 142,802 | 127.68 |
| Disposals | -50 | -3,634 | 131.70 |
| As at 31 December 2010 | 12,739 | 925,779 | 125.73 |

In 2010, a profit of euro 202.95 (31 December 2009: a loss of TEUR 0.2) was achieved from the disposals.

As per 31 December 2010, the conditions for the issued subordinated liabilities and supplementary capital are as follows:

| ISIN | Name | Nominal value | Currency | Interest rate % | Redemption | Continuous issue | Right of termination | Condition of subordination | Conversion |
|--------------|--|------------------|----------|--------------------|------------|---------------------|-------------------------|-------------------------------|----------------|
| | | | | | | | | | into equity |
| QOXDB4443772 | Victoria 2 2001 - 2011 | 2,000,000 | EUR | 3.00 | 27.04.11 | yes | excluded | section 23(8) BWG* | none |
| AT000B056759 | Nachr.Merkur Best of Life II Garant 08-20/Serie 20 | 3,000,000 | EUR | 0.00 | 01.12.20 | yes | excluded | section 23(8) BWG* | none |
| AT000B053715 | Nachr.CMS Floater to fix/Serie1364,000,000 | EUR | 3.33 | 30.03.17 | no | Issuer | section 23(8) BWG* | none | |
| AT0000435888 | 4%/7,25% nachr. var. VB Schuld- verschreibungen 2003-2013/1 | 8,000,000 | EUR | 4.00 | 09.09.13 | yes | excluded | section 23(8) BWG* | none |
| AT0000435904 | 5,72%/6% kündbare Nachrangkapital VB Schuld- verschreibungen 2003-2023 | 12,000,000 | EUR | 5.72 | 25.09.23 | no | Issuer | section 23(8) BWG* | none |
| AT000B052600 | VB nachrangige Nullkuponanleihe 2006-2016 | 12,600,000 | EUR | 0.00 | 31.05.16 | no | excluded | section 23(8) BWG* | none |
| AT000B053558 | 5,27% mehrfachkündb. Nachrang-Anl. 2007-2027 | 14,000,000 | EUR | 5.27 | 08.02.27 | no | Issuer | section 23(8) BWG* | none |
| AT0000432661 | 6,5 %/6,75 % nachr. Schuldversch. 2001-2011/2021 | 15,000,000 | EUR | 6.50 | 15.03.21 | yes | Issuer | section 23(8) BWG* | none |
| AT000B052899 | Nachrangige Nullkuponanleihe 2006-2016/Serie 34 | 20,000,000 | EUR | 0.00 | 03.10.16 | no | excluded | section 23(8) BWG* | none |
| AT000B053855 | VB Nachr.Nullkuponanl./Serie 150 | 20,000,000 | EUR | 0.00 | 03.04.17 | no | excluded | section 23(8) BWG* | none |
| AT0000432976 | 6,35 %/7 % VB Nachrangkapital Schuldverschreibungen 2002-2022/P2 | 23,000,000 | EUR | 6.35 | 18.01.22 | yes | Issuer | section 23(8) BWG* | none |
| AT000B052055 | 4,05%/5,00% kündbare nachrangige Anleihe 2006-2026 | 25,000,000 | EUR | 4.05 | 19.01.26 | no | Issuer | section 23(8) BWG* | none |
| AT0000432984 | 6,35%/7% VB Nachrangkapital Schuldverschreibungen 2002-2022/P3 | 30,000,000 | EUR | 6.35 | 25.01.22 | yes | Issuer | section 23(8) BWG* | none |
| XS0275528627 | Subordinated Lower Tier II Notes due November 2016 | 300,000,000 | EUR | 1.38 | 28.11.16 | no | excluded | section 23(8) BWG* | none |
| AT0000438767 | 5,45% ÖVAG Kündbare Ergänzungskap. Anleihe 2004-2019 | 6,000,000 | EUR | 5.45 | 02.08.19 | yes | Issuer | section 23(7) BWG* | none |
| AT0000439765 | Step up to 8 % Ergänzungs- kapitalanleihe 2005-2020 | 7,000,000 | EUR | 3.63 | 07.09.20 | yes | excluded | section 23(7) BWG* | none |
| AT0000440029 | Kündbare 4,35% Ergänzungs- kapitalanleihe 2005-2018 | 10,000,000 | EUR | 4.35 | 16.11.18 | no | Issuer | section 23(7) BWG* | none |
| AT000B052840 | Callable FRN Ergänzungs- kapitalanl. 2006-2019/Serie 15 | 13,500,000 | EUR | 1.69 | 09.08.19 | no | Issuer | section 23(7) BWG* | none |
| AT0000439807 | Kündbare 4,90% Ergänzungs- kapitalanleihe 2005-2025 | 16,000,000 | EUR | 4.90 | 18.08.25 | no | Issuer | section 23(7) BWG* | none |
| AT0000439708 | 10J.FRN Ergänzungskapital- anleihe 2005-2015 | 20,700,000 | EUR | 1.84 | 29.07.15 | no | excluded | section 23(7) BWG* | none |
| AT0000439716 | 4,17% Ergänzungskapital- anleihe 2005-2015 | 21,000,000 | EUR | 4.17 | 29.07.15 | no | excluded | section 23(7) BWG* | none |
| AT0000438577 | 5,65%/6,375% kündb. Erg.-Kap.-Anl. 2004-2024 | 21,000,000 | EUR | 5.65 | 29.04.24 | no | Issuer | section 23(7) BWG* | none |
| AT0000439724 | Kündbare 4,81% Ergänzungs- kapitalanleihe 2005-2025 | 36,400,000 | EUR | 4.81 | 29.07.25 | no | Issuer | section 23(7) BWG* | none |
| AT0000438551 | 5,5%/6,375% kündb.Erg.- Kap.-Anl. 2004-2024 | 39,000,000 | EUR | 5.50 | 16.04.24 | no | Issuer | section 23(7) BWG* | none |
| AT0000438569 | 4-7% Step up Erg.-Kapitalanleihe 2004-2014 | 60,000,000 | EUR | 5.25 | 22.04.14 | yes | excluded | section 23(7) BWG* | none |
| AT0000439732 | Callable 13J.FRN Ergänzungs- kapitalanleihe 2005-2018 | 68,200,000 | EUR | 1.86 | 29.07.18 | no | Issuer | section 23(7) BWG* | none |
| QOXDB9964244 | VB Ergänzungskapitalanleihe 04/End | 250,000,000 | EUR | 1.76 | 31.12.99 | no | Issuer | section 23(7) BWG* | none |

* BWG: Austrian Banking Act

2.9. Additional disclosures

List of assets held as security for liabilities:

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|----------------------------------|-------------|-------------|
| Covering loans for covered bonds | 855,569 | 964,096 |

The total amount of obligations arising from the use of property, plant and equipment not reported on the balance sheet is euro 10.0 million for the following business year (of which affiliates euro 7.6 million) and euro 51.5 million for the following five years (of which affiliates euro 39.4 million).

In 2011, receivables from bonds and other fixed-income securities in the amount of TEUR 615,035 will become due.

Issued bonds in the amount of TEUR 1,759,071 will mature in the 2011 business year.

Total amount of assets and liabilities denominated in foreign currencies:

| Euro thousand | 31 Dec 2010 | 31 Dec 2009 |
|---|-------------|-------------|
| Asset denominated in foreign currencies | 7,259,919 | 8,038,431 |
| Liabilities denominated in foreign currencies | 1,159,679 | 1,779,963 |

Disclosures in accordance with section 237a of the Austrian Commercial Code

Derivative financial instruments are a key resource used by Österreichische Volksbanken-Aktiengesellschaft to hedge interest rate risks and to manage the balance sheet structure. Interest rate swaps and futures are used as primary hedging instruments for the bank's own fixed-interest issues. Interest rate swaps are also used to hedge the fair value of fixed-interest investments in fixed-income securities and loans and advances to customers.

Furthermore, cross currency swaps, forward foreign exchange contracts, currency options and currency swaps serve to hedge interest rate and currency risks relating to loans and advances and liabilities to credit institutions and customers and to issues in foreign currencies.

Österreichische Volksbanken-Aktiengesellschaft offers structured issues whose repayment is based on market indexes and/or whose repayment amount is guaranteed up to the face value of the bond. Furthermore, the Group offers step up bonds with gradually increasing interest rates that grant the issuer a right to terminate at points in time determined in advance.

All derivatives embedded in such bonds are monitored by the Group market risk management department and hedged with suitable products by the trading department.

These financial instruments are recognised and measured at the fair value if they are used for trading. Derivatives in the investment book that are used for hedging purposes are measured at cost. Any premiums are recognised as assets or liabilities and are derecognised in the income statement at the end of their term. Interest is accounted for on a pro rata basis.

The fair value is the amount at which an asset can be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. In the case of listed financial instruments, the fair value corresponds to the market value. If no market value is available, the future cash flows of a financial instrument are discounted with the respective interest rate curve to the valuation date. Standard international actuarial procedures are used in calculations.

| Total | 31 Dec 10 | | | | 31 Dec 09 | | | | | |
|--|--------------|---------------|-------------------|-------------|--------------|-------------------|-------------------|--------------|-------------------|-------------------|
| | | Nominal value | | | Market value | Other receivables | Other liabilities | Market value | Other receivables | Other liabilities |
| Euro thousand | up to 1 year | 1-5 years | more than 5 years | Total | 31 Dec 10 | 31 Dec 10 | 31 Dec 10 | 31 Dec 09 | 31 Dec 09 | 31 Dec 09 |
| INTEREST RATE RELATED TRANSACTIONS | 19,212,960 | 34,605,174 | 29,884,589 | 83,702,722 | 366,183 | 2,174,545 | 2,004,645 | 372,143 | 2,194,729 | 1,893,694 |
| Caps&Floors | 259,993 | 3,832,601 | 1,877,022 | 5,969,616 | 15,497 | 45,359 | 33,213 | 9,675 | 26,789 | 19,615 |
| FRA's | 612,690 | 0 | 0 | 612,690 | -816 | 182 | 1,022 | 137 | 609 | 467 |
| Interest Futures | 387,378 | 31,250 | 0 | 418,628 | 152 | 90 | 56 | -4,384 | 198 | 1,073 |
| IRS | 17,423,840 | 29,404,554 | 26,304,721 | 73,133,114 | 430,968 | 2,094,661 | 1,920,672 | 448,980 | 2,135,000 | 1,821,552 |
| Swaptions | 529,059 | 1,336,769 | 1,702,846 | 3,568,674 | -79,618 | 34,253 | 49,682 | -82,265 | 32,133 | 50,988 |
| EXCHANGE RATE RELATED TRANSACTIONS | 15,962,593 | 1,073,744 | 792,501 | 17,828,837 | -395,905 | 219,722 | 572,456 | -91,816 | 96,429 | 183,491 |
| Cross Currency Swaps | 737,378 | 992,165 | 779,674 | 2,509,217 | -149,819 | 42,737 | 40,740 | -18,651 | 0 | 0 |
| Foreign exchange options | 579,180 | 66,787 | 12,827 | 658,794 | 3,152 | 29,193 | 27,601 | 1,745 | 52,242 | 52,608 |
| Foreign exchange transactions/FX SWAPS | 14,646,035 | 14,791 | 0 | 14,660,826 | -249,238 | 147,792 | 504,115 | -74,909 | 44,187 | 130,882 |
| CREDIT RELATED TRANSACTIONS | 151,988 | 3,825,224 | 1,977,682 | 5,954,895 | -64,717 | 14,639 | 1,140 | -54,666 | 4,969 | 1,170 |
| Credit Default Swaps | 151,988 | 3,825,224 | 1,977,682 | 5,954,895 | -64,717 | 14,639 | 1,140 | -54,666 | 4,969 | 1,170 |
| OTHER TRANSACTIONS | 925,702 | 4,029,219 | 563,741 | 5,518,662 | -5,317 | 209,407 | 216,254 | 5,834 | 236,443 | 246,096 |
| Index-, FX- and Commodity Futures | 95,099 | 0 | 0 | 95,099 | -870 | 767 | 0 | 320 | 0 | 0 |
| Options | 830,603 | 4,029,219 | 563,741 | 5,423,563 | -4,447 | 208,640 | 216,254 | 5,514 | 236,443 | 246,096 |
| TOTAL | 36,253,243 | 43,533,361 | 33,218,513 | 113,005,116 | -99,757 | 2,618,312 | 2,794,495 | 231,495 | 2,532,571 | 2,324,450 |

| TRADING BOOK | 31 Dec 10 | | | | 31 Dec 09 | | | | | |
|--|--------------|---------------|-------------------|------------|--------------|-------------------|-------------------|--------------|-------------------|-------------------|
| | | Nominal value | | | Market value | Other receivables | Other liabilities | Market value | Other receivables | Other liabilities |
| Euro thousand | up to 1 year | 1-5 years | more than 5 years | Total | 31 Dec 10 | 31 Dec 10 | 31 Dec 10 | 31 Dec 09 | 31 Dec 09 | 31 Dec 09 |
| INTEREST RATE RELATED TRANSACTIONS | 10,376,037 | 29,315,329 | 24,923,485 | 64,614,852 | 321,178 | 1,975,303 | 1,919,354 | 359,344 | 2,118,600 | 1,658,007 |
| Caps&Floors | 259,993 | 3,753,801 | 1,869,522 | 5,883,316 | 13,230 | 43,065 | 32,458 | 7,344 | 26,235 | 18,890 |
| FRA's | 601,318 | 0 | 0 | 601,318 | -816 | 57 | 873 | 137 | 246 | 109 |
| Interest Futures | 327,678 | 31,250 | 0 | 358,928 | 213 | 29 | 56 | -4,905 | 173 | 649 |
| IRS | 8,696,989 | 24,440,580 | 22,273,563 | 55,411,133 | 309,756 | 1,899,164 | 1,851,774 | 361,868 | 2,061,181 | 1,602,493 |
| Swaptions | 490,059 | 1,089,698 | 780,400 | 2,360,157 | -1,205 | 32,988 | 34,193 | -5,100 | 30,766 | 35,866 |
| EXCHANGE RATE RELATED TRANSACTIONS | 659,331 | 295,443 | 142,209 | 1,096,983 | 5,586 | 74,591 | 69,006 | 4,154 | 52,242 | 52,608 |
| Cross Currency Swaps | 80,151 | 228,656 | 129,382 | 438,188 | 1,996 | 42,737 | 40,740 | 4,967 | 0 | 0 |
| Foreign exchange options | 579,180 | 66,787 | 12,827 | 658,794 | 1,674 | 29,129 | 27,455 | -813 | 52,242 | 52,608 |
| Foreign exchange transactions/FX SWAPS | 0 | 0 | 0 | 0 | 1,915 | 2,726 | 810 | 0 | 0 | 0 |
| OTHER TRANSACTIONS | 546,026 | 2,261,137 | 305,394 | 3,112,557 | -78,995 | 208,411 | 212,924 | -87,507 | 235,667 | 230,505 |
| Index-, FX- and Commodity Futures | 33,156 | 0 | 0 | 33,156 | -103 | 0 | 0 | 500 | 0 | 0 |
| Options | 512,870 | 2,261,137 | 305,394 | 3,079,401 | -78,891 | 208,411 | 212,924 | -88,007 | 235,667 | 230,505 |
| TOTAL TRADING BOOK | 11,581,394 | 31,871,910 | 25,371,088 | 68,824,392 | 247,769 | 2,258,305 | 2,201,284 | 275,991 | 2,406,509 | 1,941,120 |

| INVESTMENT BOOK | 31 Dec 10 | | | | 31 Dec 09 | | | | | |
|--|--------------|---------------|-------------------|------------|--------------|-------------------|-------------------|--------------|-------------------|-------------------|
| | | Nominal value | | | Market value | Other receivables | Other liabilities | Market value | Other receivables | Other liabilities |
| Euro thousand | up to 1 year | 1-5 years | more than 5 years | Total | 31 Dec 10 | 31 Dec 10 | 31 Dec 10 | 31 Dec 09 | 31 Dec 09 | 31 Dec 09 |
| INTEREST RATE RELATED TRANSACTIONS | 8,836,922 | 5,289,845 | 4,961,103 | 19,087,871 | 45,005 | 199,242 | 85,290 | 12,799 | 76,129 | 235,687 |
| Caps&Floors | 0 | 78,800 | 7,500 | 86,300 | 2,267 | 2,294 | 755 | 2,331 | 554 | 724 |
| FRA's | 11,372 | 0 | 0 | 11,372 | 0 | 125 | 148 | 0 | 363 | 358 |
| Interest Futures | 59,700 | 0 | 0 | 59,700 | -61 | 61 | 0 | 521 | 25 | 424 |
| IRS | 8,726,850 | 4,963,974 | 4,031,157 | 17,721,981 | 121,212 | 195,497 | 68,898 | 87,113 | 73,819 | 219,059 |
| Swaptions | 39,000 | 247,071 | 922,446 | 1,208,517 | -78,413 | 1,265 | 15,488 | -77,165 | 1,367 | 15,122 |
| EXCHANGE RATE RELATED TRANSACTIONS | 15,303,262 | 778,301 | 650,292 | 16,731,854 | -401,491 | 145,130 | 503,450 | -95,970 | 44,187 | 130,882 |
| Cross Currency Swaps | 657,227 | 763,509 | 650,292 | 2,071,029 | -151,815 | 0 | 0 | -23,618 | 0 | 0 |
| Foreign exchange options | 0 | 0 | 0 | 0 | 1,478 | 64 | 145 | 2,558 | 0 | 0 |
| Foreign exchange transactions/FX SWAPS | 14,646,035 | 14,791 | 0 | 14,660,826 | -251,154 | 145,066 | 503,305 | -74,909 | 44,187 | 130,882 |
| CREDIT RELATED TRANSACTIONS | 151,988 | 3,825,224 | 1,977,682 | 5,954,895 | -64,717 | 14,639 | 1,140 | -54,666 | 4,969 | 1,170 |
| Credit Default Swaps | 151,988 | 3,825,224 | 1,977,682 | 5,954,895 | -64,717 | 14,639 | 1,140 | -54,666 | 4,969 | 1,170 |
| OTHER TRANSACTIONS | 379,676 | 1,768,082 | 258,348 | 2,406,105 | 73,677 | 996 | 3,330 | 93,340 | 777 | 15,591 |
| Index-, FX- and Commodity Futures | 61,943 | 0 | 0 | 61,943 | -767 | 767 | 0 | -180 | 0 | 0 |
| Options | 317,733 | 1,768,082 | 258,348 | 2,344,162 | 74,444 | 229 | 3,330 | 93,520 | 777 | 15,591 |
| TOTAL INVESTMENT BOOK | 24,671,848 | 11,661,451 | 7,847,425 | 44,180,724 | -347,526 | 360,007 | 593,211 | -44,496 | 126,062 | 383,330 |

3. Notes to the income statement

| Euro thousand | 2010 | 2009 | Changes |
|--|--------|---------|----------|
| Income from securities and investments | 28,033 | 150,725 | -122,692 |
| a) Income from shares, other ownership interests and variable-yield securities | 7,156 | 12,562 | -5,406 |
| b) Income from participations | 3,378 | 2,302 | 1,076 |
| c) Income from affiliates | 17,499 | 135,861 | -118,362 |

The TEUR 122,692 decrease in income from securities and participations can largely be attributed to the lower distributions from affiliates as a result of the disposal of participations and the extraordinary effects of the previous year.

| Euro thousand | 2010 | 2009 | Changes |
|--|----------------|-----------------|----------------|
| Result from valuation and sales | 8,283 | -716,313 | 724,596 |
| 11. Value adjustments for loans, advances and allocations to reserves for contingent liabilities and for credit risks | -72,017 | -94,548 | 22,531 |
| Credit business | -18,946 | -41,641 | 22,695 |
| Securities - current assets | -53,071 | -52,907 | -164 |
| 12. Income from the release of value adjustments for loans, advances and reserves for contingent liabilities and for credit risks | 39,512 | 59,084 | -19,572 |
| Credit business | 15,550 | 8,421 | 7,130 |
| Securities - current assets | 23,962 | 50,664 | -26,702 |
| 13. Value adjustments for securities valued as financial investments as well as for participations and investments in affiliates | -79,297 | -806,653 | 727,356 |
| Securities - fixed assets | -39,811 | -65,236 | 25,425 |
| Participations and investments in affiliates | -39,486 | -741,417 | 701,931 |
| 14. Income from value adjustments for securities valued as financial investments as well as from participations and investments in affiliates | 120,085 | 125,803 | -5,718 |
| Securities - fixed assets | 35,135 | 37,773 | -2,638 |
| Participations and investments in affiliates | 84,949 | 88,030 | -3,080 |

At EUR 8.3 million, the valuation and disposal result for 2010 is positive. This represents a significant improvement of almost EUR 725 million on the previous year. This improvement can be explained by the lack of extraordinary effects of the previous year, namely the negative result in 2009 of Investkredit Bank AG (EUR -279.2 million as per 31 December 2009), the impairment on participations in the real estate sector (EUR -254.3 million as per 31 December 2009) and other participations EUR -205 million as per 31 December 2009).

In contrast to previous years, the result from sales activities was allocated to net fee and commission income in 2010. A comparison with the previous year shows the subsequent effect:

| Euro thousand | 2010 | 2009 |
|---------------------------|----------------|----------------|
| With reclassification | | |
| Fee and commission income | 87,711 | 118,330 |
| Net trading income | 31,423 | 68,875 |
| | 119,134 | 187,204 |

| Euro thousand | 2010 | 2009 |
|---------------------------|----------------|----------------|
| Without reclassification | | |
| Fee and commission income | 62,028 | 62,523 |
| Net trading income | 57,106 | 124,682 |
| | 119,134 | 187,204 |

Breakdown of other operating income:

| Euro thousand | 2010 | 2009 |
|---|-------------|-------------|
| Other operating income | | |
| From other transactions | 2 | 50 |
| From leases of movable and unmovable property | 61 | 55 |
| | 63 | 105 |

Breakdown of other operating expenses:

| Euro thousand | 2010 | 2009 |
|---|-------------|-------------|
| Other operating expenses | | |
| Expenses for real estate under lease | 31 | 22 |
| Expenses which are charged to customers | 210 | 279 |
| | 241 | 301 |

Income taxes

Income taxes relate in full to the result of ordinary business activities.

| Euro thousand | 2010 | | 2009 | |
|--|-----------------|----------------|-----------------|----------------|
| Changes in reserves | Addition (-) | Release (+) | Addition (-) | Release (+) |
| Capital reserves | 0 | 299 | 0 | 509,456 |
| Retained earnings / other reserves | 0 | 648 | 0 | 281,778 |
| Liability reserves acc. to section 23 (6) Austrian Banking Act | 0 | 19,086 | 0 | 0 |
| | 0 | 20,033 | 0 | 791,234 |
| | 20,033 | | 791,234 | |

Expenses for subordinated liabilities and supplementary capital amount to TEUR 32,479 (31 December 2009: TEUR 39,656).

4. Other disclosures

Volksbanken Holding registrierte Genossenschaft mit beschränkter Haftung, Vienna, prepares the consolidated financial statements for the largest and smallest group of companies. The consolidated financial statements are lodged at the commercial court of Vienna.

During 2010, an average of 526 staff were employed (31 December 2009: 513).

Expenses for severance payments and pensions amount to TEUR 692 (31 December 2009: TEUR 1,611) for members of the Managing Board and TEUR 357 (31 December 2009: TEUR 308) for senior management pursuant to section 80 (1) of the Stock Corporation Act 1965.

Expenses for severance payments and pensions for employees amounted to TEUR 1,953 (31 December 2009: TEUR 594).

Expenses for severance payments included under item 8 a) ff) amount to TEUR 590 (31 December 2009: TEUR 1,012).

The total compensation granted to members of the Supervisory Board in the business year amounted to TEUR 90 (31 December 2009: TEUR 89).

The total compensation for members of the Managing Board amounted to TEUR 2,192 (31 December 2009: TEUR 2,177).

The total compensation granted to former members of the Managing Board and their surviving dependents in the business year amounted to TEUR 698 (31 December 2009: TEUR 705).

As at 31 December 2010, there were outstanding loans and advances granted to members of the Supervisory Board in the amount of TEUR 22 (31 December 2009: TEUR 13). Repayments of TEUR 13 were made in 2010 (31 December 2009: TEUR 12). The average term is 24 months. No interest is charged on the advances.

| | Acquisition cost | | | | | | Cumulated | | | | |
|---|---------------------|------------------|-------------------|----------------|-------------------------|----------------------|-----------------------------|--------------------------------|----------------------------------|----------------|---------------|
| Euro | As at 1 Jan 2010 | Additions | Disposals | Transfers | Currency translation | As at 31 Dec 2010 | depreciation 31 Dec 2010 | Carrying amount 31 Dec 2010 | Carrying amount previous year | Depreciation | Reversals |
| SECURITIES | | | | | | | | | | | |
| Debt instruments issued by public bodies and similar securities | 1,170,372,603.63 | 83,199,100.00 | -33,260,671.70 | -24,295,432.46 | 0.00 | 1,196,015,599.47 | 0.00 | 1,196,015,599.47 | 1,170,372,603.63 | 0.00 | 0.00 |
| Loans and advances to credit institutions | 1,931,398,959.63 | 95,159,749.58 | -283,342.01 | -20,449,046.97 | 5,103,795.82 | 2,010,930,116.05 | 0.00 | 2,010,930,116.05 | 1,930,980,244.64 | 0.00 | 0.00 |
| Loans and advances to customers | 224,192,004.35 | 593,832.22 | -51,489,265.10 | 22,985,755.10 | 12,213,936.98 | 208,496,263.55 | -26,217,389.91 | 182,278,873.64 | 196,731,124.44 | -7,491.66 | 1,250,981.66 |
| Debt securities and other fixed-income | 4,521,535,465.75 | 1,003,160,191.19 | -918,973,419.47 | 21,758,724,33 | 63,777,934.90 | 4,691,258,896.70 | -153,343,424.09 | 4,537,915,472.61 | 4,341,650,745.65 | -3,683,803.65 | 10,712,072.89 |
| Shares and other variable-yield securities | 125,842,394.70 | 50,000,000.00 | -23,651,300.00 | 0.00 | 0.00 | 152,191,094.70 | 0.00 | 152,191,094.70 | 125,842,394.70 | 0.00 | 0.00 |
| Total | 7,973,341,428.06 | 1,232,112,872.99 | -1,027,657,998.28 | 0.00 | 81,095,667.70 | 8,258,891,970.47 | -179,560,814.00 | 8,079,331,156.47 | 7,765,577,113.06 | -3,691,295.31 | 11,963,054.55 |
| PARTICIPATIONS | | | | | | | | | | | |
| a) in credit institutions | 50,436,951.99 | 340,933.24 | 0.00 | 0.00 | 0.00 | 50,777,885.23 | -5,128,569.80 | 45,649,315.43 | 45,308,382.19 | 0.00 | 0.00 |
| b) in other companies | 28,110,922.16 | 3,529.68 | -2,753.65 | 0.00 | 0.00 | 28,111,698.19 | -1,503,292.31 | 26,608,405.88 | 23,113,133.11 | -62,165.06 | 3,553,908.15 |
| Total | 78,547,874.15 | 344,462.92 | -2,753.65 | 0.00 | 0.00 | 78,889,583.42 | -6,631,862.11 | 72,257,721.31 | 68,421,515.30 | -62,165.06 | 3,553,908.15 |
| INVESTMENTS IN AFFILIATES | | | | | | | | | | | |
| a) in credit institutions | 906,079,229.72 | 0.00 | -14,525,017.50 | 0.00 | 0.00 | 891,554,212.22 | -4,331,300.92 | 887,222,911.30 | 901,747,928.80 | 0.00 | 0.00 |
| b) in other companies | 1,783,514,242.06 | 14,160,146.34 | -9,265.79 | 0.00 | 0.00 | 1,797,665,122.61 | -504,555,439.28 | 1,293,109,683.33 | 1,244,563,424.70 | -46,604,621.92 | 81,000,000.00 |
| Total | 2,689,593,471.78 | 14,160,146.34 | -14,534,283.29 | 0.00 | 0.00 | 2,689,219,334.83 | -508,886,740.20 | 2,180,332,594.63 | 2,146,311,353.50 | -46,604,621.92 | 81,000,000.00 |
| INTANGIBLE FIXED ASSETS | | | | | | | | | | | |
| | 13,795,419.89 | 3,904,540.47 | 0.00 | 0.00 | 0.00 | 17,699,960.36 | -10,069,293.55 | 7,630,666.81 | 4,628,258.65 | -902,132.31 | 0.00 |
| TANGIBLE FIXED ASSETS | | | | | | | | | | | |
| a) Land and buildings for own use | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| b) Other land and buildings | 1,103,538.82 | 0.00 | 0.00 | 0.00 | 0.00 | 1,103,538.82 | -419,920.84 | 683,617.98 | 712,938.53 | -29,320.55 | 0.00 |
| c) Office furniture and equipments | 22,364,134.55 | 6,485,636.19 | -206,968.05 | 0.00 | 0.00 | 28,642,802.69 | -18,508,231.63 | 10,134,571.06 | 5,449,404.93 | -1,800,470.06 | 0.00 |
| Total | 23,467,673.37 | 6,485,636.19 | -206,968.05 | 0.00 | 0.00 | 29,746,341.51 | -18,928,152.47 | 10,818,189.04 | 6,162,343.46 | -1,829,790.61 | 0.00 |
| TOTAL | 10,778,745,867.25 | 1,257,007,658.91 | -1,042,402,003.27 | 0.00 | 81,095,667.70 | 11,074,447,190.59 | -724,076,862.33 | 10,350,370,328.26 | 9,991,100,583.97 | -53,090,005.21 | 96,516,962.70 |

1 Report on business development and the economic situation

1.1 Economic environment 2010

1.1.1 Macroeconomic development

The global economic environment was characterised by robust growth in demand in emerging countries and a noticeable recovery in most industrialised nations. The development of exports was favourable in most of the core markets of Österreichische Volksbanken-AG, VBAG. The increased demand for raw materials led to a marked rise in raw material prices during the year. Prices for the various types of oil increased by more than 15%. Gold increased in price by almost 30%, mainly due to its role as "safe haven". The prices of most other metals also grew significantly.

In the USA, the euro zone, Switzerland and Japan, consistently positive GDP growth rates were seen in the first three quarters. Although the unemployment rate remained high, the prospects on the US employment market improved, in particular in the second half of the year. As a consequence, consumer spending contributed significantly to growth in the USA. In the euro zone, growth was boosted mainly by the export sector, which benefited from the temporary weakness of the euro and from stronger demand. Private and public spending also had a positive impact. However, aggregate data hides a strong discrepancy in the euro zone: with 3.9% Germany achieved the highest annual growth rate since reunification. In Ireland, however, the annual growth rate in the third quarter was -0.7%, while in Greece it was -4.6%. Countries with high levels of national debt and/or previous property crises fell back sharply compared with the average and found themselves confronted with growing problems with the (re)financing of their budgets. A support programme worth euro 440 billion was set up for Greece in May in cooperation between the International Monetary Fund, IMF, and the European Union, EU. This was supplemented in June by a general aid programme (European Financial Stability Facility). The first and so far only country to have made use of funds from this programme is Ireland.

Economic output in Austria stagnated at the beginning of the year, before gaining momentum from the second quarter onwards in the wake of Germany's powerful industrial sector. In the third quarter, Austria recorded growth of GDP in real terms of 2.5%, which was considerably stronger than growth for the euro zone as a whole (1.9%). Of the various factors involved, exports showed by far the strongest growth of 13.8%. Consumer spending also made a positive contribution to economic growth, while government spending and gross fixed capital formation were lower than in the same period of the previous year.

There was a strong recovery in industrial production. In the euro zone, only production of consumer goods remained relatively weak, while intermediate consumption and energy rose year-on-year and capital goods even recorded substantial double-digit growth rates. The development of incoming orders was even more positive, with the order intake up around 15% year-on-year at the beginning of the fourth quarter. Construction output stagnated last year. With a growth rate of 7.4% as per October 2010, Austrian industrial production was more or less in line with the euro zone average while incoming orders were slightly stronger at +16.2% in October.

The annual inflation rate, which was around 1% at the beginning of the year, rose steadily over the course of the year and stood at 2.2% for both Austria and the euro zone in December. Once again, there was a sharp discrepancy between individual countries. Ireland continued to experience deflation of -1.8% (November), while Greece recorded an inflation rate of 5.2% in December. Only Estonia, which joined the euro zone at the beginning of 2011, showed stronger inflation of 5.4%. Inflation remained low in the USA, Japan and Switzerland, causing central banks to ease their monetary policy further. In contrast, the ECB cut back part of its "exceptional measures". This withdrawal, however was slowed down in view of the growing problems arising for the financial sector as a result of the debt problems of individual countries and the falling prices of bonds of these countries. The base rate remained unchanged at 1% and serves as a basis for the main refinancing transactions, which are still organised as volume tenders (rather than price tenders, as previously). The ECB is to maintain its 3-month refinancing transactions for the first quarter of 2011 at least.

1.1.2 Financial markets

The European money market showed signs of normalisation in the course of the year, after the ECB allowed some of its exceptional monetary policy measures to expire. The 3-month Euribor rose to over 1% again. Longer-term bond yields fell during the year in both the "safe haven" of Germany and in the USA, but began to rise again towards the end of the year. The above mentioned support for Greece and the provision of the European Financial Stability Fund, EFSF, both of which are set to run

until mid-2013, did not stabilise the European government bond market. Consultations about the course of action from 2013 onwards were stepped up towards the end of the year.

Uncertainty about public finances of individual member states placed a significant strain on the euro in the first half of the year. At the beginning of June, the exchange rate of the euro stood at USD 1.19, its lowest point since 2006. This was followed by a brief increase to USD 1.42, supported by the relaxed monetary policy of the FED. By the end of the year, the euro had declined in value by almost 7% in relation to the US dollar. The Swiss franc appreciated steadily during the year, a trend that was interrupted only in the third quarter. The franc reached a historic high of CHF 1.24 per euro at the end of the year. This represented an appreciation of more than 15% compared with the beginning of the year. Share prices moved sideways for large parts of the year. A significant rise in share prices was seen in the last quarter, which was attributable to the expected extension of the "quantitative easing" policy of the US central bank, to the fact that company results were predominantly good and to the publication of some positive economic data.

The Czech Republic, Slovakia and – with certain restrictions – Hungary also reported economic dynamism comparable to the core euro zone in the third quarter, albeit at very different levels. Ukraine, Serbia and Bosnia-Herzegovina benefited from the robust industrial sector both within and outside the euro zone, while some South-Eastern European markets emerged from the recession only slowly.

1.2 Course of business 2010

Österreichische Volksbanken-Aktiengesellschaft, VBAG, which has its registered office at Kolingasse 14-16, 1090 Vienna, is the central institution of the Austrian Volksbank-sector and an international Group acting as a financial services provider.

The 2010 result significantly improved compared to the previous year, even if profits could not yet be achieved. The main reasons for the improvements in 2010 are:

- No assumption of losses was necessary in 2010. The result of the previous year was strongly affected by the assumption of high losses – particularly from Investkredit Bank AG. Risk provisions for Investkredit Bank AG's loan portfolio decreased significantly in 2010.
- In 2010, impairments on participations in the real estate sector were much lower. Through the sale of the Europolis Group, the dependency of VBAG's future results on fluctuations of real estate prices was reduced.
- The impairments on other participations peaked in 2009. In 2010, some participations recovered and – due to the required reversal of impairment losses for fixed assets – the valuations were increased for some participations.

Despite the fact that money and capital markets improved, VBAG continued to focus on securing liquidity in 2010. During the year, the liquidity cushion was constantly kept above the target level of EUR 2 billion. Currently, the liquidity cushion is well above EUR 3 billion, it consists of unimpaired loans and securities that can be used at any time for receiving liquidity from the central bank. The average refinancing rates are about 85 bps on the 3-month Euribor.

In 2010, 192 issues were placed by VBAG with a total volume of EUR 1.755 billion. At EUR 1.3 billion, the biggest share related to traditional bonds, followed by structured products at EUR 383 million. Due to steady retail sales the targets with respect to the placement of issues were met.

Moody's rating of VBAG remained at "Baa1" in 2010. Fitch confirmed the rating of "A" (long-term rating) or "C/D" (individual rating) for the association of Volksbanks. The rating outlook for the individual rating was changed from "negative" to "stable." The long-term rating of VBAG as part of the association of Volksbanks was confirmed at "A" with a stable outlook.

1.2.1 Result in detail

By adjusting the terms of liabilities to the lower interest environment, the net interest result in 2010 improved by EUR 125.9 million compared with 2009. Net interest income in 2010 was negative at EUR -22.0 million, in 2010 the higher costs for the liquidity cushion resulted in higher interest expenses.

Income from affiliated companies decreased greatly in 2010 by EUR -118.4 million. This decrease is due to lower dividends from VBI Holding (formerly BAVO-Holding GmbH), which dropped in 2010 to EUR 0.1 million. In 2009, BAVO Holding GmbH had distributed EUR 33.3 in normal dividends

and EUR 78.9 million in special dividends. With regard to the changes in income from securities and participations, see Item 3 of the attached "Notes on the Income Statement."

In contrast to previous years, in 2010 the results from sales activities were allocated to commission income. For a comparison of commission income and net trading income from financial investments with prior year figures adjusted for the change in presentation, see Item 3 "Notes on the Income Statement" attached.

Compared to the adjusted prior year figures, commission income declined by EUR 30.6 million and the net trading income dropped by EUR 37.5 million. These reductions are mainly due to the exceptionally good result of 2009, when VBAG took advantage of the particularly positive market situation and achieved record earnings in the sales and trading segments.

Operating expenses of EUR 143.7 million rose by nearly EUR 11.5 million over the prior year. The reason for the increase in administrative expenses, which rose by EUR 6.4 million compared to the previous year, lies in provisions for restructuring measures. Personnel expenses rose by some EUR 4.7 million. Apart from value adjustments of salaries and wages, in 2009 there were much higher earnings from the reversal of pension provisions.

The valuation result of VBAG's income statement clearly normalised in 2010 compared with the previous year when write downs and loss assumptions were exceptionally high and was positive at EUR 8.3 million (2009: EUR -716.3 million). In particular, impairments for participations and investments in affiliates improved significantly in 2010 over the previous year, by EUR 701.9 million. Income from valuations of securities, which are valued as financial investments and from participations and investments in affiliates was EUR 120.0 million in 2010. A major factor here were reversals of write-downs of participations which increased in value in 2010. With regard to the changes in valuation results for 2010 compared with 2009, see Item 3 of the attached "Notes on the Income Statement."

The result from ordinary operations for 2010 is EUR -32.5 million and has significantly improved compared with the previous year (2009: EUR -682.6 million).

VBAG is group parent under Section 9 of the Austrian Corporation Tax Act (KStG). In this regard, positive tax levies on the group members in 2010 resulted in tax income of EUR 12.5 million. In 2009, high tax losses for Investkredit Bank AG resulted in a significantly negative group tax result of EUR -109.8 million.

Through the reversal of provisions, particularly liability provisions in the amount of EUR 20.0 million, the 2010 income statement posted a net profit of EUR 0.0.

The difficult earnings situation of the prior year was overcome in 2010. The 2010 results are slightly negative. With regard to the presentation of material financial performance indicators, for reasons of comparability reference is made primarily on positions of the balance sheet.

1.2.2 Balance sheet and own funds

Total assets and capital ratios developed as follows over the last three years:

| in euro million. | 2010 | 2009 | 2008 |
|--|----------|----------|----------|
| Total assets | 32,506.7 | 34,398.9 | 35,488.1 |
| Tier 1 capital | 1,861.8 | 1,916.1 | 1,721.3 |
| Total risk under Section 22 (1) Austrian Banking Act | 12,587.4 | 12,995.6 | 15,566.7 |
| Tier 1 capital ratio in relation to total risk | 14.8% | 14.7% | 11.1% |
| Equity ratio in relation to total risk | 22.3% | 22.0% | 17.5% |

Total assets dropped in 2010 from EUR 34.4 billion by 5.5% to EUR 32.5 billion. The highest reductions were in amounts owed to credit institutions (EUR -982.2 million) and loans and advances to credit institutions (EUR -2,065.0 million). The changes were primarily due to short-term end of period transactions. In preparation for the combination with Investkredit Bank AG, VBAG took over syndicated loan receivables from Investkredit, as a result, the position loans and advances to customers grew by EUR 1,520.6 million to EUR 5,156.2 million.

Eligible qualifying capital of VBAG decreased by EUR 51.5 million to EUR 2,807.3 million. Capital requirement as at 31 December 2010 is exceeded at EUR 1,800.4 million (31 December 2009: EUR 1,819.2 million) Tier 1 capital ratio dropped year-on-year by EUR 54.3 million to EUR 1,861.8 million.

The assessment base for credit risk dropped by EUR 257.1 million to EUR 11,679.6 million. The tier I ratio (ratio of core capital to the assessment base for credit risk) was 15.9% (2009: 16.1%) while the tier I ratio in relation to total risk stood at 14.8% (2009: 14.7%). The equity ratio in relation to total risk amounts to 22.3 % (2009: 22.0 %).

1.2.3 Human Resources

We worked consistently on the reorganisation of the bank in 2010. The "Strategy 2015" that was presented in December put the future focus very clearly on the core business.

In terms of service law, the course has largely been set for the combination with Investkredit Bank AG, and the switch to a standardised IT personnel system took place with effect from the beginning of the year.

In view of the overall situation and ongoing developments, a cross-departmental change process was put in place as part of the combination of Österreichische Volksbanken-AG and Investkredit Bank AG. Employee surveys, employee dialogue and large group events are held on a regular basis. In addition to existing services such as "professional coaching" and "team development processes", tailor-made training courses have been conducted on "managing in challenging times" and on strengthening mediation skills.

In the summer of 2010, around 600 employees moved into the redesigned Group headquarters, which was officially opened in autumn. The headquarters is a place for meeting customers and colleagues. The new building is distinguished in particular by a bright and attractive atmosphere as well as an informed art concept and spatial design.

In percentage terms, the training budget for 2010 remained just as high as in previous years. At VBAG around 4 training days per employee were used. 179 bookings were received for the free internal training initiative WIN (Wissen Intern Nutzen – Using Knowledge Internally), 129 bookings were made at the Volksbank Academy, 63 bookings related to in-house services and around 188 bookings were made for external training events. The emphasis in 2010 was on training in the field of change management and mediation.

Training and continuing professional development for junior managers as well as specialist and personal development of all employees constituted a key focus of the training measures in the VBAG.

The initiatives already commenced for strategic succession planning and staff retention are to be continued and expanded. A Group-wide trainee programme is also to be launched again in 2011.

1.2.4 Sustainable corporate culture, Compliance

For VBAG, sustainable development means a forward-looking approach and since its conception has been anchored deeply in our corporate philosophy. Corporate responsibility is the modern implementation of the cooperative principles.

Here is an excerpt from the CR programme targets achieved in 2010: In the area of Financial Markets, the certification of the funds VB-Ethik-Global, VB-Mündel-Rent and Spar Garant Klassik with the Austrian ecolabel was commissioned. In project financing, new business worth over EUR 50 million was generated in the field of wind and photovoltaics. In the Real Estate segment, green building pre-certification was anchored in project developments of PREMIUMRED during the course of the projects.

As part of this diversity management, in 2010 VBAG became one of the first companies to sign the "Diversity Charter". By signing this charter, VBAG committed itself to respecting the stakeholders that it deals with – irrespective of their gender, skin colour, nationality, ethnic origin, religion or ideology, disability, age, sexual orientation and identity. VBAG's first integrated CR Report came in fourth at the Austrian Sustainability Reporting Awards (ASRA) in the category "Integrated annual and sustainability reports". When the "Austrian Annual Report Award" was conferred, VBAG ranked among the top 10 reports for Austria, in ninth place.

VBAG is subject to the provisions of the Austrian Regulation on Compliance for Issuers. On this basis, the internal Compliance Code was issued and a compliance organisation was established headed by

a Compliance Officer. The Compliance Office reports directly to the Managing Board of VBAG. In organisational terms, it is integrated into department 1 of Chief Executive Officer Gerald Wenzel. It defines and monitors the necessary processes and procedures for compliance with external and internal regulations in the areas of securities compliance, management of conflicts of interest and prevention of money laundering and financing terrorism.

1.2.5 Prevention of money laundering, Combating fraud

In 2010, VBAG further expanded the bank's internal array of instruments for preventing and combating money laundering. Additional IT programs were implemented to check and stop prohibited or unwanted transactions. In addition to technical measures for the prevention of money laundering and financing terrorism and to combat fraud, comprehensive and ongoing training for bank employees in these areas constitutes a key element in raising their awareness. In addition to "face-to-face" sessions, electronic learning programs on workstations give bank employees basic training and raise awareness. Employees are also informed regularly via a proprietary compliance database about current issues involving the fight against money laundering and fraud.

Since 2004, combating economic crime – particularly fraud affecting banks, their employees and customers – has been one of the tasks of the Compliance Office at VBAG. As the central point of contact for authorities, customers and employees for issues such as the prevention of internet, wire or document fraud, the Compliance Office has significantly improved the efficiency of measures for preventing fraud at VBAG.

1.2.6 Important IT-Projects, Infrastructure measures

After the core banking system of Investkredit Bank AG, was successfully replaced by VBAG's system at the end of 2009, Investkredit and VBAG are to be combined completely in summer 2011. This will allow a series of procedures to be streamlined in processing and administration and will enable redundant IT systems to be replaced – intensive preparation work has been underway since autumn 2010.

In the Financial Markets segment, one is working intensively on the replacement of the entire system, from the front office to risk management to the back office, by an integrated system covering all product classes (Murex). The first phase is to go live in 2011.

Infrastructure measures for the new Group headquarters are being gradually implemented. A first-rate cabling system has been implemented, video conference rooms were set up to reduce travel costs and the telephone communication systems were modernised.

1.3 Use of financial instruments

Interest-, currency- and credit-related instruments as well as other derivative financial instruments are in use at VBAG. Volumes (table of derivatives) as well as details on the financial instruments according to paragraph 237a of the Austrian Commercial Code (2.10 "supplementary information") can be found in the appendix. In the banking book, financial instruments are primarily used for hedging, i.e. for hedging of liquidity-, FX-, credit spread- and interest rate risk as well as hedging risks resulting from changes in asset values. In the trading book, financial instruments are being used in order to benefit from differences between purchase and selling prices and from short term market price fluctuations. The market risk department continuously checks compliance with the limits in the trading book (see also 2.3.5 "market risk"). Backtesting calculations to control market risk are made on a daily basis to review the plausibility and reliability of risk ratios.

1.4 Events of particular importance occurring after the balance sheet date

No further events with a material impact on the Group's financial statements as at 31 December 2010 occurred between the balance sheet date and the approval of the Group's financial statements by the managing board.

2 Report on the company's expected development and risks

2.1 Economy and financial markets

Internal prospects for the current year are slightly more cautious for most countries. This is due to the expected impact of the consolidation of national budgets, uncertainties on the government bond market and in the financial sector, the increase in the cost of raw materials and energy and the expiry of the inventory cycle. These effects will lead to increased inflation rates, particularly in the first half

of the year. While this has already resulted in the raising of interest rates by central banks in emerging countries and some Central and South-Eastern European countries, monetary policy is not expected to be tightened in the USA, the euro zone, Switzerland and Japan until later in the year. In the described economies money and capital market interest rates should tend to rise slightly in this climate. The development of these economies has been largely parallel, therefore strong shifts in the exchange rates of the respective currencies are not expected. Progress in overcoming the debt crisis would increase the risk appetite of market participants and would help the euro to recover. However, setbacks in this process entail the corresponding downward potential, particularly in relation to the Swiss franc. The stock and corporate bond markets were hardly affected by the increased risk aversion in the last few months, prices developed positively at the beginning of 2011.

The asynchronous recovery in exports and domestic demand (consumption and capital expenditure) is likely to have had a slight negative impact on the growth potential of the CEE/SEE region, but the growth potential there nevertheless remains higher than in the "old EU". Moreover, for countries with high foreign and/or national debt, new risks arose in 2010 from the tense situation on the financial markets. While the necessary national consolidation should prove beneficial in the longer term, growth prospects for 2011 remain muted in the CEE/SEE region. Assuming that there is no escalation of the unstable development on the market for government bonds and that there are no other burdens on the international economy, the recession should be overcome throughout South-Eastern Europe this year. Croatia's planned accession to the EU in 2012, the fact that Serbia is approaching the EU, positive growth rates in bank deposits and loans in Romania, continued IMF support and an imminent revival in direct investments indicate that the region can catch up again in 2011.

2.2 Company development and outlook

As set out in VBAG's "Strategy 2015", the company will focus on its defined core business in future. This encompasses its role as the central institution of the Volksbank sector, corporate customer business and real estate business. The core regions for these activities are Austria and the neighbouring countries. Options are currently being examined for activities and participations outside the core business. In this context, a process has been initiated that evaluates the possibility of a sale of Volksbank International AG and VB-Leasing International Holding GmbH. Accordingly, steps are to take place over the coming months – supported by the mandated consultants – and may lead to the sale of these two participations.

In order to optimise the Group's structure further, the supervisory board of VBAG decided in June 2010 to combine Österreichische Volksbanken-AG and Investkredit Bank AG. A first step in this direction is the change of the managing board of Investkredit which was resolved by the supervisory board of Investkredit in September 2010. From this date, the managing board team of VBAG has been responsible for both companies. The remaining steps in this consolidation process should be completed by mid 2011. All these and future measures are targeted at redeeming the participation capital held by the Republic of Austria in tranches as planned from 2011 onwards. From today's viewpoint, VBAG as a single entity will achieve a turnaround in the 2011 financial year and return to profitability, as a result it is expected that distributions on government participation capital as well as on all other profit-related instruments can be resumed.

In accordance with the contract with the Republic of Austria, at least euro 300 million of government participation capital is to be redeemed in 2011.

2.3 Material risks and uncertainties

Assuming and professionally managing the risks connected with business activities is a core function of every bank. VBAG believes it is confronted by the following material risks and uncertainties in the context of its business activities:

- Credit risk (counterparty risk)
- Market risk (interest rate risk, foreign exchange risk, option risk, commodity risk, risks relating to assets and credit spread risk)
- Operational risk
- Liquidity risk
- Investment risk
- Real estate risk and
- Other risks

Risks are controlled on the basis of risk policy principles in force across the Group, which are set out as part of the risk strategy specified annually by the Managing Board of VBAG.

2.3.1 Current developments

Stress testing remained a focal point in 2010. The method used to execute total bank risk stress tests was further refined and implemented within the organisation by working groups with participants from the areas of market and risk management. Contingency planning also played an important role. To supplement the business continuity management, which has already been implemented, VBAG has been working on a contingency plan for liquidity and capital emergencies since summer 2010. In a series of workshops with the Managing Board, the potential impact on VBAG's capital and/or liquidity situation was discussed based on predefined extreme "emergency" scenarios and a set of emergency countermeasures were developed. Furthermore, a corresponding contingency process was developed including the necessary committees and crisis teams.

2.3.2 Regulatory requirements

Regulatory requirements are split into three pillars within VBAG in accordance with Basel II. Pillar 1, minimum capital requirements, regulates the calculation of the minimum capital requirements for credit risks, market risks and operational risks. Pillar 2, supervisory review, defines minimum requirements of banks' risk management systems as part of ICAAP (internal capital adequacy assessment process – see also Point c). Pillar 3, disclosure, regulates disclosure for market participants.

In accordance with Managing Board resolutions, the implementation of pillar 1 in the VBAG Group not only fulfills the minimum requirements but, while taking cost efficiency into account, also provides for implementation of internal models.

The implementation of the ICAAP at VBAG is explained in more detail in Point c).

The requirements of pillar 3 are met through publication of the qualitative and quantitative disclosure requirements defined under the Austrian Financial Market Supervisory Authority (FMA) regulation on implementation of the Austrian Banking Act on the Bank's website as well as in the annual report.

2.3.3 Risk strategy and internal capital adequacy assessment process

The Group-wide risk strategy is reassessed and determined by the Managing Board on an annual basis – taking into account results from the internal capital adequacy assessment process (ICAAP) – and forms the basis for a uniform approach to dealing with risks throughout the entire Group.

The basis for the quantitative implementation of the ICAAP in the Group is the risk sustainability account, which demonstrates that adequate risk-covering capital is in place at all times to provide sufficient cover for risks that have been entered into and which also ensures such cover is available for the future. In the course of the risk monitoring process, the risk-bearing ability is calculated, compliance with the overall bank risk limit resolved by the Managing Board is monitored on a monthly basis and the Group risk report is produced.

In 2010, economic risk measurement was promoted in addition to regulatory observations. The aim is to implement value at risk methods to the fullest extent possible in the economic risk measurement procedure. Initial ROEC (return on economic capital) test calculations were performed in the fourth quarter of 2010 in cooperation with Controlling and took into account all major risks for the individual management portfolios (segments and profit centres).

2.3.4 Credit risk

In the Group, general credit and default risk and counterparty default risk in derivative transactions are categorised under credit risk.

The Group credit risk manual (GCRM) regulates credit risk management for all companies in the VBAG Group in a binding fashion. It encompasses the existing processes and methods for managing, measuring and monitoring credit risks within the Group.

In future, calculation of the economic capital requirements needed for the credit risk will be based on the credit value at risk (CVaR) method. For this purpose, the Group has selected an analytical calculation method based on an actuarial approach. In particular, a CreditRisk+ model adapted in line with internal requirements will be used for modelling the default risk in the loan portfolio.

From the first quarter of 2010, the CVaR method will be used at Group level as a basis for the following tasks:

- Calculating economic capital
- Identifying portfolio concentrations
- Ensuring comparability of the risk situation for different types of risk (e.g. credit risk and market risk)
- Calculating risk-adjusted performance ratios (e.g. ROEC)
- Allocating capital

Limits exist within VBAG aimed at monitoring, controlling and restricting the risk of individual exposures and risk clusters: The limits are set depending on the rating category and the counterparty's own funds, the maximum remaining term of the transaction and the Group member's own funds and earnings power.

Standardised models are applied across the Group to determine credit ratings (the VB rating family) and to determine the loss amount in the event of default. The expected likelihood of each customer defaulting is estimated across the VB rating family and expressed via the VB master scale.

The rating classes in rating category 5 cover the reasons for defaulting on a loan applied across the Group and are also used for reporting non-performing loans (NPL). Loans from parts of rating category 4 and loans past due more than 60 days are defined as problem loans. An in-depth description of rating methods can be found in the disclosure in accordance with section 16 of the FMA Disclosure Regulation on the homepage of VBAG.

2.3.5 Market risk

Market risks in trading in the Group are managed and monitored by the independent Group market risk management department, which is based in strategic risk management. Besides producing a risk and income presentation on a daily basis and specifying the limit structure based on the economic capital made available by the Managing Board, the department's main tasks include administration of front-office systems, collateral management, enhancement of risk measurement systems and monitoring the market risk and counterparty limits.

The VBAG risk monitoring office performs extensive stress tests on a monthly basis. For VBAG, "extensive" means that stress tests are performed across all trading book portfolios. Once a month or at least once a quarter, an expert committee analyses the results, which are also subject to limits, and documents them in detail. Quarterly reports are also submitted to the supervisory authorities (Austrian Financial Market Supervisory Authority, FMA, and the Austrian National Bank, OeNB).

The plausibility and reliability of the risk ratios is reviewed daily by way of backtesting. Backtesting at VBAG is based on hypothetical trading results and assumes that the portfolio is maintained at a constant level. The portfolio used as the basis for the VaR calculation is then revalued the following day with the current prices/results of the valuation models.

If the VaR determined ex ante is exceeded during the backtesting, an appropriate cause analysis is performed and immediately forwarded to the FMA and the Austrian National Bank.

In 2010, there were two backtesting outliers. The best possible multiplier (three) for calculating the capital requirements will therefore be retained.

2.3.6 Operational risk

Both quantitative and qualitative methods are used in the measurement of operational risks. The line management responsible for managing operational risks receives support from the OpRisk control function based in strategic risk management.

In addition to the systematic assessment of operational risks, work on enhancing the early warning system (key risk indicators), detailed consideration of risk scenarios posing a threat to the company and appropriate precautionary measures for hedging risks is in progress. In particular, the management of misappropriation risk and external fraud risks were the focus of initiatives also in 2010.

Extensive training (introduction to OpRisk management, training sessions aimed at promoting risk and safety awareness and technical training for the OpRisk platform etc.) has significantly raised employees' awareness of the issue. Furthermore, by means of targeted awareness training measures such as the electronic

OpRisk newsletter and regular meetings with the OpRisk point of contact, the employees concerned have been quickly provided with the latest information

In the course of operating contingency planning, analyses were carried out and the optimisation of processes continued to be pushed as an aim of risk controlling. Emergency drills were carried out in selected units.

2.3.7 Liquidity risk

Operative liquidity management, short-term reporting and long-term, strategic liquidity management are all combined within one unit in the "ALM" division. "ALM/liquidity management" is the central department in the Group for all liquidity issues. These include in particular liquidity pricing (transfer pricing), Group-wide, central management of collateral, establishing the funding structure, managing available liquid assets and ensuring compliance with the refinancing strategy. In addition, liquidity management is documented via the liquidity manual and the liquidity emergency manual.

To present the structural liquidity risk management in the bank, the Group market risk management department creates a liquidity gap report that takes into account both deterministic and stochastic capital cash flows and interest rate cash flows of on- and off-balance sheet products. The cash flows are calculated and modelled in their original currency and are then aggregated and translated into euro. Surplus cover and deficits from the cumulative cash flows are identified and analysed using the GAP method. The report visualises the net cash flows for each maturity band, the cumulative cash flow and the liquidity buffer. The liquidity buffer comprises all available and unencumbered assets accepted as collateral by the ECB and SNB.

2.3.8 Real estate risk

VBAG defines real estate risk as the risk that potentially negative changes in value in the Group's own real estate portfolio will come about as a result of a general fall in value or rent. In order to control real estate risks at portfolio level, VBAG developed a dedicated internal approach based on a value at risk model to quantify the real estate risk. Since 2010, the results have been included in the ongoing risk reporting process. Real estate risk reporting at portfolio level is carried out quarterly as part of the Group risk report.

The sale of Europolis has reduced the volume of the portfolio under observation by more than 80%.

2.3.9 Other risks

In terms of other risks, the Group is confronted with strategic risk, reputational risk, equity risk and business risk. Although other risks are not of key significance to the VBAG Group, they are intrinsic to its operations.

While business risk is to be quantified using value at risk from 2010 onwards, this type of measurement is not possible for the other risk sub-groups of strategic risk, reputational risk and equity risk. A capital cushion is therefore defined in order to protect against other risks and the risk arising from market value changes of investment valuations.

2.3.10 Technology, IT

In an ambitious project, all core banking systems at Investkredit were replaced with the systems in use at VBAG. At the same time, efforts were made to press ahead with the standardisation of the email system and workstation equipment was standardised. This led to a reduction in operational risks as well as a reduction in running costs.

In order to keep up with mounting regulatory requirements, the risk management systems – for credit risk and liquidity risk in particular – were further expanded and refined. For example, hundreds of millions of own funds were saved through the optimisation of the central computational modules and increasing data quality.

In the Financial Markets segment, the course was set for the gradual replacement of the entire system landscape, from the front office to risk management right up to the back office, with an integrated system covering all product classes (Murex).

The organisational units of VBAG oversee the Austrian association of Volksbanks in addition to the VBAG Group. Important advantages were generated in a joint project through the implementation of European standards in payment transactions (Single European Payments Area - SEPA) for customers

of the Group and the Volksbanks. These advantages include simplified cash management, cross-border direct debits, reduction in transaction costs and improved cash flow and liquidity planning.

The infrastructural measures for the new headquarters are in full swing, where a first-rate cabling system has been put in place. Video conference costs are to be set up in order to increase efficiency regarding travel costs and the telecommunications systems are to be updated. As part of the cost-cutting initiative, work has started on dismantling the old printer network and implementing an efficient printer output concept, which will allow for variable printing costs.

3 Branches

VBAG does not have any branches.

4 Report on research and development

The company is not involved in research and development in the classic sense. However, VBAG Group supports the research activities of other organisations the Group focuses in particular on the development of innovative products and services.

For many years, Österreichische Volksbanken-AG Group has supported the Rudolf Sallinger Fund which aims at the promotion of scientific publications on medium-sized companies. The fund supports both young scientists and SMEs, which benefit from the results of university research. In the 25 years since it was created, the Rudolf Sallinger Fund has awarded prizes to over 400 young academics for their outstanding scientific work.

Since 2007, VBAG has been dedicated to business mediation. In view of the diverse benefits of business mediation for society, the Volksbank sector, corporate customers and employees, VBAG has commissioned the first basic scientific study into the cost of conflict in family businesses. The study offers a fundamentally new approach to the analysis of the effects of conflict on family businesses. The results of this study will be available during the course of 2011, owing to a delay that can be attributed to the complexity of the study's design. Family businesses are a core target group of both Investkredit and the regional Volksbanks. In order to ensure that the results of the study can be implemented by the businesses, events for corporate customers are being planned as part of the Corporate Responsibility programme.

In addition, VBAG Group has repeatedly supported university and college students with their theses.

5 Report on key characteristics of the internal control and risk management system with regard to the accounting process

The purpose of the internal control system is to support management so that it is in a position to ensure effective internal controls with regard to accounting. The managing board is responsible for setting up and structuring an appropriate internal control and risk management system for the accounting process.

The internal auditing department also independently checks compliance with internal regulations in the field of accounting on a regular basis. As a department, auditing is assigned to the Managing Board and its head reports directly to the chairman of the managing board, as well as providing a quarterly report to the supervisory board.

5.1 Environment for controlling

The internal control system is a system for documenting all control activities that have been carried out and builds on all controls that have already been actively implemented within the organization (operational controls/management controls). In the Group ICS guideline (guideline: Internal Control System), the Managing Board sets out a Groupwide framework for the implementation of the internal control system.

The implementation of the internal control system with regard to the accounting process is set out in extensive internal guidelines and regulations. Compliance with the principle of dual control is specified

for general ledger postings. Each record has the signature of the employee who produced the record as well as the signature of the person authorised to issue and approve payment instructions. The employee who issued the posting request is documented in the general ledger accounting system in electronic form. In addition to the principle of dual control, written approval is required from the Managing Board before invoices over a certain amount can be paid.

Each general ledger account has a clearly defined manager, who must check the account contents twice a year to ensure the accuracy of the contents and quantities in accordance with a procedure defined in the internal regulations (guideline: stock and clearing accounts, taking of inventories). This check must be documented in writing. The checking and filing of the proper documentation serves as an inspection document for both the internal auditing department and the certified public accountant in the auditing of the annual financial statements.

5.2 Risk assessment

Risks relating to the accounting process are recorded and monitored by the process managers. The focus is on those risks that are deemed to be material.

An overview of all major accounting processes and procedures is drawn up at regular intervals. These processes are to be checked on an ongoing basis by the process managers with regard to their level of risk and are to be divided into processes that are relevant to ICS and those that are not relevant to ICS.

5.3 Control measures

Control measures are used in ongoing business processes to ensure that potential errors are prevented and that any discrepancies in financial reporting are discovered and rectified. These control measures range from the inspection of the various results for the period under review by management to the specific reconciliation of accounts and items and an analysis of ongoing processes in accounting. Within the internal control system, a distinction is made between two types of controls.

Operational controls include manual controls, which are carried out by employees in specific steps, automatic controls, which are carried out with the aid of IT systems, and preventative controls, which have the aim of preventing errors and risks in advance through the separation of functions, the regulation of competencies and access authorisation.

Management controls serve to ensure, on the basis of spot checks, that managers are complying with operational controls. There is a separate control plan, in which the periodicity of checks is determined by the relevant manager (head of division, head of department, group leader), in accordance with the level of risk. The spot checks are to be documented in the control plan in a way that is comprehensible to third parties. The results are reported at half-yearly intervals to the nearest manager as part of management reporting.

All controls are to be documented with automated support using the "BART" software (operational controls and management controls).

5.4 Information and communications

Guidelines and regulations relating to financial reporting are regularly updated by management and communicated to all affected employees.

Employees in accounting are also trained on an ongoing basis with regard to accounting reforms, so that risks relating to unintentional errors in reporting can be identified at an early stage.

A management report will be produced twice a year. It contains declarations about the completeness, comprehensibility, active implementation and effectiveness of the control system with regard to the accounting process.

5.5 Monitoring

Top management receives regular summarised financial reports, such as quarterly reports on the development of the respective segments and the key financial figures. Financial statements that are to be published undergo a final check by management-level employees in accounting, the management of the division and the Managing Board before they are forwarded to the responsible committees.

The results of monitoring activities with regard to the accounting processes are to be reported within the management report. The report contains a risk assessment of the processes on a qualitative basis. The report also documents how many controls are being carried out in relation to control guidelines.

The internal auditing department also performs monitoring and supervisory functions.

6 Disclosures on capital rights, ownership interests, voting rights and rights of control and related obligations

As at 31 December 2010, the share capital of VBAG comprised the following:

| | euro thousand |
|--|----------------|
| 40,124,990 bearer shares with a nominal value of euro 7.27 | 291,709 |
| 2,666,666 non-voting preferred bearer shares with a nominal value of euro 7.27 | 19,386 |
| 10 registered shares with a nominal value of euro 7.27 | 0 |
| | 311,095 |

The main shareholders of VBAG are Volksbanken Holding e.Gen. (59%), DZ PB-Beteiligungsgesellschaft mbH (23%), ERGO-Gruppe (9%) and Raiffeisen Zentralbank Österreich AG (6%).

As at 31 December 2010, there was unused authorised capital of TEUR 32.000 (approved at the general meeting on 24 May 2006).

In accordance with the resolution adopted by the general meeting on 15 December 2008, a contingent capital increase of up to TEUR 155,548 through the issue of up to 21,395,833 ordinary shares was resolved. This capital increase may only be carried out to the extent that the bearers of the participation capital issued in line with the resolution of the general meeting on 15 December 2008 make use of their conversion rights (contingent capital).

The participation capital issued by VBAG in 2009 with a nominal volume of euro 1,000 million was held entirely by the Republic of Austria as at 31 December 2010.

The Managing Board

Gerald WENZEL Michael MENDEL Martin FUCHSBAUER Wolfgang PERDICH

Vienna, 24 February 2011

STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the separate financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Vienna, 24 February 2011



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



Michael Mendel
Deputy Chairman of the Managing Board
Risk



Martin Fuchsbaauer
Member of the Managing Board
Treasury



Wolfgang Perdich
Member of the Managing Board
Market/Overseas

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Österreichische Volksbanken-Aktiengesellschaft, Wien, for the reporting period from 1 January 2010 to 31 December 2010 including the accounting system. These financial statements comprise the balance sheet as at 31 December 2010, the income statement for the year then ended, and the notes.

Management's Responsibility for the Financial Statements and Accounting System

Management is responsible for the accounting system and for the preparation and fair presentation of these financial statements in accordance with the Austrian Company Code (UGB). This responsibility includes: designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and present fairly, in all material respects, the financial position of the entity as at 31 December 2009 and its financial performance for the period from 1 January 2010 to 31 December 2010 in accordance with generally accepted accounting principles in Austria.

Report on Other Legal Requirements (Management report)

Austrian legal requirements require us to verify whether the management report is consistent with the financial statements and whether the other disclosures made in the management report do not give rise to misconception of the position of the company. The auditor's report should also include a statement whether the management report is consistent with the financial statements.

In our opinion, the management report is consistent with the financial statements.

Vienna, 24 February 2011

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

| | |
|----------------------------------|-----------------------------|
| Martin Wagner | Bernhard Mechtler |
| Certified Public Accountant | Certified Public Accountant |
| (Austrian Chartered Accountants) | |

This report is a translation of the original report in German, which is official and binding.

OFFICERS AND ADDRESSES

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**>> WE BELIEVE THAT PARTNERSHIP
AND MUTUAL TRUST ARE THE BASIS
FOR STABLE, LONG-TERM
COOPERATION WITH OUR CLIENTS
AND BUSINESS PARTNERS. <<**

SUPERVISORY BOARD UND MANAGING BOARD

Supervisory Board

Chairman

Hans HOFINGER

Syndic and chairman of the Managing Board of the Federation of Austrian Credit Co-operatives (Schulze-Delitzsch)

First deputy chairman

Rainer KUHNLE

Member of the Managing Board of Volksbank Krems-Zwettl-AG

Second deputy chairman

Franz FRISCHLING

Chairman of the Managing Board of Volksbank Vöcklamarkt-Mondsee reg.Gen.m.b.H.

Members

Harald BERGER

Chairman of the Managing Board of Volksbank Südburgenland rGmbH

Thomas BOCK

Chairman of the Managing Board of Volksbank Vorarlberg e. Gen.

Erich HACKL

Chairman of the Managing Board of Allgemeine Bausparkasse reg.Gen.m.b.H.

Herbert HUBMANN

Deputy chairman of ADEG Österreichisch Großeinkauf der Kaufleute rGmbH (until 20 May 2010)

Wolfgang KIRSCH

Chairman of the Managing Board of DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Wolfgang KÖHLER

Member of the Managing Board of DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Jochen MESSEMER

Member of the Managing Board of ERGO Versicherungsgruppe AG

Franz NEBEL

Member of the Managing Board of REWE International AG (from 20 May 2010)

Anton PAUSCHENWEIN

Chairman of the Managing Board of Volksbank Niederösterreich Süd eG

Edwin REITER

Chairman of the Managing Board of Volksbank Oberkärnten rGmbH

Walter ROTHENSTEINER

Chairman of the Managing Board of Raiffeisen Zentralbank Österreich AG (until 1 January 2010)

Walter ZANDANELL

Chairman of the Managing Board of Volksbank Salzburg eG

Delegated by the staff council

Hans LANG

Chairman of the staff council

Hermann EHINGER

(from 3 March 2010)

Ilse HABERLEITNER

(from 26 April 2010)

Michaela POKORNY

Richard PREISSLER

(until 31 January 2010)

Christian RUDORFER

(until 13 April 2010)

Matthäus

THUN-HOHENSTEIN

Christian WERNER

State commissioners

Senior legal secretary

Franz-Philipp SUTTER

(until 31 January 2010)

Senior legal secretary

Heinrich LORENZ

(from 1 August 2010)

Senior legal secretary

Viktor LEBLOCH

Deputy state commissioner

Managing Board

Chief Executive Officer

Gerald WENZEL

Deputy Chief Executive Officer

Michael MENDEL

Members of the Managing Board

Martin FUCHSBAUER

(from 1 January 2010)

Wolfgang PERDICH

Dieter TSCHACH

(until 24 June 2010)

ADVISORY BOARD

Advisory Board

Werner EIDHERR

Chairman of the Advisory Council
President of the Advisory Council
of the Federation of Austrian Credit
Co-operatives (Schulze-Delitzsch)

Johannes JELENIK

Deputy Chairman of the Advisory Council
Deputy Chairman of the Managing Board of
Volksbank Kärnten Süd e.Gen.

Johannes FLEISCHER

Chairman of the Managing Board of
Volksbank Weinviertel e.Gen.

Hermann GEISLER

Lawyer

Franz KNOR

Deputy Chairman of the Managing Board
of Volksbank Südburgenland rGmbH

Michael PESCHKA

Chairman of the Managing Board of
Volksbank Eferding-Grieskirchen reg.
Gen.m.b.H.

Gerhard REINER

Chairman of the Managing Board
of Volksbank Graz-Bruck e. Gen.

Wolfgang SCHAUER

Chairman of the Managing Board of
Volksbank Kufstein eG
(from 20 May 2010)

Othmar SCHMID

Member of the Managing Board of
Österreichische Apothekerbank eG

Gerhard SCHWAIGER

Chairman of the Managing Board of
Volksbank Tirol Innsbruck-Schwaz AG

Claudius SEIDL

Chairman of the Managing Board
of VR-Bank Rottal-Inn eG

Peter SEKOT

Deputy Chairman of the Managing Board
of Volksbank Marchfeld e.Gen.

Bernd SPOHN

Deputy Chairman of the Managing Board
of the Federation of Austrian Credit
Co-operatives (Schulze-Delitzsch)

Helmut STIEB

Chairman of the Managing Board of
Volksbank Vöcklabruck-Gmunden e. Gen.
(from 20 May 2010)

Josef TREML

Chairman of the Managing Board of
Volksbank Vöcklabruck-Gmunden e.Gen.
(until 20 May 2010)

Sonja ZWAZL

President of the Chamber
of Commerce of Lower Austria

VBAG GROUP

Headquarters

Österreichische Volksbanken-AG
1090 Vienna, Kolingasse 14-16
Telephone: +43/0/50 4004 - 0
Fax: +43/0/50 4004 - 3682
e-mail: info@volksbank.com
Internet: www.volksbank.com

Selected Subsidiaries and Holdings

Allgemeine Bausparkasse reg.Gen.m.b.H.

1091 Vienna, Liechtensteinstraße 111-115
Telephone: +43/1/313 80-0
Fax: +43/1/313 80-209
e-mail: service@abv.at
Internet: www.abv.at

Back Office Service für Banken GmbH

1090 Vienna, Kolingasse 14-16
Telephone: +43/0/50 4004 - 7545
Fax: +43/0/50 4004 - 87545
e-mail: office@bog.volksbank.at
www.bog.volksbank.at

Immoconsult Leasinggesellschaft m.b.H.

1010 Vienna, Renngasse 10
Telephone: +43/0/50 4004 - 3636
Fax: +43/0/50 4004 - 3639
e-mail: office@immoconsult.at
Internet: www.immoconsult.eu
Represented in the following countries:
Croatia, Poland, Romania, Slovakia, Czech Republic and Hungary

Immo Kapitalanlage AG

1220 Vienna, Leonard-Bernstein-Straße 10
Saturn-Tower
Telephone: +43/0/50 4004 - 3938
Fax: +43/0/50 4004 - 3767
e-mail: info@immokag.at
Internet: www.immokag.at

Investkredit Bank AG

1090 Vienna, Kolingasse 14-16
Telephone: +43/0/50 4004 - 0
Fax: +43/0/50 4004 - 3682
e-mail: invest@investkredit.at
Internet: www.investkredit.at
Represented in the following countries:
Germany, Poland, Czech Republic

Investkredit Investmentbank AG

1090 Vienna, Kolingasse 14-16
Telephone: +43/0/50 4004 - 0
Fax: +43/0/50 4004 - 3683
e-mail: office@ikib.at
Internet: www.ikib.at

PREMIUMRED Real Estate Development GmbH

1010 Vienna, Renngasse 10
Telephone: +43/0/50 4004 - 3310
Fax: +43/0/50 4004 - 3305
e-mail: office@premiumred.at
Internet: www.premiumred.at
Represented in the following countries:
Poland, Czech Republic and Romania

VB Factoring Bank Aktiengesellschaft

5033 Salzburg, Thumegger Straße 2
Telephone: +43/662/62 35 53 - 0
Fax: +43/662/62 35 53 - 160
e-mail: info@vb-factoring-bank.at
Internet: www.vb-factoring-bank.at

VB Leasing

Finanzierungsgesellschaft m.b.H.

1090 Vienna, Wasagasse 2
Telephone: +43/0/50 4004 - 7766
Fax: +43/0/50 4004 - 7265
e-mail: office@vbleasing.at
Internet: www.vbleasing.at

Volksbank International AG

1090 Vienna, Kolingasse 14-16
Telephone: +43/0/50 4004 - 0
Fax: +43/0/50 4004 - 83903
e-mail: office@vbi.at
Internet: www.vbi.at
Represented in the following countries:
Slovakia, Czech Republic, Hungary, Slovenia, Croatia, Romania, Bosnia-Herzegovina, Serbia and Ukraine

VB-Leasing International Holding GmbH

1090 Wien, Wasagasse 2
Telephone: +43/0/50 4004 - 7133
Fax: +43/0/50 4004 - 7121
e-mail: office@vbleasing.com
Internet: www.vbleasing.com
In folgenden Ländern vertreten:
Represented in the following countries:
Czech Republic, Slovenia, Croatia, Poland, Bosnia-Herzegovina, Slovakia, Serbia and Romania

Volksbank Malta Ltd.

53, Dingli Street
Sliema SLM 1902
Telephone: +356/27 77 77 77
Fax: +356/21 33 60 90
e-mail: info@volksbank.com.mt
Internet: www.volksbank.com.mt

VICTORIA-VOLKSBANKEN

Pensionskassen AG

1110 Vienna, ERGO Center, Business Park
Marximum/Objekt 3, Modecenterstraße 17
Telephone: +43/1/313 41 - 6970
Fax: +43/1/313 41 - 96970
e-mail: bav@victoria.at
Internet: www.bav.victoria.at

VICTORIA-VOLKSBANKEN
Versicherungs AG

1110 Vienna, ERGO Center, Business Park
Marximum/Objekt 3, Modecenterstraße 17
Telephone: +43/1/313 41 - 0
Fax: +43/1/313 41 - 6040
e-mail: office@victoria.at
Internet: www.victoria.at

VICTORIA-VOLKSBANKEN
Vorsorgekasse AG

1110 Vienna, ERGO Center, Business Park
Marximum/Objekt 3, Modecenterstraße 17
Telephone: +43/1/313 41 - 6960
Fax: +43/1/313 41 - 96960
e-mail: vk@victoria.at
Internet: www.bav.victoria.at

Volksbank Invest
Kapitalanlagegesellschaft m.b.H.

1220 Vienna, Leonard-Bernstein-Straße 10
Saturn-Tower
Telefon: +43/0/50 4004 - 3638
Telefax: +43/0/50 4004 - 3191
e-mail:
volksbankinvestments@volksbank.com
Internet: www.volksbankinvestments.com

Umbrella Organisation

Federation of Austrian Credit
Co-operatives (Schulze-Delitzsch)

1013 Vienna, Löwelstraße 14
Telephone: +43/0/50 40041 - 0
Fax: +43/0/50 40041 - 450
e-mail: service@oegv.volksbank.at
Internet: www.oegv.info

CONTACTS

Corporates

Ulrich Zacherl

Investkredit Bank AG
e-mail: ulrich.zacherl@investkredit.at
Telephone: +43/0/50 4004 - 4151
Fax: +43/0/50 4004 - 84151

Andreas Huber

Investkredit Investmentbank AG
e-mail: andreas.huber@ikib.at
Telephone: +43/0/50 4004 - 4287
Fax: +43/0/50 4004 - 3683

Herbert Auer

VB Factoring Bank AG
e-mail: h.auer@vb-factoring-bank.at
Telephone: +43/662/62 35 53 - 200
Fax: +43/662/62 35 53 - 55200

Retail

Friedhelm Boschert

Volksbank International AG
e-mail: friedhelm.boschert@vbi.at
Telephone: +43/0/50 4004 - 3757
Fax: +43/0/50 4004 - 3905

Tamara Baumgartner-Renner

VB-Leasing International Holding GmbH
e-mail: tamara.baumgartner-renner@vbleasing.com
Telephone: +43/0/50 4004 - 7135
Fax: +43/0/50 4004 - 87135

Real Estate

Andreas Steyer

Investkredit Bank AG
e-mail: andreas.steyer@volksbank.com
Telephone: +43/0/50 4004 - 3183
Fax: +43/0/50 4004 - 83183

Andreas Steyer

Immoconsult Leasinggesellschaft m.b.H.
e-mail: andreas.steyer@volksbank.com
Telephone: +43/0/50 4004 - 3183
Fax: +43/0/50 4004 - 83183

Andreas Steyer

PREMIUMRED Real Estate Development GmbH
e-mail: andreas.steyer@volksbank.com
Telephone: +43/0/50 4004 - 3183
Fax: +43/0/50 4004 - 83183

Financial Markets

Franz Schleifer

Group Treasury
e-mail: franz.schleifer@volksbank.com
Telephone: +43/0/50 4004 - 3500
Fax: +43/0/50 4004 - 3430

Friedrich Strobl

Volksbank Investments
e-mail: friedrich.strobl@volksbank.com
Telephone: +43/0/50 4004 - 3721
Fax: +43/0/50 4004 - 3125

Heimo Rottensteiner

International Financial Markets Relations
e-mail: heimo.rottensteiner@volksbank.com
Telephone: +43/0/50 4004 - 7610
Fax: +43/0/50 4004 - 87610

Michaela Holub

International Financial Institutions
e-mail: michaela.holub@volksbank.com
Telephone: +43/0/50 4004 - 3146
Fax: +43/0/50 4004 - 83146

Karl Kinsky

Institutional Investor Relations
e-mail: karl.kinsky@volksbank.com
Telephone: +43/0/50 4004 - 3338
Fax: +43/0/50 4004 - 83338

Press Relations & Internal Communications

Walter Gröblinger

e-mail: walter.groeblinger@volksbank.com
Telephone: +43/0/50 4004 - 3864
Fax: +43/0/50 4004 - 83864

Marketing

Kurt Kaiser

e-mail: kurt.kaiser@volksbank.com
Telephone: +43/0/50 4004 - 3181
Fax: +43/0/50 4004 - 3682

Corporate Responsibility

Head of Corporate Responsibility Project

Mirjam Ernst

Head of Corporate Marketing &

Eventmanagement

Sustainability Officer

e-mail: mirjam.ernst@volksbank.com

Telephone: +43/0/50 4004 - 3686

Fax: +43/0/50 4004 - 83686

Project Manager Corporate Responsibility

Manuela Eder

Corporate Marketing

e-mail: manuela.eder@volksbank.com

Telephone: +43/0/50 4004 - 7237

Fax: +43/0/50 4004 - 87237

Core team

Corporate Responsibility

Corporates

Angela Platzer-Reichmann

Head of Corporate Banking

Volksbank AG – Investkredit

e-mail: angela.platzer@volksbank.com

Telephone: +43/0/50 4004 - 4128

Fax: +43/0/50 4004 - 84128

Real Estate

Andreas Steyer

Head of VB Real Estate Services

e-mail: andreas.steyer@volksbank.com

Telephone: +43/0/50 4004 - 3183

Fax: +43/0/50 4004 - 83183

Retail

Iris Rieglbauer

Senior Manager CR

Volksbank International AG

e-mail: iris.rieglbauer@vbi.at

Telephone: +43/0/50 4004 - 7204

Fax: +43/0/50 4004 - 87204

Retail/Leasing

Dietmar König

Sales Manager Banking

VB Leasing Finanzierungsgesellschaft m.b.H.

e-mail: dietmar.koenig@vbleasing.at

Telephone: +43/0/50 4004 - 7269

Fax: +43/0/50 4004 - 87269

Financial Markets

Sabine Oschabnig

Head of Support Third-party Banks

and Insurance Companies

Volksbank Investments

e-mail: sabine.oschabnig@volksbank.com

Telephone: +43/0/50 4004 - 3914

Fax: +43/0/50 4004 - 83914

Facility Management

Michael Hirschler

Central Procurement

e-mail: michael.hirschler@volksbank.com

Telephone: +43/0/50 4004 - 3285

Fax: +43/0/50 4004 - 83285

Central Procurement

Ulrike Schütz

Sourcing Manager Advertising and

Office Management

e-mail: ulrike.schuetz@volksbank.com

Telephone: +43/0/50 4004 - 7061

Telefax: +43/0/50 4004 - 87061

IT

Michael Orter

Head of IT Service Desk

e-mail: michael.orter@volksbank.com

Telephone: +43/0/50 4004 - 3013

Fax: +43/0/50 4004 - 83013

Employees

Johann Garstenauer

Head of HR Development & Learning

e-mail: johann.garstenauer@volksbank.com

Telephone: +43/0/50 4004 - 7000

Fax: +43/0/50 4004 - 3523

Staff Council

Gabriele Bauer

Staff Council Volksbank AG – Investkredit

e-mail: gabriele.bauer@volksbank.com

Telephone: +43/0/50 4004 - 4271

Fax: +43/0/50 4004 - 84271

Staff Council

Hans Lang

Chairman of the Staff Council

Österreichische Volksbanken-AG

e-mail: hans.lang@volksbank.com

Telephone: +43/0/50 4004 - 3100

Fax: +43/0/50 4004 - 3675

Expert Corporate Governance

Petra Scherzer

Head of Board Supporting Unit

e-mail: petra.scherzer@volksbank.com

Telephone: +43/0/50 4004 - 3894

Fax: +43/0/50 4004 - 3409

Expert Compliance

Thomas Skamljic

Compliance Officer

e-mail: thomas.skamljic@volksbank.com

Telephone: +43/0/50 4004 - 3195

Fax: +43/0/50 4004 - 83195

Expert Operational Risk Management

Wolfgang Hütter

Head of Group OpRisk Control/

Business Continuity Manager

e-mail: wolfgang.huetter@volksbank.com

Telephone: +43/0/50 4004 - 3170

Fax: +43/0/50 4004 - 83170

Expert Strategic Risk Management

Birgit-Maureen Martinek

Head of Credit Risk Methods –

Parameter Estimation Strategic

Risk Management/

Credit Risk Management

e-mail: birgit.martinek@volksbank.com

Telephone: +43/0/50 4004 - 7361

Fax: +43/0/50 4004 - 87361

TERMINOLOGY

Österreichische Volksbanken-AG

Central institution of Volksbank Group

Business name:

Österreichische Volksbanken-Aktiengesellschaft

(in german language for short: ÖVAG)

Brand and international name:

Volksbank AG (for short: VBAG)

VBAG Group

Österreichische Volksbanken-AG with its subsidiaries in Austria and abroad: Investkredit Bank AG, VB-Factoring Bank AG, Volksbank Malta Ltd., PREMIUMRED Real Estate Development GmbH, Immoconsult Leasinggesellschaft m.b.H., Volksbank International AG with its subsidiaries in CEE, VB-Leasing International Holding GmbH, VB Leasing Finanzierungsgesellschaft m.b.H.

Volksbank primary banks

51 Local Volksbanks including 7 banks with specialised professional expertise (Österreichische Apothekerbank eG, Gärtnerbank, registrierte Genossenschaft mit beschränkter Haftung, IMMO-BANK Aktiengesellschaft, SPARDA-BANK LINZ, registrierte Genossenschaft mit beschränkter Haftung, SPARDA-BANK VILLACH/INNSBRUCK registrierte Genossenschaft mit beschränkter Haftung, Wiener Spar- und Kreditinstitut registrierte Genossenschaft mit beschränkter Haftung, Bank für Ärzte und Freie Berufe Aktiengesellschaft) and 4 credit co-operative banks

Volksbank-Sector

Volksbank primary banks and VBAG Group

Association of Volksbanks

Volksbank-Sector, Allgemeine Bausparkasse reg.Gen.m.b.H., ABV

Volksbank Group

VBAG Group, Association of Volksbanks and all Volksbanks in Austria and abroad

Co-operative bank

Volksbank Group is a member of Österreichischer Genossenschaftsverband (Schulze-Delitzsch) – known as ÖGV for short. ÖGV represents the interests of and acts as an auditing association for independent regional Volksbanks whose co-operative assignment is to advance and support their respective local and the companies and private customers located there. The regional focus of Volksbanks enables targeted regional use of financial resources.

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Österreichische Volksbanken-AG
A-1090 Vienna, Kolingasse 14-16
Telephone: +43/0/50 4004 - 0
e-Mail: info@volksbank.com
Internet: www.volksbank.com

Annual Report-Team:

Walter Gröbinger, Karl Kinsky, Gudrun Zillich

Editors:

Annual Report-Team, Manuela Elsensohn-Pauser, Martina Kurz,
Petra Roth, Andrea Vitali

Corporate Responsibility Report

Editors Corporate Responsibility Report:
Mirjam Ernst, Manuela Eder and members of the coreteam
(page 219)

Advisor:

Karl Resel, Denkstatt GmbH

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