VOLKSBANK AG

ANNUAL REPORT

WITH INTEGRATED CORPORATE RESPONSIBILITY REPORT

2009

KEY FIGURES OF VOLKSBANK AG

in euro million	2009	2008	2007	2006	2005
Statement of financial position [1]					
Total assets	**48,116**	**55,815**	**78,641**	**67,429**	**54,800**
Loans and advances to customers	24,169	26,028	24,764	31,110	24,825
Amounts owed to customers	7,315	8,628	10,191	8,087	7,039
Debts evidenced by certificates	17,329	14,954	13,436	30,846	24,358
Subordinated liabilities	1,923	1,957	1,457	1,817	1,298
Own funds					
Core capital (tier I) after deductions	2,715	2,515	2,767	2,664	1,972
Supplementary capital (tier II, tier III) after deductions	968	909	1,491	1,451	765
Eligible qualifying capital	3,682	3,424	4,258	4,114	2,737
Assessment base credit risk	27,255	33,263	38,502	33,895	26,283
Capital requirement market risk	55	42	58	51	51
Capital requirement operational risk	125	114	0	0	0
Surplus capital	1,321	606	1,120	1,352	584
Core capital ratio in % [2]	**10.0**	**7.6**	**7.2**	**7.9**	**7.5**
Equity ratio in % [3]	**12.5**	**9.7**	**10.9**	**11.9**	**10.2**
Income statement [1]					
Net interest income	424.2	1,154.7	760.6	662.9	412.0
Risk provisions	–863.4	–143.7	–96.4	–61.7	–52.4
Net fee and commission income	150.0	185.0	175.9	135.3	101.9
Net trading income	120.7	41.5	55.9	70.6	69.9
General administrative expenses	–560.3	–624.4	–582.0	–507.4	–395.6
Other operating result	–13.7	–160.8	–3.8	–1.2	56.5
Income from financial investments	–272.6	–295.3	–2.2	–12.5	7.1
Income from the disposal group	71.7	–558.7	80.1	23.3	20.5
Result before taxes	**–943.5**	**–401.8**	**388.1**	**309.4**	**219.9**
Income taxes	–179.6	191.0	–42.2	–46.7	–9.1
Result after taxes	**–1,123.0**	**–210.9**	**345.9**	**262.8**	**210.9**
Minority interest	38.8	58.9	–126.2	–107.6	–50.5
Consolidated net income	**–1,084.3**	**–152.0**	**219.7**	**155.2**	**160.4**
Key ratios [4]					
Cost-income-ratio	74.6 %	47.3 %	59.0 %	59.3 %	61.1 %
ROE before taxes	–43.0 %	6.8 %	12.9 %	12.3 %	13.5 %
ROE after taxes	–50.3 %	13.8 %	11.3 %	10.5 %	12.9 %
ROE consolidated net income	–81.6 %	19.8 %	12.2 %	10.8 %	16.2 %
ROE before taxes (regulatory)	–43.6 %	6.6 %	16.1 %	14.4 %	15.2 %
Ressources [1]					
Staff average	8,060	8,043	7,204	6,388	5,482
of which domestic	1,501	1,491	1,837	2,328	2,030
of which foreign	6,559	6,552	5,367	4,060	3,452
Staff at end of period	7,857	8,381	8,055	6,762	5,963
of which domestic	1,467	1,535	1,938	2,401	2,203
of which foreign	6,390	6,846	6,117	4,360	3,760
Number of sales outlets	584	611	595	388	263
of which domestic	1	1	49	79	79
of which foreign	583	610	546	309	184

[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] Beginning with business year 2008, the cost-income-ratio was calculated without taking into account impairment of financial investments and of goodwill but including revaluation of investment properties.
All ROEs were displayed without including the diposal group beginning with business year 2007.

CORPORATE RESPONSIBILITY FIGURES

	Unit	2009	2008	2007
Economy				
Financial Markets segment: Share of sustainable funds in the overall fund volume	%	**11.7**	11.5	7.5
Financial Markets segment: Share of sustainable certificates in the overall certificate volume	%	**11.6**	5.8	5.2
Real Estate segment: Share in the total volume of financing providing by Immoconsult with an ecological or social focus	%	**16.0**	7.1	13.5
Corporates segment: installed electrical power from renewable energy from projects financed by Investkredit	MW	**32.0**	46.0	462*
Retail segment: Customer satisfaction with Volksbank Wien for account openings	%	**96.0**	91.9	91.7
Employees**				
Number of employees	Number	**1.507**	1.466	1.394
Women in managerial positions	%	**21.0**	21.0	16.2
Proportion of part-time staff	%	**12.1**	14.0	14.0
Number of sick days per employee	Days	**7.0**	7.4	7.0
Share in the training budget, in terms of staff costs	%	**3.0**	3.0	3.0
Environment				
Electricity consumption per office space	kWh/m^2	**95.8*****	101.5	109.7
Consumption of natural gas per office space	kWh/m^2	**152.0*****	108.9	89.3
Consumption of district heating per office space	kWh/m^2	**71.6**	61.7	132.8
Heat requirements per office space	kWh/m^2	**121.7*****	95.5	110.6
Waste per employee	kg/employee	**232.7**	221.7	499.0
Printing and copying paper per employee	Pages/employee	**7,237**	8,154	7,045

* Including previous years

** The employee figures in the Corporate Responsibility Report take into account employees of Österreichische Volksbanken-AG (domestic), Bank für Ärzte und Freie Berufe AG, Immo Kapitalanlage AG, IMMO-BANK-AG, Immoconsult Leasing GmbH, Premiumred Real Estate Development GmbH, Unternehmensbeteiligungs GmbH, Volksbank Wien AG, VB IT-Services GmbH and Back Office Service für Banken GmbH.

*** For details of the organisational units included, see the chapter on „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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>>OUR PRIMARY AIM IN THE SHORT TERM IS: TURNAROUND 2010<<

Chief Executive Officer Gerald Wenzel

Ladies and Gentlemen,

I have held the position of Chief Executive Officer of the Österreichische Volksbanken-AG Group since 1 May 2009. Around a year has passed since then, during which time I have implemented rigorous measures, together with my team, aimed at stabilising the Group on a sustainable basis. We are now able to report on the turnaround in the first quarter and a positive outlook for 2010, and can give a summary of 2009, which was without doubt the toughest year in the history of Österreichische Volksbanken-AG.

A summary featuring both positive and negative elements. On the one hand, we can look back on the best operating result in the history of the bank totalling euro 405 million. On the other hand, we are also forced to report another first in the history of the bank – a loss of euro -943.5 million – as a result of huge risk provisions and impairments on real estate and participations. The basis of our business model, which involves establishing ourselves in Austria and the CEE nations by means of a solid customer business, has worked. Despite the pronounced economic downturn, Volksbank Group with VBAG as the central institution, is a key cornerstone of the real economy, particularly in Austria, where one out of three companies is a customer of Volksbank Group. The course taken to bring about the largest possible "organic growth" of Volksbank International AG proved extremely forward-looking and successful, even after the outbreak of the crisis in the CEE nations. Even in 2009, VBI contributed a very good positive result of euro 28.5 million to the consolidated net result, despite the difficult market conditions.

"Volksbank: a strong brand with the most satisfied customers in Austria as the basis of our activities"

The cooperative Volksbank model and the underlying values to which we adhere form a strong foundation upon which to build. The Volksbanks in Austria have the most satisfied customers according to GfK, and the customers who are most willing to recommend their bank according to FMVÖ. The image of the bank in the eyes of our own customers has significantly improved in comparison to competitors on the market, even since the outbreak of the financial crisis, and features the best values in the industry. The Volksbank brand stands for trust, regional focus and security in the eyes of the public. Values which today are more relevant than ever.

"The effects of the international financial crisis also affected Austria – the Republic reacted quickly and efficiently"

Like almost every major bank in the country, we utilized the measures offered by the Austrian government aimed at strengthening equity in 2009. Participation capital in the amount of euro 1 billion was offered to the government for subscription, without diluting the interests held by existing shareholders in the process. This measure has ensured that VBAG will not have to endure any competitive disadvantages, as well as ensuring that core capital will be sufficiently strengthened.

"Relying on the tried and tested, anticipating altered conditions and focusing on new targets"

In view of this challenging initial situation and an analysis of all internal and external factors, numerous measures were immediately introduced in order to safeguard the core objectives of VBAG. Our primary aim is to bring about a turnaround and return VBAG to profitability. Our medium-term aim is to return to balanced profitability by means of a comfortable level of capital resources and to redeem the government capital as quickly as possible. Our long-term aim is to position the VBAG Group on a sustainable basis in such a way that we experience healthy growth, ensure solid capital ratios, generate profits and continue to provide our customers and partners in Austria and the CEE region with the top level of service.

"Successful cooperation with the Volksbanks in Austria is the foundation of our business"

In terms of our vision of inspiring our employees, customers and partners by means of performance, quality and enthusiasm as the central institution in the Austrian Volksbank sector, all the while building on cooperative principles and the values of sustainability, absolutely nothing has changed. The central mission of VBAG has been set out in its foundation charter since the very beginning and is thus set in stone: central institution and thus service centre for the Austrian Volksbanks. A union which for decades has been reflected positively in the excellent development of the local member banks and in the central institution, factoring out the impact of the international financial crisis on the rest of the business of the VBAG Group in 2008 and 2009.

"The unfavourable environment has led to challenging situations that require rapid and consistent strategies and measures"

For the other strategic business segments of the Group – Corporates, Retail and Leasing, Real Estate and Financial Markets – in Austria and the CEE nations, massive changes in some of the segment strategies were necessary in 2009 due to the strong impact of the financial crisis. Here, we stuck to our beliefs and started with a clean slate, free of clutter, in order to clear the way towards stabilisation in 2010. The measures that we introduced quickly and without delay will bear fruit as early as the first quarter of 2010. By combining the IT systems and key staff and service divisions of Investkredit and VBAG in 2009, this laid the foundations for enhancing a variety of synergies. An extensive cost efficiency programme led to savings of euro 64.1 million as early as 2009, which is set to be stepped up further in 2010. In order to strengthen capital ratios and secure liquidity, numerous measures were introduced right across the Group, leading to a comfortable capital situation (equity ratio 12.5 %, core capital ratio 10.0 %) by the end of 2009. Together with our majority shareholders, the regional Volksbanks, the Regio project involving the sale of Volksbank Wien, Ärztebank and Immo-Bank to the Volksbank local member banks was successfully completed.

Volksbank Linz+Mühlviertel will be sold to the sector in the current year. In order to repay the government's participation capital as stipulated in the contract, we have actively initiated a search for strategic partnerships and are working hard to find a solution that fits in with our aims and strategies. Thanks to our current capital and liquidity situation, we are able to take the time to look into all options that will lead to the strengthening of our company on a sustainable basis. The turnaround, which we are to complete as early as the first quarter of 2010 using our own resources, will prove that our strategy and business model is the right course of action and will make the VBAG Group interesting to partners. At any rate, we have prepared appropriate strategies for all possibilities, opportunities and eventualities, which we will implement together depending on the partner and the solution.

"We will shape our future together with our excellent employees"

I would like to express how grateful and proud I am of our employees, who over the last two years were confronted with a great deal of uncertainty and a difficult market environment. They have succeeded in reinforcing the trust of customers, they have succeeded in realizing a considerable reduction of costs and they will achieve the turnaround by their own efforts. Thanks to this team, I am more than confident that we will take on the challenges of 2010 with the "Volksbank spirit" and will make use of the opportunities offered in the interests of our customers.

Gerald Wenzel
CEO and Chairman of the Managing Board

>>GROUP CAPITAL AND LIQUIDITY SITUATION SECURED IN THE LONG TERM<<

Association lawyer Prof. Hans Hofinger

For the financial year 2009, the company's Supervisory Board held five regular and seven extraordinary meetings as well as additional discussions 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 annual financial statements and management report were duly reviewed and acknowledged by the Supervisory Board.

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft audited the annual financial statements and the notes as at 31 December 2009 as well as the management report. This audit discovered no cause for objection. An unconditional audit certificate was granted.

The Supervisory Board made note of the report presented by the Managing Board and VBAG's annual financial statements according to section 125 (2) of the Stock Corporation Act. The consolidated financial statements as at 31 December 2009 including the management report were also reviewed and acknowledged.

In the previous financial year, the company remained in line with its Articles of Incorporation and fully complied with the request issued by its shareholders.

Österreichische Volksbanken-AG's development in 2009 was characterised by the consequences of the financial crisis, which left their clear mark on the result of the VBAG Group. Nevertheless, VBAG can look back favourably on the operating business. With the review of strategic options that has now been launched, which also includes evaluating strategic partnerships, the future of the VBAG Group is set to be put on a firm footing.

Changes to the Managing Board of Österreichische Volksbanken-AG

There were a few changes to the Managing Board of VBAG in 2009. For example, member of the Managing Board Michael Mendel has strengthened the management of the company in his role as Chief Risk Officer since 1 January 2009. With effect from 1 May 2009, Gerald Wenzel took over from CEO Franz Pinkl as Chairman of the Managing Board. Franz Pinkl stepped down with effect from 30 April 2009. Members of the Managing Board Manfred Kunert and Wilfried Stadler also left the Managing Board with effect from 30 June 2009. Martin Fuchsbauer was appointed to the Managing Board with effect from 1 January 2010.

Participation capital in the amount of euro 1 billion was issued to the Republic of Austria in spring 2009 in accordance with the Austrian Financial Market Stabilisation Act. Furthermore, three government-guaranteed issues with a volume of euro 1 billion each were successfully placed. Thanks to these measures, it was possible to secure the capital and liquidity situation for the VBAG Group in the long term.

Investkredit evolves from niche bank to corporate bank with a broad scope of services

Investkredit consistently continued with its development from the niche of long-term financing into a bank for companies and entrepreneurs with a broad scope of services. In international markets bordering Austria, the bank is focusing on different niches in the corporate finance business. It reacted to the altered needs of corporate customers owing to the economic environment by stepping up its consulting activities and individual financing solutions. The strain placed on companies' credit ratings led to higher risk costs and an increased need for risk provisions. In the case of syndicated financing, an increase of over 5 % was posted for the loan portfolio, despite low demand from small and medium-sized companies and the risk analysis, which was adjusted to the economic situation. Business with subsidies and export and trade finance focused on services for Austrian core customers.

The Real Estate segment encompasses the real estate loan financing operations of Investkredit, the lease financing operations of Immoconsult, the real estate development activities of Premiumred and the real estate asset management activities of the Europolis Group. It offers a full range of services relating to commercial real estate, supported by professional expertise.

Volksbanks once again clearly demonstrate their strong ties with their central institution

The national retail banks of the VBAG Group – Volksbank Wien AG, Volksbank Linz-Mühlviertel reg. GenmbH, Bank für Ärzte und freie Berufe AG (Ärztebank) and IMMO-Bank AG – were all able to strengthen their market position in 2009 due to the high quality of their advisory services and their in-depth expert knowledge. Together with our majority shareholders, the regional Volksbanks, the Regio project involving the sale of Volksbank Wien, Ärztebank and Immo-Bank to the Volksbank local member banks was ultimately successfully completed at the end of the year. Volksbank Linz+Mühlviertel is set to be sold to a sector bank (primary bank) in the current year according to the agreement. By implementing this project, this once again clearly demonstrates the strong ties of the Volksbanks with their central institution.

The Financial Markets segment again achieved record results in currency and interest rate trading and generated good operating results in the business units.

The VBI Group generated a respectable profit in the 2009 business year, despite the impact of the financial and economic crisis. The good development of the operating result made it possible to absorb the considerable increase in risk provisions. Efficiency was increased further and the cost-income ratio was also significantly improved in 2009. Total assets fell slightly. Medium and long-term earnings opportunities in Central and Eastern Europe are fully intact and growth rates in the CEE region are becoming higher than in Western Europe. The VBI Group's network consists of ten subsidiary banks in nine countries in Central and Eastern Europe (Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Romania, Bosnia and Herzegovina, Serbia and Ukraine). The Group currently comprises 582 sales offices with 5,483 employees.

As of 31 December 2009, the VBAG Group employed 7,931 persons, 6,390 of whom were working for foreign subsidiaries. The Supervisory Board would like to thank the Managing Board as well as all the employees for their demonstrated commitment and the huge amount of work they have put in, particularly in this difficult economic environment.

Vienna, March 2010

Hans Hofinger
Chairman of the Supervisory Board

VBAG GROUP NETWORK

The VBAG Group is Austria's fourth-largest banking group and is of key importance to the domestic economy, particularly for small and medium-sized companies. One in three Austrian SMEs has a direct business relationship with the association of Volksbanks.

Founded in 1922 as the central institution for the Volksbank sector, VBAG operates in the fields of financial markets, real estate, corporate banking and retail banking.

VBAG serves its customers in the Retail segment primarily through an extensive network abroad. In nine CEE countries (Slovakia, Czech Republic, Hungary, Slovenia, Croatia, Romania, Bosnia-Herzegovina, Serbia, Ukraine), the VBAG Group is represented by Volksbank International (VBI) AG and VB-Leasing. Along the lines of the Volksbanks in Austria, VBI follows the principle of a regional approach and is a strong partner with a network of 582 sales outlets, focusing on retail banking and SMEs. Domestic business is handled almost exclusively through the regional Volksbanks within the association of Volksbanks.

Investkredit Bank AG is a bank for companies, entrepreneurs and real estate financing, with a broad range of specialised services. Europolis AG is a real estate investor and asset manager in Central, Southern and Eastern Europe.

The core segment Financial Markets is responsible for and will further expand the provision of services and support to primary banks. The Financial Markets segment was and remains a successful product supplier thanks to its customer proximity. Alongside key staff and service divisions, Financial Markets consists of three profit centres: Group Treasury, Capital Markets and Volksbank Investments.


Poland
Czech Republic
Ukraine
Slovakia
Austria
Hungary
Romania
Slovenia
Croatia
Bosnia-
Herzegovina
Serbia

HISTORY

1922

Österreichische Volksbanken-AG was founded in 1922 as the umbrella organisation of Austria's local credit co-operatives in order to support these in fulfilling their service mandate.

Its primary objective is to offset liquidity fluctuations among the Volksbanks which were founded in 1850 as commercial credit co-operatives.

1930

In 1930 the Austrian Union of Credit Co-operatives was founded under the name Österreichische Genossenschaftsverband and structured in accordance with the Schulze-Delitzsch system.

1974

In 1974, following a resolution of the general assembly held in June of the same year, the legal form of Zentralkasse der Volksbanken Österreichs reg.Gen.m.b.H was converted from a co-operative to a co-operative public limited company.

Its Articles of Incorporation include the co-operative service mandate.

1991

In 1991, when the new Articles of Association were adopted, Österreichische Volksbanken-AG was converted from a regular central institution to a central institution with commercial banking functions.

In the same year, the go-ahead was given for setting up the banking network in central and eastern Europe which has since proved so successful: This made it possible to support and assist Austrian medium-sized businesses in expanding within the enlarged Europe. In 1991, Österreichische Volksbanken-AG was the first foreign bank to acquire a full banking licence in the former Czechoslovakia, which led to the founding of Ludova banka a.s. in Bratislava on 30 August 1991. Over the following years, expansion continued into Hungary, Slovenia, the Czech Republic, Croatia, Romania, Bosnia and Herzegovina, Serbia-Montenegro and the Ukraine.

1996

In 1996 the co-operation between Österreichischer Genossenschaftsverband and Deutsche Genossenschaftsbank started and culminated in July of the same year in the acquisition of a 25 % stake by Germany's DZ Bank AG in VBAG.

1997

In order to streamline banking activities in CEE and deploy capital more effectively, VB-International GmbH was founded in 1997, converted into a joint stock company in 1999 and renamed Volksbank International AG (VBI AG) in 2000. Österreichische Volksbanken-AG's holdings in its foreign subsidiaries were gradually transferred to VBI AG.

2001

In 2001, Volksbank Wien AG was founded and took over the branch network of VBAG. This strengthened the position of Volksbank in the Vienna area.

2002

In 2002 the existing co-operation between the local Volksbanks/VBAG and ERGO Insurance Group AG (VICTORIA-Versicherung) was intensified through an increase in the latter's holding in VBAG to 10 %.

2004

By 2004 VBAG Group already had branches in eleven central and eastern European countries and was present in all major global financial centres thanks to its relations with a large number of correspondent banks.

In December both Banque Fédérale des Banques Populaires (BFBP), the French group of credit co-operatives, as well as Germany's DZ Bank AG and WGZ-Bank each declared their intention of acquiring a 24.5 % share in Volksbank International AG. This transaction was carried out in 2005.

2005

In 2005, Österreichische Volksbanken-AG took over Investkredit Group in order to expand its market share in the Corporates, Real Estate and infrastructure financing sectors.

2008

By transferring Kommunalkredit Austria AG to the Republic of Austria on 3 November 2008, VBAG departed from the public finance segment. The strategic decision to withdraw from public financing had become inevitable due to adverse developments on the markets.

CORPORATE PHILOSOPHY

As the central institution for Volksbanks, VBAG took a pioneering step with its corporate social responsibility project, initiated in 2009, and its declaration regarding a sustainable corporate culture. The aim is to act in a more sustainable way in the areas of social issues, ecology and the economy.

Sustainable economic management rather than short-term maximisation of profits is a key value in the identity of cooperatives. This philosophy is particularly prevalent in the regions, which is reflected very clearly in the proximity to members and customers and the links with the local and regional economy. The focus is on the basic cooperative principles of self-help, autonomy and individual responsibility. VBAG creates awareness of sustainable development and puts people and their long-term needs at the heart of its actions. The best possible balance is achieved between risks and opportunities so that the wishes of customers, partners, employees and the company as a whole can be fulfilled.

MISSION – VISION – AIMS

Mission
The mission of VABG is to seek and find the best solutions for customers and partners at every stage.

Vision
Our vision is to be the most innovative and the best in each strategic business field.

Aims
Our primary aim is a turnaround in 2010! In the medium term, VBAG's aim is to return to balanced profitability by means of a comfortable level of capital resources and to pay back the government capital as quickly as possible. Our long-term aim is to position the VBAG Group in such a way that it can achieve healthy growth, build up corresponding capital ratios, generate profits and continue to provide customers and partners with the top level of service.

Left-right:

Wolfgang Perdich

Gerald Wenzel

Martin Fuchsbauer

Michael Mendel

Dieter Tschach

Values such as tolerance and cooperative action form part of our beliefs. Using existing potential is part of our strategy in dealing with employees. It's not just about communicating optimism, but also about living it. In difficult times it is particularly important to ensure that the company's core – its employees – have prospects and to stabilise the situation.

Diversity and equal opportunities are therefore central values for VBAG. VBAG believes in the equality of differences and sees diversity as an asset. This means recognising the needs of all groups, no matter what their nationality, religious denomination, age, gender or disability, and providing individual responses.

This applies above all to our own employees. Well-informed and well-educated employees are the best promoters of the bank's image, both externally and internally. Training will therefore remain a focal point at VBAG. Even in the tense situation, the training budget remained the same in percentage terms.

The drastic changes in the world of banking will give rise to further structural and global changes to financial services. Customers and business partners are increasingly reverting to conservative values while aggressive growth, high profits and short-term profit maximisation will become less important. Trust, customer proximity and local market roots play a central role in the customer relationship. VBAG represents and preserves these values by means of a sustainable corporate policy.

THE MANAGING BOARD

"Sustainable economic success is only made possible by responsible actions. Living by a principle of responsibility is therefore an essential part of our cooperative identity."

Gerald Wenzel

Head of department
Compliance Office
Committee Supervision
Marketing & Communication
HR Management
Legal Affairs
Auditing
Corporate Planning & Finance
Victoria-Volksbanken Versicherungs AG
Volksbanks Cooperation

Born 6 August 1950 in Vienna

Professional career

1975 Joined Creditanstalt, Corporate division

1978 Moved 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

seit 1.5.2009
CEO and Chairman of the Managing Board of VBAG

Martin Fuchsbauer

Head of department
Banks/Liquidity
Capital Markets
Financial Markets Operations
Group Treasury
Immo KAG
International Financial Markets Relations
Group ALM and Liquidity Management
Research
Volksbank Invest
VB Investments
Victoria-Volksbanken Pensionskassen AG
and 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

2009 Founding of VB Investments AG

2010 Member of the Managing Board of VBAG

Michael Mendel

Head of department
Group Risk Control
Operational Risk Management
Strategic Risk Management

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 HypoVereinsbank

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 HypoVereinsbank, 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, since July 2009 CEO and Chairman of the Managing Board of Investkredit Bank AG

Wolfgang Perdich

Head of department
International activities
VB Factoring Bank AG
Volksbank Leasing Finanzierungs GmbH
VB-Leasing International Holding GmbH
Volksbank International AG

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 Leasingges.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 Project 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

Dieter Tschach

Head of department
Processing
CEE Requirements Management
Domestic/Sector Requirements Management
ARZ Allgemeines Rechenzentrum GmbH
Back Office Service für Banken GmbH (B.O.G.)
IT Infrastructure
Operational Governance
Organisation & Transformation Management
VB IT-Services GmbH

Born 18 May 1963 in Wr. Neustadt

Professional career

1986 Joined Siemens PSE, Vienna Consultant, application developer

1990 Changed to CSC Ploenzke (Switzerland, Austria) Management consultant

1998 Principal of Banking and Finance Practice of IBM Austria (Global Services); Partner and Managing Director of Boston Consulting Group

2008 Managing Director of Organisation division of Unicredit Group, Hypo Vereinsbank (until October)

since 2008
Member of the Managing Board of VBAG

MANAGEMENT REPORT

MANAGEMENT REPORT

Report on business development and the economic situation

Economic environment 2009

After a severe slump in the first quarter, the past year's global economic environment had stabilised by the middle of the year and then began to gain in momentum again.

Economic enviroment still challenging

The economy in the euro zone also bottomed out in mid-2009, before returning to growth in the third and fourth quarter. On average, economic output in the euro zone in 2009 was down 4 % on the previous year. The stabilisation and subsequent slight recovery over the course of the year was supported by ongoing economic stimulus packages and the improvement in export opportunities from the middle of the year. Unemployment rose to 10 % of the working population by the end of the year.

Austria also reached the lowest point of the recession around the middle of the year. The gross domestic product increased by 0.5 % year-on-year in the third quarter and almost maintained its momentum in the fourth quarter with further growth of 0.4 %. This growth was primarily driven by exports, construction investments and increased government demand. The unemployment rate increased significantly. However, at 5.4 %, this was the second lowest within the euro zone according to the international calculation method applied at the end of the year. In the same way as GDP data, Austrian industrial data – as far as has been published up to now – also showed above-average performance in the fourth quarter. In October alone, growth of more than 10 % was posted in incoming orders.

The Austrian rate of inflation fell to below zero over the course of the year, as did that of the euro zone, and was slightly positive over the last few months of the year. Over the year as a whole, the lowest rate of inflation since 1953 was recorded, with an increase in the (national) consumer price index of 0.5 %.

Industrial sector weak

The industrial sector was characterised by a dramatic decline in production in the first half of the year, in both Austria and the euro zone. This was replaced by weak growth in the second half of the year, which by far could not bridge the gap compared to the previous year. Capacity utilisation started to increase again in the fourth quarter, yet at 70.7 % in the euro zone and 75.2 % in Austria as at the end of the year, this was far below the long-term European average of almost 81 %. Private investment demand remained just as weak. Although the investment ratio for European corporations outside the financial sector increased to 21.3 % in the third quarter, this first increase since the third quarter of 2008 still left the ratio a long way off the figure at that time of almost 24 %. Aggregate lending to European non-financial companies fell below the previous year's value towards the end of the year. Loans to private households – where fewer longer-term agreements exist and where the downward trend had set in faster than in the case of companies – already started to return to slight growth.

For the European construction industry, 2009 was the weakest year for more than a decade. In some countries in the euro zone, there was even a dramatic slump in construction activity. However, Austria was one of the countries with a comparatively stable development. Unlike the industrial sector, the construction industry is likely to bottom out at a later point in time. Building construction was particularly affected by the downturn. Underground engineering particularly benefited from government investment in infrastructure in 2009.

Following the sharp cuts in interest rates in 2008, the central banks either left their key interest rates at a low level in the past year or reduced them further. Up to May, the European Central Bank reduced its base rate in four stages by a total of 150 basis points to 1.0 %. It also introduced a range of unconventional monetary policy measures, such as bank funding with extraordinarily long durations, in order to provide an extra boost to the economy. Money market interest rates fell to new lows accordingly. On the other hand, long-term yields increased, reflecting the high capital requirements of government issuers due to economic stimulus measures and weak tax revenues during the recession. Risk premiums, which had expanded sharply, declined considerably over the course of the year. Corporate and bank bonds posted falling spreads almost across-the-board, whereas there was a notable difference in spreads for government bonds from the second half of the year onwards.

As 2009 went on, with the exception of the Ukrainian hryvnia, the freely tradable currencies of the Central and South-Eastern European nations recovered a large proportion of the loss in value suffered following the increase in risk aversion on the international financial markets in 2008/2009. As such, it was also possible for the majority of the central banks in Central and Eastern Europe to lower their base rates.

Share prices had fallen significantly by the start of March 2009, but then returned to strong growth. The stock exchanges closed the year with positive, in some cases noticeably high, annual performance. With an increase of 42.5 %, the ATX was right in the middle of the field.

Economic development in the CEE/SEE varies across countries

In the Central and South-Eastern European nations, GDP development roughly followed the trend set by the euro zone and the USA. Here, the extent and timing of developments in each of the countries was extremely varied. The Czech Republic and the euro zone member states Slovakia and Slovenia were nearly in synchronisation with the euro zone. These countries were primarily affected by the international crisis in terms of foreign trade and a fall in export demand.

In the South-Eastern European nations, which are highly dependent on international capital inflows in their growth models, the financial crisis was an important transfer mechanism. Due to the fact that domestic demand remained resilient to begin with, the declines in GDP began later, yet this meant that these were more severe than in Central Europe in many cases. In Hungary, which prior to the outbreak of recession was already battling with the reduction of high government deficits, the consequent weakness in domestic demand and the current account deficit, the trade and financial channels functioned in a similar fashion. In Ukraine, internal and external problems also converged – albeit for different reasons – and together led to the most severe slump in economic output since the initial years of transition.

Economic development in the core markets of VBAG 2007 – 2010

Real growth p.a.	2007	2008	2009e*	2010e
Austria	3.5 %	2.0 %	–3.7 %	1.1 %
Germany	2.5 %	1.3 %	–5.0 %	1.2 %
Euro zone	2.7 %	0.6 %	–4.0 %	0.7 %
Bosnia-Herzegovina	6.0 %	5.4 %	–3.0 %	–1.0 %
Croatia	5.5 %	2.4 %	–6.0 %	0.5 %
Romania	6.3 %	6.2 %	–7.0 %	0.0 %
Serbia	6.9 %	5.4 %	–3.0 %	0.0 %
Slovakia	10.4 %	6.4 %	–5.0 %	0.0 %
Slovenia	6.8 %	3.5 %	–7.5 %	1.0 %
Czech Republic	6.1 %	2.5 %	–3.5 %	0.5 %
Ukraine	7.9 %	2.1 %	–13.5 %	1.5 %
Hungary	1.0 %	0.6 %	–6.5 %	0.0 %

Source: European Commission Vienna Institute for International Economic Studies
* Estimate; for Germany: actual value

Business development

In the 2009 business year, Österreichische Volksbanken-AG (VBAG) paid particular attention to the provision of liquidity and capital in view of the continued high level of tension on the money and capital markets. In addition to its usual funding activities, contracts were signed with the Republic of Austria regarding the issuance of government-guaranteed bonds in the first quarter. Bonds in the amount of euro 2 billion were issued in the context of these contracts. In the second quarter, participation capital in the amount of euro 1 billion was issued to the Republic of Austria in order to strengthen the equity ratio. Finally, another euro 1 billion in government-guaranteed bonds was placed in the third quarter. All of these measures helped to secure the capital and liquidity situation of the VBAG Group in the long term, in order to be able to provide customers with sufficient liquidity and put the capital resources of the VBAG Group on a firm footing.

High credit risk provisions

Nevertheless, the 2009 business year was characterised by numerous negative events. The largest economic downturn since the 1930s clearly left its mark on the result of the VBAG Group. It was necessary to recognise high provisions for credit risks in order to accommodate the increase in non-performing loans. Furthermore, the negative development on the real estate markets was reflected in the balance sheet in the form of a significant decline in market valuations. Ultimately, revaluations in the securities and investment portfolio of the VBAG Group also led to high write-downs.

Results in detail

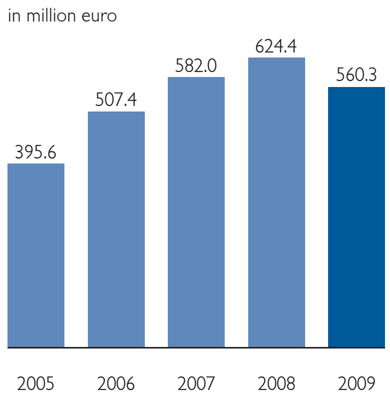
Despite all this, the VBAG Group can give a positive summary of its operating business. Net interest income is euro 424 million, which includes an impairment of real estate (in accordance with IAS 40) in the amount of euro -224 million (in the same period of the previous year, net interest income included a real estate appreciation of euro 17 million) and of companies carried at equity – primarily in the Real Estate segment – of euro -36 million.

By adjusting net interest income in 2008 and 2009 for further non-recurring factors (2008 includes special dividends in the amount of euro 491 million), this results in a net interest income of euro 684 million in 2009 compared to euro 644 million in the same period of the previous year. This is equivalent to an increase in net interest income of 6.2 %. In 2009, particular attention was paid to establishing a sufficient liquidity cushion. This measure placed a euro 25 million burden on net interest income and was in line with the principle of "security before profit".

Furthermore, demand for loans from domestic corporations was extremely sluggish, with many companies opting to postpone investments and delay or no longer fully utilise loans that had already been granted. As a result, net interest income in the Corporates segment also fell short of the previous year's figure by euro 34 million, totalling euro 137 million.

The Retail segment reported significant year-on-year growth. The conservative expansion policy in CEE countries, which – with the exception of 2009 – has been implemented on an ongoing basis, is now showing positive effects. Net interest income rose by almost a quarter, from euro 450 million in 2008 to the current level of euro 558 million.

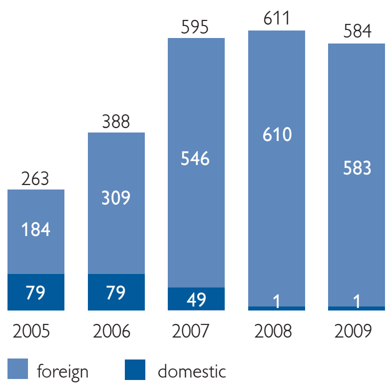
General administrative expenses



The high level of net fee and commission income in 2008 was not maintained. A year-on-year decline of euro 35 million was posted in the year under review. This development is attributable to a number of factors: due to the considerable fall in demand for new loans, fees and commission from the lending business declined from euro 39 million to euro 33 million. The conscious decision to reduce the amount of loans in foreign currencies as part of a risk strategy adapted to the markets led to a drop in net income from the foreign exchange business from euro 34 million to euro 17 million. Ultimately, the fall in customer demand for investment securities services in 2009 also led to a euro 7 million decline in net income.

Net trading income improved and was up euro 79 million on the result for 2008. The successful distribution of new issues, the exploitation of volatility in connection with spread widening and the well-timed hedging of swap positions were all behind this extremely positive development. The self-appointed maximum loss limit of euro 3.3 million per day was not exceeded at any time in 2009. The average utilisation of the trading book limit in 2009 was 55 %. This is indicative of the extremely conservative risk strategy of the VBAG Group.

Sales offices



At euro 560 million, general administrative expenses decreased by euro 64 million compared with the previous year, thereby demonstrating the effectiveness of the cost reduction programmes that have been initiated. In terms of operating expenditure and staff costs, savings of euro 33 million and euro 31 million respectively were made in comparison to 2008. Since the start of the year, the number of employees in Austria (adjusted for the number of employees who in 2008 were employed at the Austrian retail banks that were sold) has decreased from 1,535 to 1,467. The branch network outside Austria has been optimised, particularly in Ukraine, which accounts for the majority of the reduction in the number of persons employed abroad from 6,846 to 6,390. As at the end of 2009 (excluding employees of the retail banks sold in Austria), 7,857 employees served the customers of the VBAG Group across 584 sales outlets in Austria and abroad.

The annual operating result adjusted for non-recurring effects (impairments of real estate, special dividends) totals euro 405 million. The operating cost-income-ratio amounted to 57.6 %.

Sale of retail banks in Austria

The sale of the Austrian retail banks to the Volksbank sector was a measure taken to further stabilise the capital base of VBAG. The sale was concluded for Volksbank Wien AG, IMMO-Bank AG and Bank für Ärzte und freie Berufe AG with effect from 31 December 2009 and resulted in their deconsolidation. The deconsolidation gain from this transaction had a euro 47 million impact on the result of the disposal group. The pro rata annual result for these three banks in the amount of euro 28 million, which is still attributable to the VBAG Group, is also recorded under this position. Volksbank Linz-Mühlviertel rGmbh is to be sold in 2010, which is why its result is also included in the result of the disposal group.

High risk provisions due to economic crisis

The impact of the financial crisis on the real economy was clearly reflected in risk provisions for the lending business, which were increased to euro -863 million. The largest rises were in the Corporates segment, where risk provisions amounted to euro -383 million. Provisions rose to euro -175 million for the CEE banks, and euro -169 million for the Real Estate segment.

Income from financial investments totalled euro -273 million; this figure includes impairments of participations in the amount of euro -224 million. Write-downs and valuations of derivatives were carried in the structured credit portfolio, impacting this item by euro -103 million.

As a result of risk provisions and impairments of participations and real estate, the result before taxes is therefore euro -943 million.

Based on the very conservative assumption that it will not be possible to realise tax loss carryforwards from previous years and from 2009 over the next few years for tax purposes in adequate amounts, the decision was made to realise impairments of deferred taxes from previous years in the amount of euro 188 million. This led to a total impact on the result of euro -180 million as a result of taxes. The consolidated result after taxes and minority interests thus amounted to euro -1,084 million.

Balance sheet and own funds

Total assets amounted to euro 48.1 billion as at 31 December 2009. Adjusted for the balance sheet figures of the sold retail banks (including Volksbank Linz-Mühlviertel rGmbh), this represents a decline of euro 3.0 billion or 6.0 % compared to 31 December 2008.

In 2009, a fall in demand for loans was recorded in virtually all countries in which VBAG Group is active. Although the fall in demand for corporate loans was the most severe, demand for consumer and mortgage loans was also affected. Furthermore, VBAG Group restricted the granting of new foreign currency loans in order to reduce the risk of depreciation of the local currencies concerned. In addition, project finance in the financing business was reduced to mitigate the risk of further negative changes in property values. Accordingly, loans and advances to customers fell by euro 1.9 billion in 2009 due to scheduled repayments and the reduced volume of new business, amounting to euro 24.2 billion at the reporting date.

The decline in amounts owed to customers of euro -1.3 billion was offset by an increase in debts evidenced by certificates (primarily government-guaranteed bonds) with a net increase of euro 2.4 billion. As a result, VBAG is in a very comfortable liquidity position.

As of 31 December 2009, VBAG had eligible own funds of euro 3.7 billion. The core capital ratio (ratio of core capital to the assessment base for credit risk) was 10.0 %, while the core capital ratio in relation to total risk was 9.2 %. The equity ratio in relation to total risk amounted to 12.5 %. Available own funds exceeded regulatory requirements by more than euro 1.3 billion or 56.0 %. VBAG has an excellent capital base as demonstrated by these figures.

Non-financial performance indicators

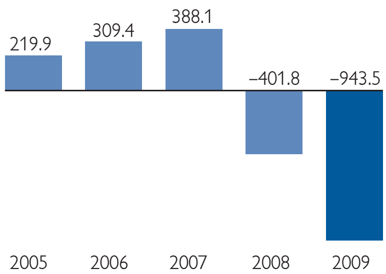
Corporate responsibility

VBAG as the central institution together with its regional Volksbanks operate according to cooperative principles. These values can be traced back to the co-founder of the cooperative system, Hermann Schulze-Delitzsch. Sustainable development is a modern interpretation of these cooperative principles. For the Volksbank Group, sustainability means finding up-to-date answers to the latest economic, environmental and social challenges.

In spring 2009, the Corporate Responsibility project was implemented at VBAG. Teams from the strategic business segments are working towards the implementation of environmental, social and economic targets, which are incorporated in the three-pillar model of the sustainability concept of VBAG. Sustainability measures have been defined as well as how their implementation will be supported in the respective units. With the involvement of numerous experts from the Group, the individual units are compiling the basis for the first integrated sustainability report. The expansion of the project to include the entire Volksbank Group is currently in the planning stages.

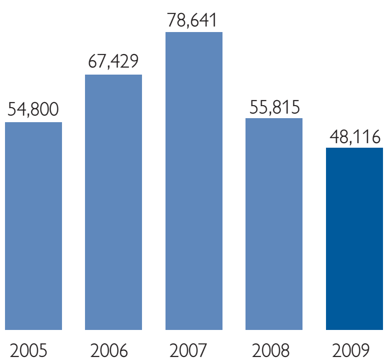
Result before taxes

in million euro

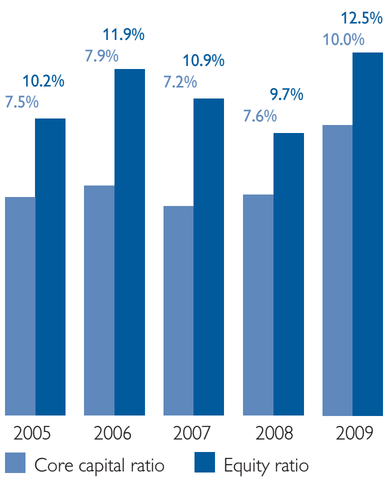


Total assets

in million euro



Core capital- and equity ratio



Developments in environmental protection

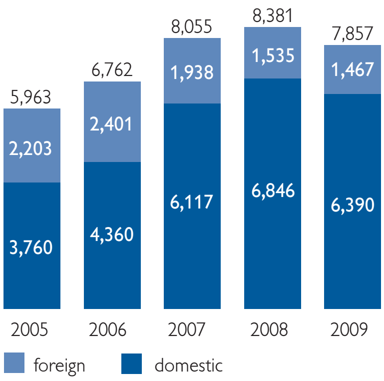
The main feature of internal environmental protection in 2009 was the first centralised recording of energy and waste figures as part of sustainability management. The many and varying locations of VBAG in Vienna will continue to consolidate these figures in the current year. Figures will ultimately be available for 2010 for all locations owned by VBAG as well as the new Group headquarters.

Waste figures reached their peak in 2007 as a result of the demolition of the former Group headquarters. Specific electricity consumption fell over the years. Heat requirements per office space remained constant. However, there was a huge change in the ratio of district heating to natural gas due to changing locations – particularly as a result of the demolition of the Group headquarters which had been heated with district heating. In 2009, consumption of natural gas totalled 2,855 MWh, while consumption of district heating was just 812 MWh. Over the next few years, this ratio will come to favour the more environmentally friendly district heating again. As a result of changing location and commissioning the new headquarters, 98 % of the floor area of VBAG buildings will be heated with district heating in future.

Human resources

The difficult situation of the global financial system required a consistent cost management in 2009. The sale of three retail banks (Ärztebank, Immo-Bank, Volksbank Wien) to the sector led to a reduction in the number of employees in the Group to 7,931 as at the end of 2009. 1,541 persons are employed in Austria and 6,390 abroad. In Austria, 67 % of all employees are between 26 and 45 years old, while 27 % are older than this and 5 % are younger. Male employees account for 52 % of the workforce and female employees 48 %. The ratio of university graduates in Austria is 37 %.

Employees



2008 and 2009 without disposal group

Priorities of HR management

The changes to overall conditions, which have been significant in some cases, have required intensive support of a number of Group units during change processes. As well as planned changes – e.g. further merging of service units of Investkredit and VBAG – change management was therefore a key focus in 2009. In this regard, the spectrum ranged from the promotion of internal mobility and the redimensioning of staff, right up to cultural aspects.

HR management also played a major part in the Group-wide cost-cutting initiative.

A great deal of attention was paid to the issue of staff retention so as not to run the risk, particularly in times of general instability, of being faced with a weakening of the Group as a result of employee turnover.

The sale of the three retail banks and the associated staff requirements as a result of the demergers were a central theme in human resources activities in 2009.

The bonus system in place was adapted to the altered overall conditions and further developed with a view to the future.

Staff development measures continued

Despite the difficult environment in 2009, VBAG consistently pursued its staff development measures. In percentage terms, the training budget for 2009 remained just as high as in previous years. Within the Group in Austria, an average of 4 training days were utilised per employee. Of this, 455 bookings were received for the internal training initiative WIN (Wissen Intern Nutzen – Using Knowledge Internally), 331 bookings were made at the Volksbank Academy and around 430 bookings related to other external or internal training events.

The promotion of junior managers continued to represent a priority in 2009, for which a special course was developed in collaboration with the Volksbank Academy. As well as training and continuing professional development for junior managers, the specialist and personal development of all employees constituted a key focus of training measures in the VBAG Group. Internal foreign language and IT training sessions also played a key role in 2009.

VBAG Group: Equal opportunities

Diversity management

Diversity and equal opportunities are central values for VBAG. For this reason, various teams devised a dedicated diversity programme in 2009.

The guiding principle behind the "diversity management" initiative is: "We believe in the equality of differences and see diversity as an asset. We wish to recognise the needs of all groups, regardless of their nationality, religious denomination, sexual orientation, age, gender or disability and provide individual responses."

The project group includes employees from a wide range of areas in the Group, the Works Council and the company doctor. This group has devised a range of measures which are to be implemented from 2010.

For example, the new headquarters of VBAG (move-in date in summer 2010) will feature a cross-denominational "Tolerance/Meditation Room" as well as entrances accessible for people with disabilities and a modern environmental concept.

Volksbank also intends to continue to recognise its social responsibility towards the next generation. Apprentice training will be expanded further and new vocational areas will be developed.

The plans to focus on performance and talent management, which had been scheduled for back in 2008, as well as the expansion of the "work-family concept" were only implemented to a limited extent due to the situation outlined. However, these projects are still high on the agenda for 2010.

In a three-year trend, an increase has become apparent in the proportion of women in positions with disciplinary management responsibilities. By means of various measures, such as increased promotion of women in managerial positions, this share is expected to rise to at least 25 % by 31 December 2012.

Merger of IT and organisational units

Organisation/IT

From the point of view of the Organisation/IT department, 2009 was a year of changes. The focus was on providing professional support to central Group projects and increasing efficiency in the company as a whole. As such, the merger of the organisational and IT units of VBAG and Investkredit was implemented. Furthermore, the successful "cost efficiency" initiative was established on a permanent basis in the line organisation and the strategic Group Purchasing department was created. Furthermore, control mechanisms were adjusted to the altered Group conditions.

Key IT projects

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 systems and workstation equipment was standardised. This lowered running costs and reduced operational risk.

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, own funds in a three-digit million range were saved through the optimisation of the central computational modules.

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 achieved 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 include simplified cash management, cross-border direct debits, reduction in transaction costs and improved cash flow and liquidity planning.

Administrative expenses reduced significantly

Infrastructural measures

The infrastructural measures for the new headquarters are in full swing, a first-rate cabling system has been implemented. Video conference rooms are to be set up in order to reduce travel costs. As part of the cost-cutting initiative, work has started on dismantling the old printer network and implementing an efficient printer output concept.

Cost efficiency measures

The "cost efficiency" project was set up at the start of 2009. The aim of this project is to increase profitability across the entire VBAG Group on a sustainable basis through reducing administrative expenses on the premise of optimising efficiency. As at the end of the year, a total of 830 savings measures had been announced with a total volume of euro 117 million p.a. Of this, measures in the amount of euro 94 million are currently being implemented or have already been successfully implemented. The general administrative expenses item in the 2009 consolidated financial statements clearly reflects the success of the project.

The Group Purchasing department set up in 2009 achieved savings recognised in income of over euro 2 million, which is equivalent to a cost-benefit factor of 1:5. 20 projects (invitations to tender, price negotiations) were concluded, such as in the areas of mobile telephones, construction of the new headquarter, information services and travel agencies. In 2009, a new procurement platform was also selected with the aim of automating processes. This is currently in the process of being implemented.

Press relations & internal communications

With the outbreak of the economic and financial crisis, much greater media and public focus has been placed on VBAG in connection with negative banking headlines around the world. Journalists were informed of the latest issues, new products and forecasts in 132 press releases. The number of references in the national and German-language international media also increased: Volksbank 2,497 references, Volksbanks 1,614 references, VBAG 857 references.

The financial magazine of the Volksbank Group was produced for the first time in 2009 in cooperation with the editorial team of FINANCE, part of the Frankfurt-based F.A.Z. Group. The magazine offers an overview of VBAG and its subsidiaries. 10,000 copies were sent out to customers, business partners and employees. With the financial magazine, an established specialist publication of Investkredit was transferred to Group level for the first time.

Internal communications also played a crucial role in 2009. In order to keep employees informed in detail of current developments, a new communication tool, employee dialogues, was set up. Extensive use was made of the opportunity for personal discussions with the Managing Board.

The internal dialogue is to be continued in 2010. External communications, i.e. daily public relations work, will remain a challenge in 2010 owing to the changes in the banking sector. Communications regarding these changes and coordination with the Österreichischer Genossenschaftsverband (ÖGV) and the regional Volksbanks remain the key pillars of communication.

Events of particular importance occurring after the reporting date

Evaluation of strategic partnerships

Fiscal year 2010

Negotiations about the sale of VB Linz+Mühlviertel began in the first quarter of 2010. This is a continuation of the reorganisation of the Group that began in the 2009 business year. Further strategic options and measures are to be examined in 2010. The focus will be on the evaluation of strategic partnerships. A process has been set up for this and is accompanied by Lazard & Co GmbH.

Report on the company's expected development and risks

Economy and financial markets

A muted economic upturn in the euro zone looks likely in 2010. Export-oriented countries such as Austria are expected to benefit from the global recovery more than other countries. Exports, government spending and the inventory cycle, with the replacement of stocks that had been severely depleted during the crisis, continue to be important growth factors. Consumption is still suffering as a result of high unemployment. Austria is likely to have a slight advantage over the euro zone with regard to growth, owing to its orientation towards exports and the comparatively low level of unemployment. As the utilisation of capacity is low and private demand is still relatively weak, inflation is set to remain below average for the time being.

Cautious phase-out of loose monetary policy

An expected cautious phase-out of the “loose” monetary policy of the central banks of the major monetary blocs is likely to lead to rising money market interest rates during the course of the year. In particular, the long-term bank funding of the ECB has eased the pressure on the money market to such an extent that the three-month EURIBOR was well below the base rate of 1 % at the beginning of 2010. The last extraordinary six-month funding of the ECB is scheduled for March 2010. Subsequent maturities in June, September and December mean that capital requirements will be covered increasingly by the market. This will lead to a rise in the corresponding interest rates, even if the base rate remains unchanged at 1 %. High government financing requirements are also likely to cause longer-term yields to rise again.

With the gradual recovery in the overall economic situation, the results of many listed companies recovered again in 2009 following cost reduction programmes. Despite temporary setbacks, the risk aversion among market participants is set to drop further in 2010, allowing a continuation of the reduction in risk premiums and a gradual improvement in (re-) financing conditions.

In addition to the international economy, the attractiveness of locations and the competitiveness of the respective CEE and SEE countries, along with their ability to attract direct investors and keep them in the country, are probably the most important factors for the performance of the commercial property sector. Assuming that there will be a slow recovery in the economy for the most important trading partners, hotels and logistics centres are expected to recover first, followed by office rentals and later construction activities. It is still international companies above all that require modern office space. According to Euroconstruct forecasts, an increase in construction activity can be expected in most countries from 2011/2012 onwards, assuming that there is a recovery in demand during the current year.

Economic growth in most CEE/SEE countries

In most Central and South-Eastern European states, more favourable purchasing managers’ indices, among other factors, suggest that growth in GDP may gain momentum up to the second quarter of 2010. At the same time, capital expenditure and private consumption are still relatively weak and are expected to remain so for the rest of the year. Following the sharp rise in new government borrowing in the previous year, domestic demand will now increasingly be burdened by the direct and indirect effects of reduced government spending.

The outlook depends on how long it will take for foreign direct investments to reappear. It is expected that the still existing demand for development, for example in the field of infrastructure projects, the respective subsidy programmes by the European Union as well as the favorable cost structures and other locational advantages will have positive effects on direct investments.

The effects of the weak employment markets and the low utilisation of capacity, which have been felt throughout Europe, have been intensified in South-Eastern Europe by a long-term deterioration in conditions for capital imports. These had made strong growth possible in domestic demand in previous years. A higher proportion of financing is expected to come from local sources in the next few years, which in turn requires higher savings rates. Direct foreign investment is expected to represent the most important growth driver for the time being, along with exports.

Low inflation indicating potential for further interest rate cuts

A slight appreciation in local currencies, severely negative gaps in production and fundamentally weak domestic demand are expected to keep core inflation rates in check, although overall inflation rates will be exposed to the unfavourable basis effects of commodities prices and may therefore see a slight increase. The low core inflation rate and reduced risk aversion on the financial markets may allow further interest rate cuts by central banks in countries with high interest rates, without threatening the stability of the currency.

Business performance

The economic environment remains extremely difficult, particularly for companies. For this reason, VBAG expects risk provisions to remain high in the first and second quarter of 2010, especially in the Corporates and Real Estate segments. Nevertheless, the outlook for 2010 is considerably more optimistic than last year’s outlook, and VBAG expects a consolidated net profit again in 2010.

A distribution on profit-related securities in 2011 for the 2010 fiscal year, however, is unlikely from today's viewpoint. Due to the issuing of participation capital and the extensive funding activities, the VBAG Group will have more than adequate capital and liquidity resources in 2010.

Further strategic options and measures for the reorganisation of the VBAG Group will be examined and implemented in 2010. The focus here is on evaluating strategic partnerships, for which an appropriate process has been introduced.

Material risks and uncertainties

Risk management

Separation of front office and mid office

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 also 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 collateral as well as the management of risk are performed centrally by the organisational units for strategic risk management, operational risk management and group risk control, which are independent of the front office functions. The subsidiaries of Österreichische Volksbanken-AG are actively involved in the ongoing development of methods and processes within the risk management system. This makes it possible to achieve a coherent 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.

Further details on risk management are given in the risk report in the notes.

Compliance

Compliance is a term loosely defined in the world of finance as "following rules". The rules run the gamut: laws, regulations, national and international standards as well as conventions established by the bank itself (particularly in securities trading, investment advice and prevention of money laundering). The bank protects itself from risk by following these rules to the letter. Compliance is therefore a component of the bank's risk policy.

VBAG 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. In organisational terms, the Compliance Office reports directly to the Chairman of the Managing Board. It defines and monitors the procedures required to observe the regulations in the areas of securities compliance, management of conflicts of interest and prevention of money laundering and financing of terrorism. Compliance serves primarily to protect customers, although it also has the task of minimising risks to the bank's reputation. For this reason, the Compliance Office was expanded as an independent entity and as part of a comprehensive risk management approach during the last business year.

High level of transparency and efficiency ensured

The internal regulations on securities compliance, guiding principles for employee transactions and management of conflicts of interest focus on prevention. To this end, reporting, control and audit mechanisms were integrated into a wide range of workflows. This provides bank employees with the tools and regulations to meet quality requirements on behalf of the Compliance Office in day-to-day contact with customers. This in turn ensures transparency and efficiency in the processes required by regulators. At the same time, it guarantees that the bank will preserve its integrity and act in the interest of its customers.

Prevention of money laundering

In 2009, the VBAG Group again expanded the bank's internal array of instruments for combating money laundering. Additional IT programs were introduced to check and stop prohibited or undesirable transactions. This significantly reinforced the cooperation of the compliance and money laundering officers of the subsidiary banks of the VBAG Group as a whole. One result of this reinforced cooperation was the coordination and standardisation of working methods and procedures to ensure a uniform security level throughout the Group. The technical infrastructure is improved on an ongoing basis and was adapted in 2009 to meet continually evolving monitoring requirements.

Combating fraud

Combating fraud was established as an area of responsibility for the Compliance Office in 2004. The Compliance Office is responsible for combating white-collar crime throughout the Group. It is also the point of contact for authorities, customers and employees for questions relating to the issue of preventing internet, wire or document fraud. Furthermore, the Compliance Office is responsible for the initiation of preventative measures for combating fraud and raising awareness among employees and customers.

In addition to technical measures for combating fraud and preventing money laundering and the financing of terrorism, the comprehensive and ongoing training and continuing professional development of bank employees in these areas is another important responsibility of the Compliance department. In addition to "face-to-face" sessions, electronic learning programs on workstations give bank employees basic training and raise awareness. Bank employees are also informed regularly via a proprietary compliance database about current issues involving the fight against money laundering and fraud. This ensures that the VBAG Group complies fully with the regulatory requirements in this area.

Report on research and development

The company is not involved in research and development in the classic sense. However, the VBAG Group supports the research activities of other organisations. The development of innovative products and services is also at the heart of how the Group sees itself.

For many years, the Österreichische Volksbanken-AG Group has supported the Rudolf Sallinger Fund for the promotion of scientific publications dedicated to the concerns of small and medium-sized companies. The fund supports both the next generation of 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 prices to over 400 young academics for their outstanding scientific work.

Scientific study: Cost of conflict in family businesses

Since 2007, VBAG is dedicated to the issue of business mediation. In view of the diverse benefits of business mediation for society, the sector, corporate customers and employees, VBAG has commissioned the first basic scientific study into the cost of conflict in family businesses. The results of this study will be available in 2010. Family businesses are a core target group not only of Investkredit, but also of Austrian Volksbanks.

It is not just in management that the cost of conflict is an unknown quantity: professions that deal with costs or cost control have not yet approached this issue either. The study is to provide a theoretical and methodological basis for recording the cost of conflict in family businesses. The focus is on the impact of conflict on the assets of family businesses, viewed holistically.

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

Report on the important features of the internal control system and the 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. 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).

Implementation of internal control system

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 in the VBAG Group has been assigned to process management/software development at Österreichische Volksbanken-AG.

For the preparation of the consolidated financial statements, processes were defined that ensure that the data provided by Group subsidiaries is correctly transferred and processed. The data 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. Finally, the results are monitored and plausibility checks are carried out. The monitoring and plausibility checks are based on the principle of dual control and are subject to additional checks by Group management.

Risk assessment
Risks relating to the accounting process are recorded and monitored by the process managers.

For the preparation of the financial statements, estimates must be taken regularly, particularly for 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 order to minimise the risk of misjudgements, external experts are consulted and a wide range of public information sources are used.

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 is still being drawn up. 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 documented in the control plan in a way that is comprehensible to third parties. In future, the results are to be reported at half-yearly intervals as part of management reporting.

At the companies included in the consolidated financial statements, the respective management staff are responsible for setting up an internal control and risk management system for the accounting process. The management is also responsible for compliance with Group-wide guidelines and regulations in connection with this in the final instance.

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

Permanent training of Group accounting employees

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 for 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

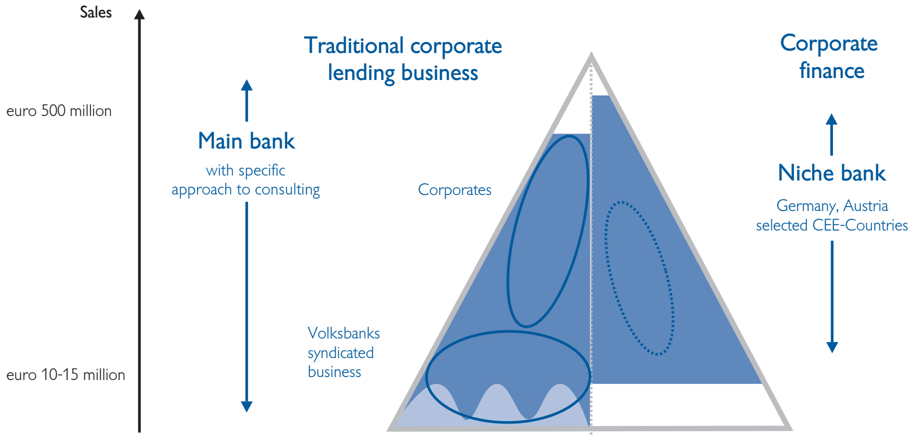
For the composition of the share capital of Österreichische Volksbanken-AG, please refer to the explanations in note 36 Equity in the notes to the consolidated financial statements.

As at 31 December 2009, the main shareholders are Volksbanken Holding e.Gen. (59 %), DZ PB-Beteiligungsgesellschaft mbH (23 %), Victoria-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 2009: Volksbanken Holding e.Gen. (57 %), DZ PB-Beteiligungsgesellschaft mbH (25 %), Victoria-Group (10 %) and Raiffeisen Zentralbank Österreich AG (6.1 %).

Existing authorisation for the Managing Board to acquire treasury stocks and to carry out capital increases is also detailed in note 36 Equity in the notes to the consolidated financial statements.

THE FOUR STRATEGIC SEGMENTS

CORPORATES SEGMENT



The customer group corporates is being serviced through Investkredit Bank AG as a bank for corporate customers, Investkredit Investmentbank AG, Invest Mezzanine Capital Management GmbH, VB Factoring Bank AG and other companies that manage investment business for companies. As of 31 December 2009, the Corporates segment had 407 employees.

Self-conception and orientation of the corporates segment

Investkredit Bank AG wants to be the most sought-after bank for corporate customers, in terms of both expertise and emotional perception. Since the outbreak of financial crisis there has been a fundamental change in its customers' and business partners' expectations in terms of banking services. Investkredit supports companies in their long-term economic development. It uses an approach based on partnership, particularly with small and medium-sized family businesses in Austria, to build up stable and profitable customer relations. Customers are encouraged to optimally use existing opportunities with respect to the safeguarding of their future. Investkredit is consistently continuing with its development from a bank in the niche of long-term financing into a bank for companies and entrepreneurs with a broader scope of services. This focus is reflected in corresponding market-product combinations.

In Austria, Investkredit provides services to small and medium-sized companies with the aspiration of becoming their main bank. Over a third of the financing volume and the risk assets relates to this customer group. Investkredit also acts as a funding partner to regional Volksbanks in Austria through syndicated financing. Moreover, Investkredit strives to develop advisory, financing and hedging solutions that are geared towards customers' needs. Key product areas are the lending business, subsidies and export and trade finance.

In Central European markets bordering Austria (Germany, Poland, Czech Republic), the bank focuses on various niches in the field of corporate finance. These include project finance, LBO finance and loan financing in Central and Eastern Europe, along with M&A consulting and private equity.

In addition comprehensive services of cash management, debt capital markets and treasury sales are offered.

Performance over the business year

The development in 2009 was affected by the financial and economic crisis. Net interest income was reduced to euro 136.6 million in the year under review, which was largely due to lower investment income than in 2008. Interest income from Investkredit's operating activities was satisfactory. The deterioration in the economic situation was clearly evident in credit risk provisions They had to be increased significantly to euro 383.2 million and strongly affected the 2009 result. Declining revenues from export financing services caused net fee and commission income to deteriorate, it fell from euro 22.2 million to euro 12.4 million. Administrative expenses, however, could be reduced by 26 % as a result of a cost reduction programme and amounted to euro 65.3 million. The other operating result and income from financial investments were satisfactory: in contrast to the previous year, high losses were avoided or considerably reduced. Impairments on securities – particularly corporate bonds – were necessary only to a limited extent.

Due to strongly increased impairments the annual result before taxes was negative and stood at euro -299.1 million. The lower level of new business led to a decline in total assets in 2009.

Challenging environment for companies

Customers of Investkredit faced, and are still facing, considerable challenges in view of the economic crisis. Companies that were developing well and were financially sound prior to the crisis were confronted with massive drops in their orders and sales. The companies reacted by cutting back on investment, implementing cost reduction programmes and reducing capacities. The challenging task for finance managers at the companies was ensuring adequate liquidity.

Lending business

Services for companies

A large proportion of the loans requested was aimed at securing liquidity. The priorities of companies have been liquidity management and risk management. Investkredit responded by increasing its consulting activities and offering individual financing solutions for corporate customers. Like other market participants, Investkredit was faced with increased funding costs, which eventually had to be passed on to customers. The strain placed on companies' credit ratings by the economic crisis led to higher risk costs and an increased need for risk provisions. Over 300 financing agreements with a total volume of around euro 1.2 billion were concluded in 2009.

Syndicated financing

The syndicated lending business with Austrian Volksbanks is geared towards three goals:

1. Supporting local primary banks in servicing small and medium-sized customers. Almost one fifth of all financing provided by the Volksbank sector to small and medium-sized Austrian companies is in Investkredit's portfolio.

2. It is the goal and mission of Investkredit to support the market position and profitability of the primary banks. Without Investkredit's syndication activities, primary banks would not be able to fully exploit their earnings potential in the lending business.

3. In joint efforts with the Volksbanks, the syndicated loan business generates income for Investkredit.

In 2009, the loan portfolio could be increased by over 5 %, despite low demand from small and medium-sized companies and despite a detailed and through analysis of risk which was adjusted to the economic situation. This is beneficial to the syndication partners of Investkredit as well as to the Austrian economy. As part of the cooperation agreement with WirtschaftsBlatt, the WirtschaftsBlatt Award for the best family businesses in Austria was once again supported by Investkredit in 2009.

Subsidies and trade finance

The focus of the subsidies and trade finance department lies on providing services to Austrian core customers, particularly in the currently challenging economic environment.

Renaissance in corporate subsidies

Corporate subsidies have historically been Investkredit's core competence. Export and trade finance for Austrian companies requires special know-how which Investkredit has built up over the last few years. In the field of export finance, Investkredit offers its customers advance export financing, factoring and transaction-linked loans. Trade finance includes documentary business such as letters of credit and guarantees.

2009 saw a renaissance in corporate subsidies. Large-scale public intervention programmes were launched all over the world in the wake of the economic crisis, with the focus on subsidies. Investkredit put together suitable subsidy programmes for its customers. In this way, the bank positioned itself to support companies with the implementation of the Austrian Enterprise Liquidity Support Act (ULSG), which was passed in 2009. To further enhance its advisory services to Austrian small and medium-sized companies, Investkredit has updated its long-established "Handbook of EU-conforming Subsidies" (Hannah Rieger, Angela Platzer, mi-Wirtschaftsbuch Verlag, 2009) in a seventh edition. At the 23rd Alpbacher Financial Symposium, Investkredit organised a specialist seminar on the optimised use of subsidies. It received the third prize for the most innovative financial service that is awarded by all companies present.

A specialised advisory team also provides services to Volksbanks in connection with new subsidy programmes. In particular, demand from Volksbank customers for the new ERP small loan programme has been high. Investkredit was once again one of the most important ERP trustee banks in 2009.

With a market share of almost 7 % in export fund loans, Investkredit is number five among the trustee banks at Österreichischer Exportfonds GmbH.

Structured finance

Customers of the Structured Finance department are large companies, larger SMEs and professional financial investors such as private equity funds. Investkredit's Structured Finance department offers the structuring and settlement of complex financing solutions in connection with corporate acquisitions and divestitures. It also offers comprehensive services with regard to companies´ succession issues. The structured finance business faced major challenges in 2009 owing to the considerable slowdown in the overall economic development. This was dealt with by cooperating more intensively with existing customers and concentrating on existing projects. In this way, Investkredit again proved to be a reliable partner and successfully accompanied its customers through the financial and economic crisis in 2009. Investkredit also acted as a mandated lead arranger (MLA) in various international transactions.

Realignment of the international business

In its structured finance business in Central and Eastern Europe, Investkredit adopted a pragmatic approach: since countries were affected to varying degrees by the financial and economic crisis, the strategic focus was placed on the Czech Republic, Poland and Slovakia. Due to changes in general conditions, Investkredit wound up its branches in Bratislava, Budapest and Kiev in 2009. Staff was considerably downsized in Prague, Warsaw and Bucharest. Overall, the number of employees in CEE was almost halved.

In Germany, the main customer groups in 2009 were once again small and medium-sized companies as well as professional financial investors such as private equity funds. Investkredit played a leading part in the structuring and implementation of complex financings for corporate acquisitions in particular. Classic corporate lending products such as promissory notes and loans from programmes of KfW Kreditanstalt für Wiederaufbau were also offered. The downturn in the market and associated drops in companies' sales led to an above-average need for write-downs in the year as a whole. However, Investkredit is optimistic that adequate provisions for impairment losses arising from these transactions have been made. A great deal of attention has been paid to the restructuring of the transactions concerned, in order to minimise losses. The staff has been reduced to improve the cost structure. A significant upturn in the deal flow was registered in the fourth quarter of 2009.

Project finance

Renewable energy financing

In European project finance, 2009 was marked by considerable volatility - this offered various opportunities for Investkredit. Investkredit expanded its expertise and business volume in photovoltaic financing further and prepared for selective financing in new countries.

Financing of international schools

By providing financing for international private schools, Investkredit has been covering a special future-oriented niche for years. Over 20 school projects in more than 10 countries underline the bank's financing expertise. Some of the schools have a church-related or institutional background (UN, embassies) or are supported by organisations of the respective states (German International Schools, American International Schools).

IKIB

As a 100 % subsidiary of Investkredit, Investkredit Investmentbank AG (IKIB) is active in the field of mergers and acquisitions (M&A) consulting. The management of Investkredit's private equity activities is also bundled within IKIB. This business area is divided into private equity fund investments and direct investments.

In M&A, IKIB focused on consulting small and medium-sized companies regarding their transactions in Austria and the CEE region. Five M&A projects in Austria and cross-border projects in CEE were concluded in 2009. In private equity, the focus was on the development of the portfolio and the adaptation of companies to the changed economic conditions.

Cash management

Increased efforts in cross-selling

The cash management division of Investkredit is in charge of products in the areas of short-term financing, money market transactions and payment transactions. The new division complements the traditional core business of Investkredit. Corporate customers can also process their working capital lines and payment transactions through Investkredit. In the field of payment transactions, Investkredit focuses on a high level of automation, offering its own e-banking software that can be used by multiple banks as well as MultiCash for international companies. 2009 was marked by the setting up of this area of business, but also by the requirements of the new Payment Services Act. The new cross-border SEPA direct debit scheme was implemented on schedule in November. The internationally standardised formats, which can be used for domestic and international payment transactions, make it easier for companies to bundle their payment transactions at a single point in the group and thus allow them to reduce the number of accounts and banking connections.

Debt capital markets

The focus of the debt capital markets activities is on opening up the capital market for small and medium-sized companies. The year 2009 was characterized by the crisis in the real economy and investors concentrated above all on low-risk transactions.

Priority therefore was on issues of companies with capital market experience. During the course of the year, a few issues by small and medium-sized companies were placed as well. In the bond sector, Investkredit focused on participation in issuing syndicates and was involved in five new issues.

Innovative receivables securitisation

Investkredit developed a receivables securitisation structure as working capital financing for its customers. This is particularly attractive to small and medium-sized companies, as – because of the lower cost in comparison with asset backed securities (ABS) – smaller volumes are also possible in a cost-effective way. The customer remains responsible for managing the receivables that have been sold as the trustee for the purchasing company. This asset backed financing programme (ABF) was finalized in the year under review. For example, an ABF transaction with a volume of euro 12 million was carried out successfully for a global company in the lighting sector.

Treasury sales

In the Corporate and Real Estate Treasury Sales units activities focused on identifying and hedging capital market risks of corporate customers. In the hedging of interest rate risks in particular, the favourable market environment with low capital market interest rates was used to secure low interest costs for corporate customers for the long term. The trend towards simple, easily understandable products in risk management continued and was expanded by commodity hedging instruments. From 2010 onwards, these will be made available to small and medium-sized companies. The risk-conscious use of derivative instruments in the Corporate Treasury division forms a solid basis for offering optimisation scenarios in the areas of interest rates, foreign exchange and commodities after the financial crisis.

VB Factoring Bank AG

Positive business performance in factoring

Factoring is a form of financing that is easy for customers to implement and that can improve financial flexibility quickly. It offers immediate liquidity and a high level of independence from customers' payment deadlines, as well as equity and the rating improvements.

As a specialist bank, VB Factoring Bank recorded good results once again in 2009. The total amount of purchased receivables was euro 976.6 million. This represents an increase of more than 6 % compared with 2008 and is the highest turnover in the company's history. For the Volksbank Group, factoring is becoming more important in the corporate business. Cooperations with the Volksbank Group already account for 52 % of the business volume.

Outlook for the Corporates segment

In many sectors, it is not yet possible to fully assess the effects of the economic crisis. Even if corporate customers are giving out the first positive signals indicating an easing of the situation, the environment remains challenging for companies and their banks.

Increased concentration on Austria and bordering core markets

In times of an expected economic recovery, companies need liquidity which is available quickly and secured in the long term. Investkredit plans to concentrate more on its domestic market in Austria and on bordering core markets to fully tap the cross-selling potential.

In 2010, the bank is to continue and build on its successful course in the syndicated lending business. Through even closer cooperation with Volksbanks and their commercial customers at an early stage, Investkredit is aiming to reach and implement decisions quickly and in line with market conditions.

Investkredit plans to reorganise its financing portfolio so that there is a higher proportion of subsidised financing, including public sector programmes. There is a noticeable trend towards a higher number of transactions with smaller volumes.

Following the decline in exports, Investkredit is providing more support for corporate customers in the "Volksbank family" with structured trade and export finance services.

Investkredit expects the climate to remain difficult in the area of structured finance. However, it also sees new business opportunities in Austria, Poland, the Czech Republic and Slovakia. It is aiming to maintain its existing portfolio, particularly in connection with Austrian core customers in these countries.

Investkredit is anticipating large volumes of investment and financing in project finance in 2010, particularly in the Czech Republic, Germany and Spain. In the field of wind power financing, it will support existing customers in their expansion, for example to Poland.In addition to Western Europe, target markets for investments in "sun and wind" include selected CEE countries. Investment in transport carriers (road, rail, etc.) and in other types of public infrastructure (schools, hospitals, etc.) will be characterised by intense competition due to the high credit ratings of the public sector.

Germany is and will remain an important core market. In 2010, a higher overall market volume is anticipated in acquisition finance and in the structured finance business, as well as in classic corporate lending. Acquisition finance is again expected to be dominated by club deals for medium-sized enterprises. In the classic corporate customer business, the bank will realize the cross-selling potential on the basis of existing customer relations. Attempts will be made to attract new customers on a selective basis.

In Central and Eastern Europe, there will be a clear focus on those markets on which Investkredit has built up specialised local knowledge. It will therefore concentrate on Poland, the Czech Republic and Slovakia.

In cash management the emphasis in 2010 will be on taking term and demand deposits and on increasing the share of short-term financing in the overall financing business. As a provider of comprehensive solutions, Investkredit is interested in taking over the processing of payment transactions for its customers. By increasing efficiency, performance has been improved further.

The capital market will remain attractive to companies in 2010 and the importance of new investors will increase. The capital market offers companies flexibility in their financing and allows for the medium and long term securing of liquidity requirements. There will therefore be a focus on the implementation of ABF transactions. Investkredit also expects companies to have a vital interest in issuing corporate bonds as a financing alternative to classic loans. There are thought to be good placement opportunities for corporate bonds of companies with high credit ratings due to current demand from investors.

The anticipated liquidity requirements of companies are expected to result in increasing demand for factoring.

The Retail segment of Österreichische Volksbanken-AG is comprises an extensive network of banks, both in Austria and abroad. In 2009, the retail banks in Austria were Volksbank Wien AG, Volksbank Linz-Mühlviertel rGenmbH, Bank für Ärzte und Freie Berufe AG and IMMO-BANK AG. These banks are presented in the disposal group in the consolidated financial statements. Volksbank Wien AG, Ärztebank and IMMO-BANK AG were sold with effect from 31 December 2009. Volksbank Linz+Mühlviertel is to be sold in the first half of 2010. Volksbank Leasing Finanzierungs GmbH is also part of the Domestic Retail segment. VBAG is represented in the CEE countries by the Volksbank International Group and VB-Leasing International Holding GmbH.

Retail in Austria

Volksbank Wien AG

Position as „the advisory bank“ strengthened

The 2009 business year was a successful one for Volksbank Wien. Its position as "the advisory bank" on the Viennese market could be strengthened. Active and consistent marketing contributed to this success. With 28 branches equipped with state-of-the-art technology, customers are offered a broad branch network. The latest branch of Volksbank Wien was opened in the 1st district on Operngasse in December 2009. This branch features a multi-purpose event zone, a self-service area, service and advice zones and rooms for private banking.

As at the end of 2009, the total assets of Volksbank Wien stood at euro 2.4 billion, while the result before taxes totalled euro 9.3 million. Deposits increased by 3.6 % compared to 2008. At the end of 2009, amounts owed to customers, including medium-term bonds, reached euro 2.2 billion. The lending policy continued to be geared towards qualitative growth in 2009. The total volume of loans and advances to customers increased by 11 % year-on-year to euro 1.4 billion. Loans and advances to corporate customers rose to over euro 1 billion, which represents an increase of 14.2 %.

At 60 %, the loan-deposit ratio (adjusted volume of loans to primary deposits) showed a slightly increasing trend compared to 2008 thanks to the growth in the lending business. Good results were also achieved in the field of securities investments. Thanks to the high quality of advisory services provided by Volksbank Wien, the managed securities volume increased by over 17 % to euro 614 million which is clearly above the pre-crisis level.

Net interest income increased slightly due to the increase in business volume in 2009, and net fee and commission income rose by 13.6 % year-on-year.

In 2009, the attractive "Sprungsparbuch" product (savings account with a term of three years) was successfully launched. The distinguishing feature of the Sprungsparbuch is the fact that its interest increases every year, irrespective of the development of market interest rates. The demand for this product line was high, over 7,700 savings books with a total volume of more than euro 133 million were distributed. Due to this success, the Sprungsparbuch will again be offered in 2010.

The acquisition campaign targeting small and medium enterprises launched in 2007 continued to be a focus in 2009. Regular information issued to this target group and events such as the continuing professional development programme for SMEs, "Fit for Business", were well received. In joint projects with the Natural History Museum and the City of Vienna, Volksbank Wien invited all primary schools in Vienna to the "Gifttiere und Tiergifte" [poisonous animals and animal poisons] exhibition. Together with experts of the Natural History Museum, the children were given the opportunity to gain valuable knowledge about the exhibits.

In spring 2008, Volksbank Wien launched the project "Alaska, the Therapy Pony and its Foster Children". Thanks to the commitment of Volksbank Wien, the Verein Eltern für Kinder [association of parents for children] and numerous benefactors, an amount of euro 20,000 was raised, which was handed over in June 2009. This made it possible to organise riding therapy sessions for 40 foster children.

Volksbank Linz-Mühlviertel registrierte Genossenschaft mit beschränkter Haftung

Thanks to intensive regional marketing, successful customer acquisitions and customer loyalty projects, total assets increased from euro 378 million to euro 389 million in the period under review.

Regional marketing activities continued

Total amounts owed to customers grew slightly year-on-year, totalling euro 303 million in the 2009 business year. The lending volume stood at euro 197 million as at the end of the year. The extension of new loans increased. This, however, will only be recognized in full in the 2010 balance sheet due to the fact that the new loans have only been partly utilized up to now.

As at 31 December 2009, Volksbank Linz+Mühlviertel employed a staff of 74. Highly qualified and motivated employees are the key to the success of Volksbank Linz+Mühlviertel. In 2009, 40 employees attended 101 seminars at the Volksbank Academy. To ensure a high level of quality in the customer service, great importance is given to the further development of professional and social skills of the employees. In 2009 Volksbank Linz+Mühlviertel also implemented a large number of marketing activities in order to strengthen customer relations.

Volksbank Linz+Mühlviertel was represented on the Board of Trustees of "Linz 2009 European Capital of Culture" and supported numerous projects in its role as a sponsor. These projects came under the general theme of "art by and with disabled persons" and showed the commitment of the VBAG Group in the area of corporate social responsibility. The cooperation between Volksbank Linz+Mühlviertel and "Lentos Kunstmuseum Linz" has been in place since 2004. In May 2009, numerous guests were welcomed to the opening of the exhibition "Point of Intersection Linz. Young Art and Masterpieces" as part of this cooperation. Art was also a central focus of the "Business Cocktail 09", where the multi-award winning and internationally recognised designer Gudrun Geiblinger presented her work. Alexander Pointner, the most successful trainer of the Austrian ski jump team, held a presentation with the title of "System Superadler – Der Schlüssel zum Erfolg" [super eagles system – the key to success] in May and explained his particular training methods.

The social commitment of Volksbank Linz+Mühlviertel is shown in its support of an integrative holiday camp for around 200 children – the bank has been the main sponsor of this event for the 12th year.

DIE ÄRZTEBANK – Bank für Ärzte und Freie Berufe AG

As a specialist bank for professionals in the Volksbank sector, Ärztebank has always been cooperating closely with the professional organisations for the medical professions. This cooperation is characterised by mutual trust and constitutes a fundamental element of the bank's business. Against the backdrop of discussions on health policy and the changes emerging in the Austrian health care system (a development from the individual private practice towards interdisciplinary, joint practices) this cooperation is of key importance.

Increasing market share

Ärztebank's longstanding expertise ensures the high level of service quality for its customers, in particular when the economic conditions are difficult. Ärztebank offers more than just classic financing. The "financial ECG" – an IT-based advisory programme developed especially for physicians – is a useful tool in developing individualised financing solutions.

Advisory services can be provided in any place and at any time (including evenings and weekends, at the bank or wherever the customer is located), which represents a crucial advantage. Ärztebank customer advisors are aware of the specific needs of physicians and have on hand statistical data and key figures for various specialised fields. Business consulting expertise in matters concerning the establishment or transfer of a practice and experience in the assessment of initial and subsequent investments represent a significant competitive advantage for Ärztebank.

The positioning of Ärztebank as an expert bank for specific professions with a private banking alignment again proved to be successful in the year under review. The market share in the medical profession increased further, standing at 12.8 % as at the end of the year.

In the lending business, the bank systematically continued to pursue its business strategy of qualitative and target group-oriented growth. Loans and advances to customers remained stable, totalling euro 393 million as at 31 December 2009.

The Ärztebank-Premium-Sparkonto [premium savings account] represented the driver of growth in the deposits business, increasing by euro 62.9 million (+48.4 %). At the end of 2009, amounts owed to customers stood at euro 598 million. Despite the success of the Ärzte-Premium-Sparkonto and the best advice approach in the securities and insurance business, Ärztebank did not remain unscathed by the financial market crisis and the resulting uncertainty of investors.

Measures taken to increase earnings and lower costs had a clearly positive impact on the operating result. Despite difficult economic conditions, the result before taxes in the 2009 business year increased by 59.8 % year-on-year, reaching euro 5.8 million – the best result in the history of Ärztebank. Supportive measures such as attending medical conferences and organising various seminars on starting a business and managing a practice helped to boost brand recognition.

Ärztebank demonstrates its pronounced social commitment through its support of an Austrian children's hospice (Sterntalerhof). The contribution made by Ärztebank once again prompted a number of supporters to get involved in 2009. Through the cooperation with the Austrian Ärzte-Kunstverein [association of physicians and art], customers were offered an unusual insight into art by physicians and provided the artists with a platform to present their creativity.

IMMO-BANK Aktiengesellschaft

As a specialist bank focused on the field of residential real estate, IMMO-BANK AG further strengthened its market position in 2009, with growth clearly exceeding planned levels in the relevant business segments.

In the 2009 business year, the result before taxes increased by 28.6 % year-on-year, rising from euro 9.7 million to euro 12.5 million. The total lending volume transacted or managed by IMMO-BANK reached euro 1.98 billion (IMMO-BANK plus transferred syndicate shares). Loans and advances to customers (own share) amounted to euro 990 million, an increase of 5.6 % compared to the previous year.

IMMO-BANK has been issuing tax-privileged mortgage bonds in the form of convertible bonds since 1993. The withholding tax exemption up to a nominal interest rate of 4 % ensures high market demand for this investment product. As such, the mortgage bond issue volume grew by approximately 6 % in 2009, from euro 769 million to euro 820 million. The regional Volksbanks were reliable distribution partners for sales to private investors again in 2009. The issue of these convertible bonds forms the basis for the attractive range of IMMO-BANK loan products.

As at 31 December 2009, Allgemeine Bausparkasse reg.Gen.m.b.H., ABV, which is itself owned by the Volksbanks, acquired 74.26 % of the share capital in IMMO-BANK. Verwaltungsgenossenschaft der IMMO-BANK eG still holds a 25.74 % interest in IMMO-BANK AG. In turn, Österreichische Volksbanken-AG holds an 86.76 % interest in Verwaltungsgenossenschaft. This new ownership structure ensures that the company is rooted within the sector on an even more secure basis. This also allows for extensive marketing in cooperation with ABV.

Further expanding its expertise in residential real estate

The market success of IMMO-BANK is based on several factors: despite the economic crisis, the Austrian residential real estate market was largely unaffected. Demand for housing remained strong, with rental apartments and investment properties attracting particular interest. Due to the economic instability, wealthy private investors are increasingly discovering the residential real estate market. Another reason for the solid performance is the distinct specialist expertise of the bank. IMMO-BANK is the housing construction bank for the Volksbank sector on the one hand and the competence centre for residential real estate financing on the other hand. The flat company structures constitute a further success factor. For borrowers, these have the advantage of speedy decisions. Furthermore, the successful business development of IMMO-BANK is based on a high level of cost efficiency in the area of operating expenditure and staff costs, which results in a very good cost-income ratio.

The topics of sustainability and "green building" are currently in the focus of attention. Promoting modern construction technology to the advantage of residents and the environment has been an essential component of IMMO-BANK's business model for decades. By providing land in the form of long-term construction rights to housing co-operatives, IMMO-BANK supports the construction of affordable housing for private consumers. In doing so, the institution contributes significantly to creating or maintaining on a sustainable basis the best possible housing conditions. Additional activities, such as the AKTIV-KLIMA KREDIT [active climate loan], are tailor-made for environmental housing developers and help to implement environmentally friendly construction projects.

VB Leasing Finanzierungs GmbH (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.

Strong partner on the Austrian leasing market

VBLF serices 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 positioned as a strong partner on the Austrian leasing market on a sustainable basis. VBLF completes its integrated service range through its intensive cooperation with banks and financial service providers as well as dealers and manufacturers in the capital goods industry.

Since its formation, the VBLF Group has aimed for a granular portfolio structure and for an approval policy based on balancing risk and return. Despite increased risk provisions and the difficult market situation, profits increased significantly in 2009.

Retail abroad

Volksbank International Group (VBI)

Respectable result

The Volksbank International Group (VBI) achieved good results in the past business year, despite the impact of the international economic crisis. A respectable annual result before taxes of euro 28.5 million (after deduction of Group overheads) was generated in 2009. The operating result (before risk) showed a very positive development and grew by 46.1 % to euro 220.5 million. This positive trend is largely due to the increasing net interest income which reached euro 408 million (+ 21.8 %).

As a result, VBI could absorb the significant increase in risk provisions. Risk provisions more than doubled compared to 2008 to euro 174.6 million (+140.7 %). The total amount of risk provisions is spread across the business segments of Retail and Corporate at a ratio of 55 to 45.

Sound business model proves a success

The positive result is primarily attributable to the conservative and sound business model of the group and its rigorous implementation over recent years. Focusing on a qualitative development has proved a success in strategic terms. The subsidiary banks of VBI focus on the traditional retail business with private individuals and small and medium-sized enterprises. This business model proved its worth during the crisis. The continuous strategy of establishing its own subsidiary banks also contributed to the success of the VBI Group.

Business model successful in the crisis

Total assets down slightly

As of 31 December 2009, VBI Group had total assets of euro 13.9 billion. This represents a slight year-on-year decline of 5.5 %. The largest share was attributable to Volksbank Romania, with total assets of euro 5.3 billion, followed by the banks in the Czech Republic (euro 1.8 billion), Hungary (euro 1.7 billion), Slovakia (euro 1.4 billion) and Croatia (euro 1.1 billion). Loans and advances to customers fell by 3.7 % to euro 9.5 billion. Total primary deposits declined by 1.8 % to euro 5.0 billion.

The formation of a banking subsidiary in Slovakia in 1991 made Volksbank one of the first Austrian banks to become involved in the markets of Central and Eastern Europe. The VBI network now 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) with 582 sales outlets as well as VBI AG, which is domiciled in Vienna. The number of branches fell slightly by 2.8 % to 513. The VBI Group employs a total of 5,483 staff. VBAG 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.

Strong increase in efficiency

General administrative expenses were reduced by 9.4 % year-on-year to euro 272.6 million. At euro 121 million (-8.9 %) staff costs represent the biggest part of administrative expenses. Operating expenses fell by 11.4 % to euro 124.6 million. Having already improved strongly from 87.6 % (2004) to 68.2 % (2008), the cost-income ratio was lowered considerably once again by a further 10 percentage points to 57.5 %. The cautious sales strategy – branches supplemented by franchisees and mobile sales – paid off. Although costs were cut considerably thanks to the flexibility resulting from this strategy, services for customers remained at a high standard.

Retail business resilient in the crisis

The retail business of Volksbank International in CEE was extremely robust in the difficult year of 2009. Total returns in the Retail segment – consisting of net interest, fee and commission income – increased by 25.0 %, from euro 239.0 million in 2008 to euro 300.0 million in the period under review. Risk provisions, which have been recognised on a very conservative basis, more than tripled in comparison to the previous year, yet were offset by increased earnings.

Contribution margins in the business segment increased once again. The Retail result made an important contribution to the success of the VBI banking group in a difficult environment. Innovations were also pursued systematically. While sales innovations such as franchised bank outlets and bank shops have contributed to the outperformance to date, now it is primarily the internet that is used as a sales and communications tool.

Corporate business

The lending volume in the corporate business of the VBI Group stood at euro 4.2 billion as at the end of 2009, while the deposit volume totalled euro 1.7 billion. 25 % 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 small and medium-sized enterprises in the Czech Republic. Of the total corporate lending volume of the VBI banks, approximately 35 % is attributable to loans to small and medium-sized enterprises, 31 % to real estate project financing, 14 % to large customers, 13 % to the referral business and 4 % to public finance. Gross income in the Corporate segment totalled euro 149 million in 2009, 78 % of which is net interest income and 22 % is net fee and commission income.

2009 was characterized by the international economic crisis. This is primarily reflected in the rise in risk provisions, which tripled year-on-year to euro 98.6 million. Apart from the increase in risk provisions, additional measures were taken by VBI. For example, the consistent monitoring of all projects in the area of real estate project financing was intensified further in order to be able to react to negative developments immediately. Particular attention was paid to increasing profitability. As such, credit margins were adjusted to the altered economic environment. Cross-selling rates and profitability were increased by focusing on complementary banking services (e.g. in the area of transaction banking and treasury) for existing corporate customers. An increased focus on short-term credit products, such as working capital lines and subsidised loans, accommodated the altered economic and financial conditions. The main objective here was finding acceptable solutions for the customer as well as for the bank.

VB-Leasing International Holding GmbH

Successful leasing provider in CEE

VB-Leasing International Holding GmbH was founded in 1994. Österreichische Volksbanken-AG and VR-Leasing AG each hold 50 %. By gradually building up a network across eight Central and Eastern European countries, VB Leasing is now one of the most successful lease providers in CEE. VB Leasing is currently active in the Czech Republic, Slovenia, Croatia, Poland, Bosnia-Herzegovina, Slovakia, Serbia and Romania and has held an interest in the Hungarian market leader Lombard Lizing since October 2008.

VB Leasing is active in three fields of business: Car Lease & Services, Construction & Transport and Machinery. Services provided regionally by experts on site guarantee that all vendor partners and every customer receive tailor-made financing solutions, which are individually adjusted to the prevailing market and industry conditions.

Networking as a success factor

Since the 2009 business year, VB Leasing has increasingly focused on the long-term and sustainable acquisition of international vendor partners, concentrating on Germany, Austria, Hungary, Russia and the CEE region. By cooperating with selected vendors, VB Leasing has considerably increased its power on the markets. The customer receives a complete package from one counterparty– with the best possible conditions.

The networking of sales across national borders was also stepped up through the introduction of a cross-border sales platform. The web-based platform went online in Poland in February 2009 and now has more than 7,500 registered users/dealers – the number keeps increasing. By summer 2009, all countries where VB Leasing is active were represented on the platform. Since November, FB Leasing Russia has also offered its items on the platform. Since January 2010, work has been carried out on establishing the framework for the addition of items of German VR-Leasing and of Austrian VB Leasing Finanzierung.

In the past business year, VB Leasing has defined customer profiles as a basis for the sales priorities specified. In 2009 VB Leasing concentrated on optimizing the cooperation of VB Leasing with its customers. In this way, customers fully benefit from the short decision-making processes, the international expertise and from tailor-made financing solutions.

Reaction instead of action

The strategic focus of VB-Leasing International has been characterised by security, stability and sustainability even before the outbreak of the financial crisis – and still is. Two measures were taken to react to the altered overall conditions: investing in the training and professional development of employees and further tightening its risk policy.

Employees were provided with targeted and intensive training over the past year by means of individual training programmes in order to ensure optimum customer support via increased expertise and quality of service. The conscious decision to establish a granular portfolio reduced risk significantly. Thanks to these sustainable, targeted and rapid measures, VB Leasing also achieved a positive result in 2009.

Outlook for the Retail segment

The retail banks expect turbulent circumstances in 2010 similar to those seen in the previous year. Providing optimal customer services will continue to be the primary aim of the retail banks.

Central focus is on optimal customer services

Volksbank Linz-Mühlviertel rGmbH is expected to be spun off from VBAG Group in 2010 by means of a sale to a sector bank (primary bank). Positive development prospects for this Volksbank will therefore be characterised by an improvement in its regional presence in the central region of Upper Austria. Constant increases in both the lending and deposits business as well as in the area of securities are expected in 2010.

VB Leasing expects insolvency figures to slowly level out, yet at the same time expects increased competition. Building on the healthy portfolio structure, the expertise of its employees and sustainable partnerships, VB Leasing anticipates a further stable development of the company.

Thanks to a clear strategy and a consistent, customer-oriented approach, Volksbank International Group has grown into a successful medium-sized network over recent years. Given the current economic conditions, its primary objective is to optimally exploit the opportunities it has created and to actively shape its new role as an important player in the CEE region.

In 2010, VBI will concentrate on consistently continuing the measures it has launched to prepare for the post-crisis period. It has successfully moved from growth of "30 % or more" to maintaining the portfolio, strengthening qualitative aspects and overcoming new challenges. And this is set to continue over the coming months. The successful business model will remain in place. However, there will be a certain degree of repositioning. The main focus is on increasing profitability further. The target group of micro-enterprises will be increasingly rooted in the business model of the Retail segment. After years of strong growth, the VBI Group will now increasingly concentrate on retaining existing customers and will step up the sale of multiple products to each customer.

VBI's stated goal is to be the main bank for as many of its customers as possible. Medium and long-term earnings opportunities still exist in Central and Eastern Europe.

In the 2010 business year, VB-Leasing International expects turbulent circumstances on the markets similar to those seen in the past year. It will focus on strengthening the company on a sustainable basis. Measures to achieve this target include optimising internal processes, further increasing the quality of service and investing in the expertise of its employees. In 2010, VB Leasing will expand its strong and stable market position further and promote its corporate success by means of increased earnings and a conservative risk policy.

REAL ESTATE SEGMENT

INVESTKREDIT	IMMOCONSULT	PREMIUMRED	EUROPOLIS
Financing		Development	Asset Management
Loans	Leasing		
Financing commercial real estate projects in Austria and Central and Eastern Europe	Real estate leasing in Austria and Central and Eastern Europe	International project development of commercial real estate in CEE and SEE markets	Real estate investments and asset management in Central and South Eastern Europe
Klaus Scheitz *Division Head of Real Estate Finance*	Gerhard Höfler Brigitte Fruhstorfer *Managing Directors*	Leopold Deufl Ralph Bezjak Julius Gaugusch *Managing Directors*	Thomas Kurzmann Julius Gaugusch Hanno Schoklitsch *Board of Management*

The Real Estate segment encompasses the real estate financing operations of Investkredit, the lease financing operations of Immoconsult, the real estate development activities of Premiumred and real estate asset management by Europolis. Austrian customers as well as real estate partners in CEE and SEE countries are serviced by the segment. Based on the philosophy of "excellence in real estate", Investkredit Group offers professional expertise and a full range of services relating to commercial real estate. It supports developers and investors with their projects in those regions in which the greatest benefits for overall economic development can be achieved. . As at 31 December 2009 the Real Estate segment had 272 employees.

Self-conception and orientation of the real estate segment

In terms of real estate financing, Investkredit has been active in long-term financing of commercial real estate projects in Austria and CEE countries for many years. Loan financing accounts for the bulk of the real estate business.

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 also offered as a niche product for the shipping industry.

Premiumred is the competence centre for international real estate project development. In line with its self-conception, Premiumred covers the entire product cycle of a property. The product cycle ranges from project acquisition and development, planning, construction, letting and property management through to the sale 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 portfolio which Europolis holds is among the ones with the highest quality in the region.

Performance over the business year

The real estate segment was affected negatively by the financial and economic crisis, particularly with respect to real estate valuations. The significant rise in real estate yields in CEE has triggered a drop in fair values for real estate. Net interest income was negative at euro -122.9 million, declining valuations of real estate played a dominant role here. Provisions for impairments of loans on an individual basis had to be raised considerably, risk provisions increased from euro 19.0 million to euro 169.1 million. While the net fee and commission income of euro 6.1 million was down 22 % year-on-year, the net trading income – which includes currency and interest rate hedges for real estate investments – improved considerably. Administrative expenses were reduced by 27 % to euro 59.3 million through savings on staff and operating expenses. Other operating income and income from financial investments could also be improved.

The result before taxes was nevertheless clearly negative at euro -391.5 million, as the stable operating result was overshadowed by declining valuations and impairments of real estate. Total assets were reduced only slightly to euro 7.2 billion in 2009.

Investkredit Bank AG – real estate financing

Long-term financing for commercial real estate projects

The bank's strengths in this business field lie in its many years of experience in Central and Eastern Europe, its consistent focus on the asset classes of offices, retail, logistics and hotels and its long-standing customer relations with the most prestigious real estate companies in Austria.

The performance in 2009 reflected the development of the market: in the first half of 2009, investment activities in Central and Eastern Europe saw a decline of 90 % compared with the same period of the previous year. Although there was a slight increase in acquisitions in the second half of the year, the figures were well below those of 2008. At Investkredit, 2009 was therefore characterised by the management of the existing portfolio as well as the restructuring of property and development financings maturing in 2009 and the restructuring of non-performing commitments. New business was entered into primarily in connection with new projects of existing customers or the expansion of existing projects (follow-up phases).

Net interest income fell only slightly, which is due to the long-term repayment structures in real estate financing. A comprehensive cost reduction programme including a reduction of capacities was introduced in reaction to the current market situation. Thanks to this measure, the operating result was highly satisfactory, as in previous years. Risk costs, however, increased strongly in 2009 an had a negative impact on the total result. The main causes of rising risk costs were project developments that became non-performing when letting proved difficult, along with property financing. Property values have fallen by as much as 50 % in some countries, particularly Romania.

Immoconsult Leasinggesellschaft m.b.H.

Many years of expertise in real estate leasing

Immoconsult is the competence centre for real estate leasing within the Volksbank Group. The second strategic business field is large-volume equipment leasing (especially containers and rolling stock), which is operated as a successful and profitable niche product. Immoconsult has six branches in Austria (offering extensive services to Volksbanks, among others) and in Central and Eastern Europe. The regional offices are located in Poland, the Czech Republic, Slovakia, Romania and Croatia.

In 2009, the focus was on strengthening the portfolio (with respect to the management of collateral and profitability) and on reducing costs and improving the cost structure. Careful management of the portfolio meant that only minimal impairments were necessary. Due to the difficult market environment the volume of new business was considerably lower than in previous years and stood at approximately euro 118 million. The margins, however, have clearly increased.

Premiumred Real Estate Development GmbH

Sustainable real estate project development

Premiumred follows an integrated approach in real estate project development. In all phases of project development, the focus is on optimisation. Important criteria include energy efficiency, the efficient use of materials, tenant satisfaction, building efficiency, the health and wellbeing of tenants and the stability of value. In this context, the properties that are developed are prepared for certification by a green building label (currently LEED).

In 2009, the last vacant spaces in the "North Gate" office tower in Warsaw were let out completely. In the "Premium Point" office block in Bucharest, which was completed in early summer, about two thirds of the usable space was rented out, despite the economic challenges. The company also made progress on the development of the projects "Horizon Offices" in Prague (rentable space around 23,000 m^2) and "Salomea Business Park" in Warsaw (rentable space around 28,000 m^2).

Europolis AG

Europolis is one of the most important real estate companies in the CEE, SEE and EE region. It was established in 1990 and is a successful commercial real estate investor and asset manager. 118 employees in nine countries manage and develop the portfolio - which consists of six real estate funds and is among the portfolios with the highest quality in the region.

Portfolio co-investors include Union Investment Real Estate GmbH, AXA Investment Managers Deutschland GmbH and EBRD (European Bank for Reconstruction and Development). Together with its co-investors Europolis currently owns 42 real estate projects in the Czech Republic, Hungary, Poland, Romania, Slovakia, Croatia, Russia, Serbia and the Ukraine. The investment volume amounts to euro 1.5 billion, euro 1.4 billion of which is allotted to properties which are completed and already rented out.

Europolis is an asset manager of high quality real estate in CEE

A negative result was recorded for 2009, despite successful operating activities. Although rental income rose by 38 % from euro 58 million to euro 80 million, the result before taxes was euro -289 million. The main reason for this result is the drop in valuations due to the negative development of real estate market values in the CEE, SEE and EE region. Total assets fell by 7 % compared with 2008 and totalled euro 2.2 billion as of 31 December 2009.

On the investment side, further warehouses were completed in 2009 at the logistics centre Europolis Park Blonie in Poland. Logistics centres make up 27% of the portfolios. Furthermore, the Lipowy Office Park in Warsaw, which is fully let out and has a total space of around 39,000 m², was taken over. The rentable area of the Europolis Group increased by 18 % to a total of 1,054,507 m² in 2009. In the course of the optimisation of the portfolio some projects in Slovakia and Russia were sold before completion.

The Asset Management division was able to close rent contracts with increased rents on all markets again in 2009. 56,243 m² of office space, 140,132 m² of rentable space in logistics centres and 3,450 m² of space in shopping centres was newly let or re-let. The performance was particularly pleasing at the Kavci Hory Office Park in Prague where around 65 % of the 42,250 m² of space was let within a year. In total, rental income increased by 26 % in 2009. Owing to the completion and takeover of some projects, the overall vacancy rate rose to 18.7 %.

In the field of financing, Europolis concluded refinancing agreements with a volume of euro 183 million, despite the tense financial situation. This was possible thanks to the company's market position as an asset manager and the high quality of its portfolios. Further refinancing in the amount of euro 62.5 million was also secured and will become cash-effective in 2010. At the same time, Europolis AG financed its own developments in the amount of euro 57 million. At the SEE Real Estate Awards 2008, Europolis again received an award and was named "Overall Company of the Year". The awards ceremony, which was organised for the fourth time by the property magazine Europaproperty, took place in Bucharest on 23 April 2009. Prices were awarded to the best companies and projects in the real estate sector in South Eastern Europe in a total of 15 categories. After the CEE Quality Award as "Investor of the Year 2008" this price is the second award in 2009 and confirms the important role of Europolis as an investor and asset manager in the CEE and SEE regions. This means that Europolis has now received 11 company awards. Amazon Court, the third office building in the successful River City Prague project, also received the CIJ Award in 2009 for "Best Office Development" in the Czech Republic. The price was awarded on 25 November 2009 at the Marriott Hotel in Prague by the prestigious Construction and Investment Journal.

Outlook for the Real Estate segment

2010 will be another critical year for the real estate sector, as some asset classes (particularly offices) are a late-cycle market. The Volksbank Group expects the investment market to ease somewhat, but in no way expects it to reach the level of previous years. In the last two years, the postponement of many project developments was observed. Market conditions for quality-oriented sustainable new projects should therefore be favourable again in 2010. For purely economic reasons, tenants are focusing more on properties with lower utility and energy costs. Yields can be expected to stabilise on the real estate markets in Central and Eastern Europe. Economic data can lead us to expect below-average demand for new office space in 2010.

Exploiting market opportunities selectively

Investkredit will therefore make selective use of market opportunities for real estate financing. However, it will also continue its course of consolidation in 2010 and will concentrate primarily on transactions with core customers.

In real estate leasing, we will continue to focus on business in Austria in 2010 and will cooperate more closely with Volksbanks. In the CEE and SEE countries in which Immoconsult operates, financing will continue to be offered, particularly to local regular customers. Large international customers will be serviced by the office in Vienna. In large-volume equipment leasing, the clientele will continue to be restricted to only the best customers, owing to risk considerations. Profitability of new business in Global Asset Finance is ensured with a minimum ROE of 25 %.

PREMIUMRED will continue with project developments for office buildings in Prague and Warsaw. The start of construction depends on the development of rent levels. Preliminary certification for sustainable buildings is also being carried out and the company is aiming for registration as a green building partner. With existing properties, energy consumption audits are being carried out, in order to optimise utility costs. In addition, PREMIUMRED is to be used as a restructuring unit for non-performing real estate financing agreements of Investkredit.

For Europolis, the combination of income-generating existing properties and selected development projects represents a solid basis for growth opportunities on the recovering markets. The aim is to build on the success of the letting business in 2009, to reduce the vacancy rate and to increase rental income by more than 10 %. There are also plans to develop projects such as the Orhideea Towers office complex in Bucharest or the Avia Office Park in Krakow as well as completing further project phases of the Europolis Park in Bucharest - under the condition that advance letting has reached an adequate level.

FINANCIAL MARKETS SEGMENT

Self-conception and focus of the financial markets segment

The Financial Markets segment is responsible for the short and long-term liquidity position, securities and foreign exchange trading and for the management of liquidity and market price risks within VBAG Group. The segment also acts as an innovative product supplier for the Volksbank sector as well as for institutional customers at home and abroad. Support of Austrian Volksbanks, Group subsidiaries and national and international customers has for many years been successfully provided by specially trained teams.

Alongside key staff and service divisions, Financial Markets consists of the profit centres Group Treasury, Capital Markets and Volksbank Investments.

The segment in figures

The 2009 financial year was successful for the Financial Markets segment, particularly in currency and interest rate trading, where record results could again be achieved. The other business units also recorded good operating results that were above the results for the previous year. Write-downs on already partially impaired assets in the structured credit portfolio had a negative impact on results. In total, the Financial Markets segment recorded an annual profit before taxes of euro 18.5 million.

Group Treasury

The range of services provided by Group Treasury to the Austrian Volksbank sector includes balance sheet structure management, segment planning and the organisation of special customer events. In addition, Group Treasury serves institutional and corporate customers as well as banks at home and abroad. The product range not only comprises traditional exchange rate, interest and price products but also individually tailored derivatives.

Trust and co-operative partnership are essential in order to retain an competitive advantage. Group Treasury therefore sets great store on servicing all business partners by means of professional support of the secondary market.

Due to an optimal exploitation of volatilities in currency and interest rate markets record results were achieved in trading in 2009. The different shapes of interest rate curves for various currencies were exploited generating a considerable contribution to interest income. We managed to compensate for the decline in currency transactions in the retail business, which was caused primarily by the stagnation of foreign currency loans, through efficient, risk-aware proprietary trading.

Providing support and service to the Volksbank sector is one of the key tasks of Group Treasury. One milestone in the services for Volksbanks was the launch of the electronic platform Treasury 4 You. This application allows Volksbanks to offer their customers treasury products in the field of interest rate and foreign currency hedging. Between May and December 2009, Treasury 4 You generated a total turnover of approximately euro 215 million. Group Treasury organised Treasury 4 You information days for the first time in September 2009. This newly created discussion and information platform for users was very well received by Volksbanks and is to be continued in 2010.

The VB ONE trading platform was considerably enhanced through the inclusion of additional currency pairs, which further improved benefits for customers.

The turbulence on the financial markets led to changes in the strategy of our Volksbank customers: a general trend towards reducing credit risk was observed. The exploitation of maturity transformation effects led to turnover growth of euro 0.8 billion or 32 % and to a profit contribution of 70 %. The unusual situation on the credit derivatives market (such as the spread widening of Austrian government bonds) could be used to the advantage of primary banks.

Group Treasury also played a very active part in expanding the risk measurement systems (roll-out of the income statement simulation in the Volksbank sector). The transfer of know-how was promoted through the organisation of specialist conferences, Volksbank Academy seminars and trainings for Supervisory Board members.

The structuring of new issues and the sale of these issues to the Volksbank sector contributed significantly to the record results of the Fixed Income & Derivatives department. In services for customers outside the sector, the professionalism of the employees and direct customer contact proved to be key success factors. The continuous and comprehensive communication with customers was particularly important in the difficult year of 2009.

The Financial Engineering & Trading team successfully placed a series of government-guaranteed benchmark bonds in 2009. The market activities in Central and Eastern Europe were also expanded further. Sales of B depot (depots held by the bank's customers) bonds to Volksbanks and third-party banks were good. The year 2009 was marked by an extremely successful positioning in the trading book on the interest rate and bond side and by profit-taking in corporate bonds.

The VB Consulting Retail Business division is the contact for Volksbanks in the customer securities business and provides services exclusively to this customer group. At the same time, VB Order Management provides services to Volksbanks and the VBAG Group in the fields of order routing and third-party product management.

In 2009, the division further improved the quality of its customer support through new services and the improvement of existing services: the Portfolio Illustrator software for advising customers of the primary banks on securities is optimised on an ongoing basis. The "Portfolio Illustrator Performance Report" project was successfully launched and is to be completed in May 2010. The Portfolio Illustrator enables customer advisors in Volksbanks to view the performance of their customers' securities portfolios.

The group responsible for order management added a number of stock exchanges to the settlement system in order to facilitate a faster settlement of bonds and stocks for the serviced banks and customers. In third-party product management, services were expanded further and the "asset building with third-party funds" project was launched successfully. This gives primary banks the option of selecting savings models for third-party funds. A large number of events were organised as part of the "Woman and Money" campaign. The VB Consulting Retail Business & Order Management division is aiming to continue the positive trend in customer securities business in 2010 by providing the best possible services for banks in the sector.

Capital Markets

Management of the bank book

Within VBAG Group, the Capital Markets division is responsible for the management of the strategic bank book. The portfolio contains the entire securities portfolio of around euro 6 billion that is required for regulatory purposes and banking operations, along with other capital market investments amounting to around euro 3 billion.

Following a difficult first quarter, the international capital markets showed a positive development. Corporate bond spreads tightened significantly across all rating classes, only spread levels of government bonds issued by the "PIIGS" countries (Portugal, Italy, Ireland, Greece and Spain) widened in the fourth quarter. The available for sale reserve in the strategic bank book improved considerably from the middle of the second quarter onwards. In the securitisation portfolio prices recovered across all asset classes, although liquidity remained restricted. The bank book showed a year-on-year valuation increase (available for sale reserve increase) of almost euro 60 million before deferred taxes.

Volksbank Investments – the best of two worlds

Following an intense phase of strategic repositioning, Volksbank Investments completed the reorganisation of its product range in 2009 which now is clearly structured. It contains the building blocks of market-driven yields (structured investments) and non-market-driven yields (alpha investments), along with solutions for building up capital ("Leben³" line) and solutions for investors (asset management/asset navigator). The asset navigator involves a new, innovative asset management approach and was presented at the end of 2009. The product range is supplemented by selectively managed, traditional investment funds.

The world of asset management was marked by dramatic upheaval in 2009; the big players in particular underwent a complete strategic restructuring. The year 2009 was also characterised by a massive increase in index investments, structured investments and alpha/hedge funds.

Volksbank Investments: Repositioning of their product portfolio

The new market trends were anticipated - the integration of the entire asset management business under the umbrella of Volksbank Investments began two years ago. Developments in 2009 confirmed that this restructuring is sensible. Total assets under management by Volksbank Investments came to around euro 7.5 billion at the end of 2009.

The structured investments (certificates) division had an excellent year with record sales. The total volume of certificates (open interest) amounted to euro 2.4 billion as of 31 December 2009. The market leadership in this area was further expanded. With the focus on the issues of sustainability/CSR, it was possible to set a market trend towards sustainable investments. The volume of sustainable certificates – in total, 17 products were set up in this core area in 2009 – more than doubled to euro 288.2 million in 2009.

Despite the very difficult conditions on the stock exchanges, the "Europe Bonus Fund 1" was launched at the beginning of 2009 as Austria's first structured fund in accordance with section 20a of the Investment Fund Act. This new product, which is in line with the new philosophy of "the best of two worlds", was followed by further products that combine the advantages of certificates and funds.

Part of the restructuring process of the traditional funds, which was commenced in 2008, is the focusing on a selective product portfolio. The level of expertise in the individual fund areas is high; for example, the expertise built up continuously with respect to Asia was impressively underpinned through the conferment of the Lipper Awards for Austria, Germany and Europe. Numerous other national and international awards have confirmed that we are on the right track. For more details please refer to page 53.

As part of Volksbank Investments, VB Invest KAG had a total of 62 funds in its product range at the end of 2009. The fund volume rose by almost 5 % compared to the previous year and reached euro 3.1 billion. VB Invest KAG has a market share of 2.3 % in total and around 3 % for retail funds.

One highlight of 2009 was the market launch of the new Leben^3 product line, which covers the area of saving – building up capital. "Guaranteed savings" (alternative to insurance) and "guaranteed savings funds" (alternative to funds) were presented as new models for Austria. Each of these models has a guaranteed floor of 80% of the highest quoted fund prices and offers the best possible connection of security and yield.

The Austro-Garant, the Volksbank product offered within the framework of state-subsidised private pension plans, recorded a performance growth of around 15 % over the year. Thanks to the modern management approach, it was possible to take full advantage of the upturn on the stock markets – in contrast to the majority of competing products. Based on the new legal provisions, the state-subsidised private pension plans of the Volksbanks were grouped together within the fields of "life cycle support pension" and "life cycle future plan" at the beginning of the year.

A completely new approach was found in the field of asset management solutions. At the end of 2009/beginning of 2010, the final steps were taken in order to be able to offer the market new, innovative solutions in asset management in 2010.

The former institutional asset management division of VBAG was integrated in 2009. The team is highly experienced in the management of institutional funds and has an excellent track record. This division of Volksbank Investments is, inter alia, responsible for the investment strategy and risk management of Victoria Volksbanken Pensionskassen AG. In 2009, the team received the IPE Award, the highest award for pension funds in Europe.

The international activities of Volksbank Investments were further expanded in 2009, despite difficult market conditions. Products tailored towards the individual countries and regions are offered. Volksbank Investments is present on the market in Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Romania via subsidiary banks of Volksbank International and other partners.

Immo Kapitalanlage AG is a 100 % subsidiary of Volksbank Invest Kapitalanlagegesellschaft. It was set up in 2004 with the mission of structuring 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. The fund focuses exclusively on Germany and Austria.

An interdisciplinary team of real estate specialists and securities experts ensures that all aspects of a real estate fund are fully covered. The Immo KAG team is highly experienced and professional.

2009 was a difficult year for Immo KAG, marked by problems on the property markets and a dramatic loss of confidence in real estate investments. At the beginning of the year, like practically all issuers of open-ended real estate funds, Immo KAG was confronted with an increase in units being returned. As it was possible to secure liquidity through strategic measures and real estate sales, it was not necessary to suspend the redemption of units. Although the fund assets were initially reduced from euro 284 million to euro 220 million, the fund volume stabilised in the second half of 2009.

In view of the difficult economic situation, no new acquisitions were made in 2009. The main focus was on active portfolio management for the individual properties. At the end of 2009, a strategic repositioning was commenced: the company's extensive real estate expertise is also to be used for other services in this field.

Immo KAG is anticipating a recovery on the property markets and in real estate investments for 2010, and thus expects the fund volume to remain stable. One main focus for Immo KAG in 2010 will be the intensification of sales; various marketing and sales measures are planned.

Volksbank Investments: National and international awards in 2009

MORNINGSTAR FUND AWARDS

Austria

1st place: Volksbank Invest
Category: Best Small Fixed Income Fund House Austria

3rd place: VB 1
Category: public sector bonds (euros)

Germany

3rd place: Volksbank Invest
Kategorie: Best Small Fixed Income Fund House Germany

LIPPER FUND AWARDS

Austria

1st place: VB-Pacific-Invest
Category: Equity Asia Pacific, 3 years

Germany

1st place: VB-Pacific-Invest
Category: Equity Asia Pacific, 3 years

Europe

1st place: VB-Pacific-Invest
Category: Equity Asia Pacific, 3 years

EURO AM SONNTAG – FUND AWARD 2009 GERMANY

2nd place VB-Pacific-Invest
Category: equity fund (Asia), 3 years

AUSTRIAN FUND PRICE 2009

2 x 2nd place: VB 1
Category: government bonds Europe 60 and 36 months

2 x 3rd place: VB-Dollar-Rent USD
Category: bonds USA, USD, 3 and 5 years

GERMANY'S ANNUAL HEDGE FUND AWARD 09

1st place: ALPHA Strategien Triple MH
Category: single hedge funds

2nd place: ALPHA Strategien Futures MH
Category: single hedge funds

AUSTRIAN FUND OF FUNDS AWARD 2009

1st place: HI VB Global Trend
Category: hedge funds, 1 year and 3 years

2nd + 3rd place: Volksbank-Smile
Category: "Section 14 funds of funds", for 2nd place: 1 year and 5 years, for 3rd place: 3 years

CERTIFICATES AWARD 2009

2nd place: audience award

IPE AWARDS – BEST PENSION FUND IN AUSTRIA 2009 *

1st place: best pension fund in Austria

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* investments are carried out by Volksbank Investments, the asset management unit of the Volksbank group.

Liquidity management

Sufficient liquidity is secured

In the first quarter of 2009, two government-guaranteed bond issues with a volume of euro 1 billion each were placed within the framework of the Austrian bank support measures. These bank support measures were used again at the beginning of the second quarter when euro 1 billion in participation capital by the Republic of Austria was received. The participation capital considerably strengthened VBAG's capital ratios. As a result, refinancing requirements and capitalisation were secured and adapted to the difficult economic conditions early in the year. In September, the third and - within the bank support measures last - government-guaranteed bond issue was placed. The volume again was euro 1 billion. Over euro 3.2 billion in bonds, promissory notes, credit linked notes and certificates was issued through the Volksbank sector and to institutional customers in 2009. Together with the exhaustion of the usual refinancing sources such as refinancing on the money market, efficient collateral management and participation in ECB and SNB tenders, this resulted in a very comfortable liquidity position. VBAG has a liquidity cushion of around euro 2 billion and is thus fulfilling its responsibility as "lender of last resort" for the Volksbank sector.

The liquidity cushion is reviewed on an ongoing basis as part of the daily liquidity planning. It is adjusted to requirements in accordance with the guidelines of the CEBS (Committee of European Banking Supervisors), taking into account a mild stress scenario.

VBAG's liquidity management is also part of the bank's risk assessment and stress testing. The effects of the stress assumptions are integrated in the liquidity stress in the stress testing for the whole bank.

2009 showed the reliability and stability of the refinancing strategy which VBAG has developed over the last few years. VBAG's placing power with regard to Volksbanks and their customers remained unchanged in 2009 compared to previous years, with the issue volume totalling well over euro 2 billion. In 2010, a large proportion of the refinancing requirements of VBAG can therefore be covered solely through the investment need of the sector. The average size of an issue in 2009 was euro 18.3 million. This shows that there is no dependence on the capital market and VBAG's issue programme is geared towards private placements by the group's own sales teams.

Outlook for the Financial Markets segment

Focus on risk awareness and sustainability

2009 was a challenging year for the Financial Markets segment in every respect. Although we are expecting the situation on the markets to ease further in 2010, it is still too early to declare the financial crisis over. We expect volatilities to fall and interest rates to remain low in 2010. Caution is still required on the international capital markets, as many market participants are still acting very nervously and even slight disappointments or negative news can lead to severe price fluctuations. The many awards that VBAG has received for its products and services in a difficult market environment over the last two years speak for themselves and underline our conservative and sustainable risk approach.

The Financial Markets segment was extremely successful in 2009, particularly with regard to the products offered to customers and services for the Volksbanks. This success makes us confident for 2010 and shows us that our products and services are in demand and are valued. We will continue to pursue this course consistently in 2010 and remain a reliable partner for our customers in all respects. Financial Markets will therefore continue to work on the optimisation of the consulting software and the trading platforms offered to Volksbanks. With our products, we will place particular emphasis on risk-awareness and sustainability, as we have done up to now.

CORPORATE RESPONSIBILITY REPORT DER ÖSTERREICHISCHEN VOLKSBANKEN-AG

pages 55 - 110
Coming soon!

FINANCIAL STATEMENTS

Income statement

	Notes	1-12/2009 in euro thousand	1-12/2008 restated in euro thousand	Changes in euro thousand	Changes %	1-12/2008 published in euro thousand
Interest and similar income and expenses		460,284	1,151,924	–691,640	–60.04 %	1,232,554
Income from companies measured at equity		–36,055	2,751	–38,806	<–200.00 %	2,751
Net interest income	4	424,229	1,154,675	–730,446	–63.26 %	1,235,306
Risk provisions	5	–863,387	–143,666	–719,722	>200.00 %	–154,952
Net fee and commission income	6	149,952	184,985	–35,032	–18.94 %	202,698
Net trading income	7	120,665	41,461	79,204	191.03 %	41,359
General administrative expenses	8	–560,258	–624,423	64,165	–10.28 %	–682,809
Other operating result	9	–13,729	–160,815	147,086	–91.46 %	–165,465
Income from financial investments	10	–272,626	–295,339	22,712	–7.69 %	–293,625
Income from the disposal group	2	71,702	–558,727	630,429	–112.83 %	–584,360
Result before taxes		–943,453	**–401,849**	**–541,604**	**134.78 %**	**–401,849**
Income taxes	11	–173,266	161,869	–335,135	<–200.00 %	156,023
Income taxes of the disposal group	11	–6,325	29,111	–35,436	–121.73 %	34,957
Result after taxes		–1,123,043	**–210,869**	**–912,174**	**>200.00 %**	**–210,869**
Result attributable to shareholders of the parent company (Consolidated net income/loss)		–1,084,272	**–152,012**	**–932,260**	**>200.00 %**	**–152,012**
Result attributable to minority interest (Minority interest)		–38,771	–58,856	20,085	–34.13 %	–58,856

Statement of financial position

	Notes	31 Dec 2009 in euro thousand	31 Dec 2008 restated in euro thousand	Changes in euro thousand	Changes %	31 Dec 2008 published in euro thousand
Assets						
Liquid funds	12	3,008,052	3,875,629	–867,577	–22.39 %	3,897,897
Loans and advances to credit institutions (gross)	13	5,961,684	6,162,931	–201,247	–3.27 %	5,574,957
Loans and advances to customers (gross)	14	24,168,604	26,027,798	–1,859,194	–7.14 %	28,818,341
Risk provisions (–)	15	–1,245,350	–496,563	–748,787	150.79 %	–606,297
Trading assets	16	1,764,095	1,122,015	642,080	57.23 %	1,085,598
Financial investments	17	9,410,647	8,913,805	496,842	5.57 %	8,961,634
Assets for operating lease	18	1,836,332	1,852,592	–16,260	–0.88 %	1,852,592
Companies measured at equity	19	70,887	126,306	–55,419	–43.88 %	126,306
Participations	20	655,254	765,634	–110,380	–14.42 %	769,814
Intangible assets	21	131,820	129,767	2,053	1.58 %	129,822
Tangible fixed assets	22	263,050	272,334	–9,284	–3.41 %	290,070
Tax assets	23	211,221	415,942	–204,722	–49.22 %	418,341
Other assets	24	1,491,414	1,587,375	–95,961	–6.05 %	1,604,690
Assets of the disposal group	2	388,734	5,059,345	–4,670,610	–92.32 %	0
TOTAL ASSETS		**48,116,444**	**55,814,911**	**–7,698,467**	**–13.79 %**	**52,923,765**
Liabilities and equity						
Amounts owed to credit institutions	25	16,078,604	20,297,505	–4,218,901	–20.79 %	18,686,846
Amounts owed to customers	26	7,315,468	8,627,967	–1,312,499	–15.21 %	11,829,455
Debts evidenced by certificates	27	17,328,664	14,954,450	2,374,214	15.88 %	15,212,758
Trading liabilities	28	1,236,911	787,618	449,293	57.04 %	787,618
Provisions	29, 30	191,001	162,892	28,109	17.26 %	181,535
Tax liabilities	31	146,591	166,297	–19,706	–11.85 %	173,142
Other liabilities	32	1,405,413	1,767,626	–362,213	–20.49 %	1,814,264
Liabilities of the disposal group	2	369,359	4,869,867	–4,500,508	–92.42 %	0
Subordinated liabilities	33	1,923,117	1,956,856	–33,738	–1.72 %	2,014,314
Equity	35	2,121,315	2,223,833	–102,518	–4.61 %	2,223,833
Shareholders' equity		1,178,072	1,230,604	–52,532	–4.27 %	1,230,604
Minority interest		943,243	993,229	–49,986	–5.03 %	993,229
TOTAL LIABILITIES AND EQUITY		**48,116,444**	**55,814,911**	**–7,698,467**	**–13.79 %**	**52,923,765**

In order to provide a better comparability, the balance sheet figures as at 31 December 2008 were restated for the disposal group, although this is not required in accordance with IFRS 5.40. In doing so intragroup transactions between the disposal group and other group members were not eliminated in order to present the remaining business transactions already in the right way.

Changes in the Group's equity

Euro thousand	Subscribed capital [1]	Capital reserves	Retained earnings	Currency reserve	IAS 39 valuation reserves [2]: Available for sale reserve	IAS 39 valuation reserves [2]: Hedging reserve	Shareholders' equity	Minority interest	Equity
As at 1 January 2008	339,960	493,709	800,705	19,577	–59,898	6,330	1,600,384	1,346,996	2,947,380
Comprehensive income *			–152,012	–40,808	–144,303	3,832	–333,290	–54,943	–388,233
Dividends paid			–37,688				–37,688	–43,946	–81,634
Change in treasury stocks	–436	–366					–802	0	–802
Change due to reclassifications shown under minority interest and capital increases			2,001				2,001	–254,878	–252,877
As at 31 December 2008 [3]	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	–20,541	54,807	–13,132	–1,063,233	–52,373	–1,115,606
Release of reserves		–505,985	505,985				0	0	0
Dividends paid			–2,660				–2,660	–36,232	–38,892
Participation capital	1,000,000						1,000,000	0	1,000,000
Change in treasury stocks	–178	12,643	–12,806				–341	0	–341
Change due to reclassifications shown under minority interest and capital increases			13,702				13,702	38,619	52,320
As at 31 December 2009 [3]	**1,339,346**	**0**	**32,861**	**–41,771**	**–149,393**	**–2,970**	**1,178,072**	**943,243**	**2,121,315**

* Comprehensive income (Income and changes in reserves)	1-12/2009 Shareholders' equity	1-12/2009 Minority interest	1-12/2009 Equity	1-12/2008 Shareholders' equity	1-12/2008 Minority interest	1-12/2008 Equity
Consolidated net income	–1,084,272	–38,771	–1,123,043	–152,012	–58,856	–210,869
Change in deferred taxes arising from untaxed reserves	–95	816	721	1	0	1
Retained earnings	–1,084,367	–37,955	–1,122,322	–152,012	–58,856	–210,868
Currency reserve	–20,541	–16,339	–36,880	–40,808	–19,486	–60,294
thereof from application of the average rates of exchange in income statement	–42	–63	–105	–3,282	–3,246	–6,529
thereof from a hedge of a net investment	0	0	0	11,117	10,681	21,799
Available for sale reserve (including deferred taxes) [4]	54,807	2,019	56,827	–144,303	28,987	–115,316
Hedging reserve (including deferred taxes) [5]	–13,132	–98	–13,231	3,832	–5,588	–1,756
Comprehensive income	–1,063,233	–52,373	–1,115,606	–333,290	–54,943	–388,233

[1] Subscribed capital corresponds to the figures reported in the financial statements of Österreichische Volksbanken-AG.

[2] As at 31 December 2009 the available for sale reserve included deferred taxes of euro 48,617 thousand (31 December 2008: euro 65,425 thousand).
The hedging reserve contains deferred taxes in the amount of euro 540 thousand at the balance sheet date (31 December 2008: euro -3,850 thousand).

[3] In the figures as at 31 December 2008, the disposal group (Retail Banks) accounted for an amount of euro -659 thousand in the available for sale reserve.
In the figures as at 31 December 2009, the disposal group (VB Linz+Mühlviertel) accounted for an amount of euro -3 thousand in the available for sale reserve.

[4] In 2009, an amount of euro -21,650 thousand (2008: euro 6,514 thousand) previously recognised in the available for sale reserve was reclassified and shown in the income statement.

[5] Changes in value in the hedging reserve in the amount of euro -12.167 thousand (2008: euro 186 thousand) were recognised in income during the reporting period.

Cash flow statement

Euro thousand	2009	2008
Annual result (before minority interest) from continued operations	**–1,188,420**	**318,747**
Non-cash position in annual result		
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	554,306	331,311
Allocation to and release of provisions, including risk provisions	887,849	165,553
Gains from the sale of financial investments and fixed assets	–3,497	–9,957
Non-cash changes in taxes	157,841	–192,596
Changes in assets and liabilities from operating activities after adjustments for non-cash positions		
Loans and advances to credit institutions	201,287	–528,097
Loans and advances to customers	1,866,862	–3,710,081
Trading assets	149,912	205,241
Financial investments	–939,601	–848,613
Assets for operating lease	–86,889	–478,628
Other assets from operating activities	–214,810	928,829
Amounts owed to credit institutions	–4,245,890	2,779,628
Amounts owed to customers	–1,329,713	984,079
Debts evidenced by certificates	2,260,373	1,571,104
Other liabilities	–123,854	–995,541
Other changes	–151,749	308,837
Cash flow from operating activities	**–2,205,994**	**829,815**
Proceeds from the sale or redemption of		
Securities held to maturity	447,819	705,302
Participations	229,756	147,029
Fixed assets	10,628	13,173
Payments for the acquisition of		
Securities held to maturity	–90,225	–588,899
Participations	–152,685	–856,336
Fixed assets	–53,057	–85,713
Cash flow from investing activities	**392,236**	**–665,443**
Issue of participation capital	1,000,000	0
Change in treasury stocks	–341	–802
Dividends paid	–2,660	–37,688
Changes in subordinated liabilities	–39,750	550,624
Other changes	–11,068	51,220
Cash flow from financing activities	**946,181**	**563,353**

Cash and cash equivalents at the end of previous period (= liquid funds)	**3,875,629**	**3,147,905**
Cash flow from operating activities	–2,205,994	829,815
Cash flow from investing activities	392,236	–665,443
Cash flow from financing activities	946,181	563,353
Cash and cash equivalents at the end of period (= liquid funds)	**3,008,052**	**3,875,629**

Payments of taxes, interest and dividends		
Income taxes paid	–53,319	–47,908
Interest received	2,365,718	2,423,650
Interest paid	–1,734,157	–2,091,556
Dividends received	14,970	521,046

Due to the disposal group cash and cash equivalents with an amount of euro 24,334 thousand was disposed of.

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NOTES

to the consolidated financial statements of Österreichische Volksbanken-Aktiengesellschaft 2009

1) General information

Österreichische Volksbanken-Aktiengesellschaft (VBAG), which has its registered office at Kolingasse 19, 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 in 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 conern. 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 2009, a capital increase was completed at the banking subsidiary of Volksbank International AG (VBI) in Ukraine, in the course of which VBI partially took over the shares of third-party shareholders. The takeover of these minority interests was recognised directly in equity.

Six subsidiaries in the Real Estate segment were included in consolidation 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. In the case of one company, initial consolidation was carried out with retrospective effect from the date of acquisition, for which goodwill in the amount of euro 750 thousand was calculated.

One company was also acquired in Real Estate segment in the 2009 business year. The goodwill of euro 5,309 thousand resulting from initial consolidation has been recognised under assets. After impairment of euro 640 thousand, the goodwill has a carrying amount of euro 4,670 thousand.

Both cases of goodwill resulted from the recognition under liabilities of deferred taxes on the revaluation of investment property assets recognised under assets in these companies. These deferred tax liabilities were not included in the purchase prices, as these transactions are mainly settled via share deals for which no or a small amount of income taxes are incurred.

Through the inclusion of these companies in the scope of consolidation, loans and advances to customers from finance leases in the amount of euro 11,049 thousand and investment property assets in the amount of euro 149,219 thousand were the main items to be received in addition to the goodwill described above. These asset items offset amounts owed to credit institutions totalling euro 52,261 thousand in addition to Group-internal funding.

On 31 December 2009, the sale of three retail banks – Immo-Bank AG, Bank für Ärzte und freie Berufe AG and Volksbank Wien AG – was completed. Control was handed over to the buyers on this date. These three banks are therefore presented as a disposal group. These sales were concluded subject to conditions subsequent with regard to the Austrian Financial Market Supervisory Authority (FMA) approving the sales. Approval was granted by the FMA by means of the decision in March 2010.

In January, negotiations were commenced regarding the sale of Volksbank Linz+Mühlviertel, which are expected to be concluded in April 2010. This company was also presented as a disposal group as at 31 December 2009. The comparative figures in the income statement were restated accordingly. The balance sheet figures as of 31 December 2008 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 these companies remaining within the Group in the future. Both the restated and published amounts are disclosed in the notes. The disclosures for the 2009 business year have been adjusted for the VB Linz+Mühlviertel figures. In the various tables in the notes showing changes during the periods under review, the disposal of these retail banks as at 31 December 2009 is recognised in the line Changes in the scope of consolidation. The income statement items contained in these tables include the figures for the retail banks for the period 1 January to 31 December 2009.

Calculation of deconsolidation result of Retail Banks

Euro thousand	Total
Assets proportional	4,100,677
Liabilities proportional	3,952,003
Currency reserve proportional	163
Disposal of net assets proportional	**–148,511**
Revenues	196,004
Deconsolidation result	**47,493**

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

Euro thousand	2009	2008
Net interest income	84,404	80,555
Risk provisions	–14,409	–11,286
Net fee and commission income	23,038	20,397
Net trading income	265	660
General administrative expenses	–64,989	–65,779
Other operating result	–2,995	–627
Deconsolidation result	47,493	0
Income from financial investments	–1,106	1,714
Annual result before taxes	**71,702**	**25,633**
Income taxes	–6,325	–5,846
Annual result after taxes	**65,377**	**19,787**
Result attributable to shareholders of the parent company	**65,122**	**19,528**
Result attributable to minority interest	256	259

In 2008, the result from the disposal group also included euro -584,360 thousand from Kommunalkredit Austria AG (Kommunalkredit), which was deconsolidated as at 3 November 2008. In the income taxes of the disposal group, the comparative figures for 2008 contain an amount of euro 34,957 thousand and a result attributable to minority interests of euro -106,847 thousand for Kommunalkredit.

Assets of disposal group segment retail

Euro thousand	31 Dec 2009	31 Dec 2008
Liquid funds	2,036	22,267
Loans and advances to credit institutions (gross)	153,406	1,776,141
Loans and advances to customers (gross)	197,333	2,790,543
Risk provisions (–)	–11,696	–109,734
Financial investments	37,106	524,621
Participations	2,218	4,180
Intangible assets	4	55
Tangible fixed assets	4,306	17,736
Tax assets	384	2,399
Other assets	3,637	31,136
Total assets	**388,734**	**5,059,345**

Liabilities of disposal group segment retail

Euro thousand	31 Dec 2009	31 Dec 2008
Amounts owed to credit institutions	62,547	753,405
Amounts owed to customers	302,855	3,201,540
Debts evidenced by certificates	0	771,517
Provisions	2,312	18,643
Tax liabilities	0	6,845
Other liabilities	1,645	60,459
Subordinated liabilities	0	57,458
Total liabilities	**369,359**	**4,869,867**

The assets and liabilities of the disposal group included all four retail banks as at 31 December 2008, whereas only VB Linz+Mühlviertel is shown as at 31 December 2009, as the other three banks were deconsolidated with effect from 31 December 2009.

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	
	2009	2008	31 Dec 2009	31 Dec 2008
Total number of staff	547	544	74	545

In segment Real Estate six companies have been sold. The defined net assets are shown as following.

Euro thousand	Segment Real Estate
Assets proportional	49,997
Liabilities proportional	69,901
Currency reserve proportional	12
Disposal of net assets proportional	19,916
Revenues	–37,499
Deconsolidation result	–17,583

In the sale of one company, liabilities in the amount of euro 54,081 thousand were assumed, which are netted against the various sales proceeds in the above table. The deconsolidation result is shown in the other operating result.

Furthermore, one company was wound up in the Real Estate segment, and one company was no longer fully consolidated from the 2009 business year onwards due to its insignificance. The income of euro 1,978 thousand resulting from this deconsolidation is shown in the other operating result.

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

Number of consolidated companies

	31 Dec 2009			31 Dec 2008		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	7	12	19	10	12	22
Financial institutions	22	18	40	23	18	41
Other enterprises	52	73	125	47	80	127
Total	81	103	184	80	110	190
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 the retail banks, the Group disposed three fully consolidated credit institutions.

Number of unconsolidated companies

	31 Dec 2009			31 Dec 2008		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	65	112	177	74	121	195
Associated companies	52	89	141	51	93	144
Companies total	**117**	**201**	**318**	**125**	**214**	**339**

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 2.1 % (2008: 1.4 %) of consolidated total assets, while the annual result after taxes corresponds to 0.4 % (2008: 2.0 %) 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 2009.

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 2009 and the comparative figures for 2008 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

From 1 January 2009, the revised IAS 1 Presentation of Financial Statements is to be applied. Here, the presentation of the income statement has been extended to include the statement of comprehensive income showing all transactions in equity which are not directly attributable to the owners. The comparative figures have been restated accordingly.

With effect from 1 January 2009, the re-issued IAS 23 Borrowing Costs is also to be applied. This requires that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset be capitalised as part of the cost of that asset. As the VBAG Group has already made use of this option to capitalise up to now, the application of IAS 23 has not led to any changes in the consolidated financial statements.

The revised IAS 40 Investment Property also came into effect with effect from 1 January 2009. Investment properties under construction must now also be measured at fair value, provided this can be reliably determined.

In March 2009, the IASB published amendments to IFRS 7 Financial Instruments: Disclosures. These amendments were endorsed by the European Union in December. These amendments require more comprehensive disclosures on financial instruments and liquidity risk.

IFRS 8 Operating Segments is required to be applied for fiscal years beginning on or after 1 January 2009. The application of IFRS 8 has resulted in changes in segment reporting.

b) New 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 minority interests, the recognition of step acquisitions and the treatment of contingent consideration and acquisition-related costs. Minority interests may be measured either at fair value (full goodwill method) or at the fair value of the minority interest's proportionate share of the net identifiable assets of the entity acquired. 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. These standards were not adopted prematurely in the VBAG Group. The application of these amendments to IAS 27 and IFRS 3 is not expected to have a significant impact on future consolidated financial statements.

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. This standard is required to be applied for fiscal years beginning on or after 1 January 2013. These standards were 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.

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. This standard was not adopted prematurely in the VBAG Group. The Group rates the effect of these amendments as immaterial for the 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 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 23 %.

- 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 2009.

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. 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.

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.

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. 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.

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 (investment property): rental income, value adjustments of rental property and depreciation of rental property
- 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

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, loans & receivables and held to maturity and of participations 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.

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.

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 results in the reallocation of all held to maturity financial investments to the available for sale category for the two subsequent fiscal years. In 2009 and 2008, no such reallocations took place.

r) Assets for operating lease

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, measurement is based on the standards of the RICS (Royal Institution of Chartered Surveyors). The gross rental method is used in calculations in the form of the hard core/top slice procedure and the term and reversion as well as the rack-rent procedures, which are prepared on the basis of current rental lists and assumptions concerning market developments and interest rates. Kingsturge, Colliers International, Cushman & Wakefield, DTZ Polska, EHL Immobilien and Jones Lang LaSalle are mandated to act as independent experts for assessing the value of foreign investment properties.

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. Changes in the fair value of investment properties are also reported under this item. 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.

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.

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 23 %.

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 2009 the goodwill of two VBI credit institutions was partly impaired. Furthermore, also the goodwill of a company in segment Real Estate which was acquired in business year 2009 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 2009 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 current year, 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

All deferred items and other assets are recognised in this item and carried at cost. 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 2009, actuarial gains and losses exceeding the corridor were recognised in income in full.

Principal actuarial assumptions

	2009	2008	2007	2006	2005
Discount rate	**5.25 %**	5.75 %	5.00 %	4.50 %	4.50 %
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. Provisions are not discounted due to the insignificance of the time value of money.

z) Other liabilities

Other liabilities representing deferred items or other obligations are carried at amortised cost. 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, or its own funds even significantly 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 minority 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.

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 minority 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	2009	2008
Interest and similar income	2,062,047	3,424,024
Interest and similar income from	2,194,517	2,808,079
liquid funds	51,333	62,651
credit and money market transactions with credit institutions	140,421	309,022
credit and money market transactions with customers	1,322,271	1,733,571
debt securities	313,790	468,765
derivatives - investment book	366,703	234,070
Current income from	–9,701	531,217
equities and other variable-yield securities	9,523	13,029
other affiliates	12,373	504,122
companies measured at equity	–36,055	2,751
investments in other companies	4,457	11,315
Operating lease operations (including investment property)	–122,769	84,727
rental income	137,217	132,892
changes in value from investment property	–224,035	16,601
depreciation of operating lease assets	–35,951	–64,766
Interest and similar expenses of	–1,637,817	–2,269,348
deposits from credit institutions (including central banks)	–554,568	–905,707
deposits from customers	–256,777	–338,377
debts evidenced by certificates	–612,026	–644,672
subordinated liabilities	–91,136	–150,127
derivatives - investment book	–123,309	–230,465
Net interest income	**424,229**	**1,154,675**

Net interest income according to IAS 39 in categories:

Euro thousand	2009	2008
Interest and similar income	2,062,047	3,424,024
Interest and similar income from	2,194,517	2,808,079
financial investments at fair value through profit or loss	22,553	66,096
derivatives – investment book	366,703	234,070
financial investments available for sale	121,738	177,892
financial investments at amortised cost	1,572,606	2,192,155
of which financial lease	239,920	263,429
of which unwinding	5,722	3,692
financial investments held to maturity	110,917	137,867
Current income from	–9,701	531,217
financial investments at fair value through profit or loss	1,301	3,769
financial investments available for sale	25,053	524,696
companies measured at equity	–36,055	2,751
Operating lease operations (including investment property)	–122,769	84,727
Interest and similar expenses of	–1,637,817	–2,269,348
financial investments at fair value through profit or loss	–369	–317
derivatives – investment book	–123,309	–230,465
financial investments at amortised cost	–1,514,139	–2,038,567
Net interest income	**424,229**	**1,154,675**

In 2008, current income from other affiliates includes special dividends amounting to euro 491,000 thousand.

5) Risk provisions

Euro thousand	2009	2008
Allocation to risk provisions	–928,714	–341,259
Release of risk provisions	98,305	197,848
Allocation to provisions for risks	–25,120	–11,297
Release of provisions for risks	5,293	10,117
Direct write-offs of loans and advances	–18,329	–3,903
Income from loans and advances previously written off	5,178	4,827
Risk provisions	**–863,387**	**–143,666**

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	2009	2008
Fee and commission income from	212,739	267,019
lending operations	58,875	63,748
securities businesses	39,300	43,453
payment transactions	56,980	57,117
foreign exchange, foreign notes and coins transactions	24,687	64,264
other banking services	32,897	38,438
Fee and commission expenses from	–62,787	–82,034
lending operations	–25,693	–24,486
securities businesses	–17,288	–14,373
payment transactions	–7,723	–6,075
foreign exchange, foreign notes and coins transactions	–7,584	–30,469
other banking services	–4,498	–6,631
Net fee and commission income	**149,952**	**184,985**

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 512 thousand (2008: euro 551 thousand).

7) Net trading income

Euro thousand	2009	2008
Equity related transactions	–4,555	21,916
Exchange rate related transactions	23,872	13,344
Interest rate related transactions	101,348	5,895
Credit related transactions	0	306
Net trading income	**120,665**	**41,461**

8) General administrative expenses

Euro thousand	2009	2008
Staff expenses	–277,597	–308,360
Wages and salaries	–210,713	–225,109
Expenses for statutory social security	–56,500	–58,038
Fringe benefits	–7,666	–6,931
Expenses for retirement benefits	–3,412	–12,451
Allocation to provision for severance payments and pensions	694	–5,832
Other administrative expenses	–242,040	–275,231
Depreciation of fixed tangible and intangible assets	–40,622	–40,831
Scheduled depreciation	–40,253	–40,282
Impairment	–369	–549
General administrative expenses	**–560,258**	**–624,423**

Staff expenses include payments for defined contribution plans totalling euro 3,704 thousand (2008: euro 9,775 thousand).

Information on compensation for and loans granted to board members

Euro thousand	2009	2008
Total compensation		
Supervisory board	89	91
Managing board	2,177	2,463
Former board members and their surviving dependents	705	816
Expenses for severance payments and pensions		
Managing board	1,611	548
Loans and advances granted to members of the managing board and the supervisory board		
Outstanding loans and advances	13	174
Redemptions	12	39
Interest payments	0	8

The figures for the managing board include employees of the parent company.

At the VBAG Group, the board members of the parent company are classified as management members in key positions.

Credits and advance payments granted to members of the managing and supervisory board decreased due to the deconsolidation of Volksbank Wien, as those credits were given by Volksbank Wien.

Expenses for severance payments and pensions for the senior management of the parent company amounted to euro 308 thousand (2008: euro 141 thousand).

Number of staff employed during 2009, including disposal group

	Average number of staff		Number of staff at year-end	
	2009	2008	2009	2008
Domestic	2,048	2,258	1,541	2,080
Foreign	6,559	6,581	6,390	6,846
Total	**8,607**	**8,839**	**7,931**	**8,926**

The number of staff employed in disposal group is as follows

	Average number of staff 2009	2008	Number of staff at year-end 2009	2008
Segment Retail disposal group				
Domestic	547	544	74	545
Kommunalkredit disposal group				
Domestic	0	223	0	0
Foreign	0	29	0	0
Staff Kommunalkredit Austria AG	**0**	**252**	**0**	**0**

The retail banks were deconsolidated with 31 December 2009. Kommunalkredit was deconsolidated with effect from 3 November 2008.

Other administrative expenses include expenses for managing contracts for operating lease / investment property to the amount of euro 20,957 thousand (2008: euro 29,020 thousand).

For the business year, expenses for the auditor KPMG Austria GmbH amount to euro 2,724 thousand. Thereof euro 2,195 thousand fall upon the audit of the consolidated financial statement (including financial statements of fully consolidated companies and joint enterprises) and euro 529 thousand upon other audit services.

9) Other operating result

Euro thousand	2009	2008
Other operating income	64,580	182,293
Other operating expenses	–58,318	–171,198
Proceeds from deconsolidation of subsidiaries	–15,120	4,422
Impairment of goodwill	–4,872	–176,332
Other operating result	**–13,729**	**–160,815**

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 133,225 thousand (2008: euro 238,506 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 2,592 thousand (2008: none).

For material details concerning result of disposal group we refer to chapter 2) Presentation and changes in the scope of consolidation. Details of impairment of goodwill can be found in chapter 21) Intangible assets.

10) Income from financial investments

Euro thousand	2009	2008
Result from financial investments at fair value through profit or loss / macro hedges	**–15,266**	**–103,972**
Result from financial investments at fair value through profit or loss and from underlying instruments for macro hedges	–14,966	–76,059
Debt securities	–10,262	–61,914
Equities and other variable-yield securities	–5,388	–14,076
Amounts owed to credit institutions and customers	684	–69
Result from revaluation of derivatives	–300	–27,913
Result from fair value hedges	**–33**	**–47**
Result from revaluation of underlying instruments	–188,238	–64,527
Loans and advances to credit institutions and customers	7,708	26,805
Debt securities	–31,889	142,572
Amounts owed to credit institutions and customers	–44,204	–119,238
Debts evidenced by certificates	–113,842	–109,267
Subordinated liabilities	–6,012	–5,399
Result from revaluation of derivatives	188,205	64,480
Result from valuation of other derivatives in the investment book	**57,721**	**10,529**
Equity related transactions	216	–262
Exchange rate related transactions	–193	–4,138
Interest rate related transactions	56,130	12,270
Credit related transactions	–2,633	2,691
Other transactions	4,200	–31
Result from available for sale financial investments	**–21,650**	**–116,117**
Realised gains / losses	4,778	6,832
Income from revaluation	14,534	0
Impairments	–40,962	–122,949
Result from loans & receivables financial investments	**–47,567**	**–27,445**
Realised gains / losses	2,563	1,626
Income from revaluation	42	2,170
Impairments	–50,173	–31,241
Result from held to maturity financial investments	**–21,519**	**–61,146**
Realised gains / losses	3,497	–1,441
Income from revaluation	738	0
Impairments	–25,753	–59,704
Result from partcipations, assets for operating lease and other financial investments	**–224,313**	**2,860**
Realised gains / losses	–503	9,138
Impairments	–223,811	–6,278
Income from financial investments	**–272,626**	**–295,339**

The assessment of recoverability of participations led to an increased impairment in comparison to previous years.

11) Income taxes

Euro thousand	2009	2008
Current income taxes	–13,565	–26,916
Deferred income taxes	–157,841	192,596
Income taxes of disposal group	–6,495	29,139
Income taxes for the current fiscal year	**–177,902**	**194,819**
Income taxes from previous periods continued operations	–1,860	–3,811
Income taxes from previous periods disposal group	171	–28
Income taxes from previous periods	–1,689	–3,839
Income taxes	**–179,590**	**190,980**

The reconciliation below shows the relationship between the imputed and reported tax expenditure

Euro thousand	2009	2008
Annual result before taxes – continued operations	–1,015,154	156,878
Annual result before taxes – disposal group	71,702	–558,727
Annual result before taxes – total	**–943,453**	**–401,849**
Imputed income tax 25 %	–235,863	–100,462
Tax relief resulting from		
tax-exempt investment income	–12,128	–187,165
investment allowances	–974	–2,524
other tax-exempt earnings	–2,904	–3,656
release of tax assets section 9 (7) Austrian Corporation Tax Act	43,683	3,971
non-tax deductible impairment of goodwill	1,218	75,457
impairment of participation	50,000	0
adjustment of deferred taxes	148,251	0
non-inclusion of deferred taxes	164,603	0
changes in tax rates	–437	–3,961
different foreign tax rates	–886	10,634
other differences	23,339	12,886
Reported income taxes	**177,902**	**–194,819**
of which disposal group	–6,495	29,139
Effective tax rate – continued operations	**–18.16 %**	**–142.76 %**
Effective tax rate – including disposal group	–18.86 %	48.48 %

In business year 2009 and 2008 the informative value of effective tax rate is restricted due to high allowances of deferred tax assets (particularly for taxable loss carryforwards), high level of tax-exempt investment income as well as to the presentation of the disposal group.

Deferred taxes totalling euro -30,319 thousand (2008: euro -42,693 thousand) were taken directly to equity. In 2009, tax loss carryforwards to the amount of euro 557,392 thousand (2008: none) and deferred tax assets to the amount of euro 35,610 thousand (2008: none) were impaired. Furthermore no deferred taxes were recognised for taxable loss carryforwards to the amount of euro 656,742 thousand (2008: none) and for deferred tax assets to the amount of euro 1,670 thousand (2008: none) 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 1,221,258 thousand (2008: euro 7,123 thousand). Of these taxable loss carryforwards euro 1,161,526 thousand (2008: euro 6,355 thousand) are without limitation.

12) Liquid funds

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Cash in hand	108,865	128,098	150,364
Balances with central banks	2,899,187	3,747,531	3,747,532
Liquid funds	3,008,052	3,875,629	3,897,897

13) Loans and advances to credit institutions

Loans and advances to credit institutions amounting to euro 5,961,684 thousand (2008 restated: euro 6,162,931 thousand, published: euro 5,574,957 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2009	31 Dec 2008
on demand	146,441	322,164
up to 3 months	4,782,951	3,416,192
up to 1 year	603,427	219,803
up to 5 years	133,224	1,403,032
more than 5 years	295,642	213,765
Loans and advances to credit institutions	5,961,684	5,574,957

14) Loans and advances to customers

Loans and advances to customers amounting to euro 24,168,604 thousand (2008: restated EUR 26,027,798 thousand, published: EUR 28,818,341 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2009	31 Dec 2008
on demand	1,395,331	1,768,312
up to 3 months	2,400,958	2,476,806
up to 1 year	3,319,916	3,277,451
up to 5 years	7,631,434	8,820,733
more than 5 years	9,420,965	12,475,039
Loans and advances to customers	24,168,604	28,818,341

Finance lease disclosures

Euro thousand	up to 1 year	up to 5 years	more than 5 years	Total
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
2008				
Total gross investment	1,304,367	2,193,222	551,004	4,048,593
Less paid non-interest-bearing deposits	–998	–6,352	–5,375	–12,726
Less unearned financial income	–199,368	–305,728	–140,928	–646,024
Present value of minimum lease payments	1,104,001	1,881,141	404,701	3,389,843
Total unguaranteed residual value				38,756

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 a variable interest rate.

15) Risk provisions

Euro thousand	Individual impairment credit institutions	Individual impairment customers	Portfolio based allowance	Total	of which disposal group
As at 1 Jan 2008	766	434,785	66,863	502,414	106,194
Changes in the scope of consolidation	–69,048	–13,318	–493	–82,859	–72,759
Currency translation	–2	–6,254	–2,147	–8,404	277
Reclassification	0	–160	142	–19	0
Unwinding	0	–5,329	0	–5,329	–1,638
Utilisation	–585	–24,792	0	–25,378	–4,802
Release	–20	–145,925	–65,770	–211,716	–13,867
Addition	69,381	332,838	35,369	437,588	96,329
As at 31 Dec 2008	491	571,843	33,963	606,297	109,734
Changes in the scope of consolidation	0	–103,185	–3,691	–106,877	–106,877
Currency translation	0	2,254	–442	1,812	–7
Reclassification	0	4,666	2,288	6,955	0
Unwinding	0	–6,242	0	–6,242	–520
Utilisation	0	–89,317	0	–89,317	–4,644
Release	0	–83,899	–31,003	–114,902	–16,597
Addition	48	881,150	78,122	959,320	30,606
As at 31 Dec 2009	**539**	**1,177,271**	**79,237**	**1,257,047**	11,696

The additions include an amount of euro 18,088 thousand (2008: euro 2,382 thousand), which is caused by allocation due to interest past-due. Loans and advances to customers include non-interest-bearing receivables amounting to euro 441,379 thousand (2008 restated: euro 164,166 thousand and published: euro 244,452 thousand). The reclassification item reflects the regrouping of other balance sheet positions.

16) Trading assets

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Debt securities	**157,002**	280,065	243,998
Equity and other variable-yield securities	**43,125**	18,892	18,541
Positive fair value from derivatives	**1,563,968**	823,058	823,058
exchange rate related transactions	**100,101**	30,461	30,461
interest rate related transactions	**1,455,559**	766,900	766,900
other transactions	**8,308**	25,697	25,697
Trading assets	**1,764,095**	**1,122,015**	**1,085,598**

Breakdown by residual term

Euro thousand	31 Dec 2009	31 Dec 2008
up to 3 months	**1,392**	2,950
up to 1 year	**554**	31,642
up to 5 years	**2,225**	91,407
more than 5 years	**152,830**	117,999
Debt securities	**157,002**	**243,998**

17) Financial investments

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Financial investments at fair value through profit or loss	1,066,895	1,357,211	1,357,211
Debt securities	986,610	1,251,044	1,251,044
Equity and other variable-yield securities	80,286	106,166	106,166
Financial investments available for sale	4,466,256	3,066,197	3,087,528
Debt securities	4,197,122	2,902,405	2,917,185
Equity and other variable-yield securities	269,134	163,791	170,344
Financial investments loans & receivables	1,918,289	2,137,667	2,137,667
Financial investments held to maturity	1,959,208	2,352,731	2,379,228
Financial investments	**9,410,647**	**8.913,805**	**8,961.634**

Financial investments held to maturity also include deferred interest of euro 38,727 thousand (2008 restated: euro 50,568 thousand, published: euro 52,016 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2009	31 Dec 2008
up to 3 months	394,277	600,927
up to 1 year	730,106	584,877
up to 5 years	3,712,524	2,887,138
more than 5 years	4,224,322	4,612,182
Debt securities	**9,061,228**	**8,685,124**

Breakdown of debt securities in accordance with the Austrian Banking Act, including disposal group

Euro thousand	31 Dec 2009	31 Dec 2008
Listed securities	8,224,166	7,652,385
Debt securities	8,178,931	7,638,223
Equity and other variable-yield securities	45,235	14,162
Securities allocated to fixed assets	7,779,315	7,500,920
Securities eligible for rediscounting	4,866,524	4,747,831

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.

Euro thousand	31 Dec 2009	31 Dec 2008	1 Jul 2008
Carrying amount	861,322	1,073,806	1,140,363
Fair value	783,706	851,641	1,140,363
Available for sale reserve with reclassification	–53,935	–71,816	–79,177
Available for sale reserve without reclassification	–121,012	–248,245	–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

Euro thousand	Investment properties	Other operating lease assets	Total	of which disposal group
Cost as at 1 Jan 2008	1,109,493	43,848	1,153,341	6,055
Changes in the scope of consolidation	–6,233	0	–6,233	–6,233
Currency translation	17,982	–56	17,926	0
Additions, including transfers	368,180	189,679	557,859	178
Disposals, including transfers	–42,245	–43,838	–86,083	0
Cost as at 31 Dec 2008	1,447,178	189,632	1,636,809	0
Changes in the scope of consolidation	51,934	0	51,934	0
Currency translation	–11,408	1,187	–10,221	0
Additions, including transfers	214,105	42,235	256,340	0
Disposals, including transfers	–128,254	–41,196	–169,451	0
Cost as at 31 Dec 2009	**1,573,554**	**191,857**	**1,765,411**	0

Euro thousand	Investment properties	Other operating lease assets	Total	of which disposal group
2008				
Cost as at 31 Dec 2008	1,447,178	189,632	1,636,809	0
Cumulative write-downs and write-ups	269,277	–53,494	215,783	0
Carrying amount as at 31 Dec 2008	**1,716,454**	**136,138**	**1,852,592**	0
Impairments in fiscal year	–103,705	–64,766	–168,471	0
Revaluations in fiscal year	120,306	0	120,306	0
Carrying amount as at 1 Jan 2008	1,383,050	34,747	1,417,796	0
2009				
Cost as at 31 Dec 2009	1,573,554	191,857	1,765,411	0
Cumulative write-downs and write-ups	137,862	–66,941	70,920	0
Carrying amount as at 31 Dec 2009	**1,711,416**	**124,916**	**1,836,332**	0
Impairments in fiscal year	–234,431	–35,951	–270,381	0
Revaluations in fiscal year	10,395	0	10,395	0

In 2009, carrying amount of investment property assets to the amount of euro 44,321 thousand (2008 restated and published: euro 42,245 thousand) was disposed of.

Investment properties contain 42 completed properties (2008: 28) as well as 10 properties under construction with a carrying amount of euro 144,226 thousand (2008: 20 properties under construction with a carrying amount of euro 337,154 thousand). These properties are primarily located in the countries of Central and Eastern Europe. At balance sheet date an amount of 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.

19) Companies measured at equity

Additional information on companies measured at equity

Euro thousand	2009	2008 restated	2008 published
Cumulative total assets as at 31 Dec	**169,884**	395,674	395,674
Cumulative equity as at 31 Dec	**154,177**	374,718	374,718
Cumulative net income	**–177,399**	41,989	41,989

20) Participations

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Investments in unconsolidated affiliates	**507,784**	598,007	602,057
Participating interests	**73,267**	99,276	99,298
Investments in other companies	**74,202**	68,352	68,460
Participations	**655,254**	**765,634**	**769,814**

Companies measured at equity and participations with a carrying amount of euro 1,312 thousand were (2008: euro 1,602 thousand) disposed of. The proceeds from these divestments amounted to euro -35 thousand (2008: euro 11,397 thousand) and are reported in income from financial investments.

All investments and participations are measured at amortised cost, none of the Group's participations are listed on a stock exchange.

21) Intangible assets

Euro thousand	Software	Goodwill	Other	Total	of which disposal group
Cost as at 1 Jan 2008	79,431	387,743	52,877	520,051	154,218
Changes in the scope of consolidation	–4,754	–126,141	–23,809	–154,704	–153,836
Currency translation	233	–5,670	–53	–5,490	0
Additions, including transfers	17,917	241	1,008	19,167	62
Disposals, including transfers	–1,741	–5,883	–995	–8,619	–1
Cost as at 31 Dec 2008	91,087	250,290	29,028	370,405	443
Changes in the scope of consolidation	–488	0	–24	–512	–512
Currency translation	–467	–1,040	11	–1,496	0
Additions, including transfers	12,976	6,059	393	19,428	135
Disposals, including transfers	–1,856	0	–459	–2,315	–54
Cost as at 31 Dec 2009	**101,253**	**255,309**	**28,949**	**385,511**	12

Euro thousand	Software	Goodwill	Other	Total	of which disposal group
2008					
Cost as at 31 Dec 2008	91,087	250,290	29,028	370,405	443
Cumulative write-downs and reversals	–59,699	–178,324	–2,560	–240,583	–388
Carrying amount as at 31 Dec 2008	**31,388**	**71,967**	**26,468**	**129,822**	55
of which unlimited useful life	0	71,967	24,860	96,827	0
of which limited useful life	31,388	0	1,608	32,995	55
Amortisation in fiscal year	–9,429	0	–882	–10,310	–134
Impairments in fiscal year	–13	–301,829	0	–301,842	–125,497
Carrying amount as at 1 Jan 2008	24,285	380,203	50,599	455,087	149,583
2009					
Cost as at 31 Dec 2009	101,253	255,309	28,949	385,511	12
Cumulative write-downs and reversals	–67,469	–183,195	–3,023	–253,687	–8
Carrying amount as at 31 Dec 2009	**33,783**	**72,114**	**25,926**	**131,824**	4
of which unlimited useful life	0	72,114	24,860	96,974	0
of which limited useful life	33,783	0	1,066	34,850	4
Amortisation in fiscal year	–9,830	0	–575	–10,406	–49
Impairments in fiscal year	–24	–4,872	0	–4,896	0

In position Software is no internally developed software included.

Composition of goodwill

Euro thousand	Carrying amount 31 Dec 2009	Impairment 2009	Carrying amount 31 Dec 2008	Impairment 2008
Kommunalkredit sub-group				
Public Finance segment	**0**	**0**	0	125,497
Investkredit sub-group				
Corporates segment	**31,563**	**0**	31,563	0
Real Estate segment	**750**	**0**	0	0
VBI sub-group				
Retail segment	**35,132**	**4,232**	40,404	0
Europolis sub-group				
Real Estate segment	**4,670**	**640**	0	176,332
Total	**72,114**	**4,872**	**71,967**	**301,829**

Impairments in 2009 are made for VBI subsidiaries in Banja Luka and in Ukraine as well as for a real estate company in Romania.

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 2008	263,969	63,618	144,611	35,956	508,154	98,621
Changes in the scope of consolidation	–39,676	–959	–3,710	–859	–45,204	–44,360
Currency translation	–4,449	–1,393	376	–1,524	–6,989	0
Additions, including transfers	36,552	8,932	17,364	8,955	71,803	2,405
Disposals, including transfers	–1,880	–6,543	–16,378	–7,471	–32,272	–3,301
Cost as at 31 Dec 2008	254,517	63,657	142,262	35,058	495,494	53,365
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	0
Additions, including transfers	23,350	3,245	8,093	3,407	38,095	3,489
Disposals, including transfers	–8,512	–4,761	–9,330	–5,188	–27,791	–4,221
Cost as at 31 Dec 2009	**263,749**	**59,575**	**102,136**	**32,909**	**458,368**	8,902

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other	Total	of which disposal group
2008						
Cost as at 31 Dec 2008	254,517	63,657	142,262	35,058	495,494	53,365
Cumulative write-downs and reversals	–55,726	–44,634	–91,663	–13,400	–205,423	–35,628
Carrying amount as at 31 Dec 2008	**198,790**	**19,023**	**50,599**	**21,658**	**290,070**	17,736
Depreciation in fiscal year	–9,699	–8,528	–13,170	–4,544	–35,941	–5,835
Impairments in fiscal year	0	–495	–12	–29	–536	0
Carrying amount as at 1 Jan 2008	210,256	23,771	52,718	21,665	308,409	57,422
2009						
Cost as at 31 Dec 2009	263,749	59,575	102,136	32,909	458,368	8,902
Cumulative write-downs and reversals	–61,620	–46,378	–69,810	–13,204	–191,012	–4,596
Carrying amount as at 31 Dec 2009	**202,129**	**13,196**	**32,326**	**19,705**	**267,356**	4,306
Depreciation in fiscal year	–9,620	–7,718	–11,430	–4,256	–33,024	–3,128
Impairments in fiscal year	–164	–65	–62	–54	–345	0

23) Tax assets

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Current tax assets	**43,040**	50,119	52,405
Deferred tax assets	**168,181**	365,823	365,936
Tax assets	**211,221**	**415,942**	**418,341**

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

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Loans and advances to credit institutions	**8,151**	11,106	13,480
Loans and advances to customers, including risk provisions	**41,400**	19,270	20,354
Trading assets	**6,563**	492	492
Financial investments	**22,850**	20,015	20,015
Assets for operating lease	**673**	59	59
Participations	**67,332**	86,947	86,947
Intangible and tangible fixed assets	**4,488**	44,109	44,257
Amounts owed to credit institutions	**20,806**	12,873	12,873
Amounts owed to customers	**16,972**	14,789	14,789
Debts evidenced by certificates and subordinated liabilities	**46,646**	13,392	13,520
Trading liabilities	**135**	2,605	2,605
Provisions for pensions, severance payments and other provisions	**16,794**	11,880	13,092
Other assets and liabilities	**187,142**	316,851	323,153
Tax loss carryforwards	**49,099**	164,990	165,045
Deferred taxes before netting	**489,051**	719,378	730,682
Offset against liabilities-side deferred taxes	**–320,870**	–353,555	–364,746
Reported deferred tax assets	**168,181**	**365,823**	**365,936**

Deferred tax assets and deferred tax liabilities can only be offset to the extent that they relate to the same company.

The decrease in deferred tax assets is due to impairment of taxable loss carryforwards and deferred tax assets. 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

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Deferred items	32,599	31,289	32,569
Other receivables and assets	409,734	189,156	180,410
Positive fair value from derivatives in the investment book	1,049,080	1,366,930	1,391,710
Other assets	**1,491,414**	**1,587,375**	**1,604.690**

The table below shows the fair values of derivatives used in hedge accounting in accordance with IFRS

	31 Dec 2009		31 Dec 2008 restated		31 Dec 2008 published	
Euro thousand	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Exchange rate related transactions	17,500	0	45,781	24	45,781	24
Interest rate related transactions	565,757	4,410	697,232	10,794	717,786	10,794
Other transactions	0	0	58,090	0	58,090	0
Positive fair value from derivatives	**583,257**	**4,410**	**801,102**	**10,818**	**821,656**	**10,818**

25) Amounts owed to credit institutions

Amounts owed to credit institutions amounting to euro 16,078,604 thousand (2008 restated: euro 20,297,505 thousand, published: euro 18,686,846 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2009	31 Dec 2008
on demand	3,922,500	3,019,744
up to 3 months	2,360,933	5,231,310
up to 1 year	1,523,666	3,139,519
up to 5 years	4,848,217	4,551,061
more than 5 years	3,423,289	2,745,212
Amounts owed to credit institutions	**16,078,604**	**18,686,846**

26) Amounts owed to customers

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Measured at fair value through profit or loss	20,419	7,453	7,453
Measured at amortised cost	7,295,050	8,620,514	11,822,002
Savings deposits	136,360	97,114	1,676,756
Other deposits	7,158,689	8,523,400	10,145,246
Amounts owed to customers	**7,315,468**	**8,627,967**	**11,829,455**

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 fall short the redemption amount at maturity by euro 486 thousand (2008 restated and published: the carrying amount exceeded the redemption amount with euro 228 thousand). As the amount of fair value is geared to the performance of the underlying, there were no fair value changes in year 2008 and 2009 that can be traced back to a change of the own credit risk.

Breakdown by residual term

Euro thousand	31 Dec 2009	31 Dec 2008
on demand	2,650,839	3,997,465
up to 3 months	2,041,303	3,319,810
up to 1 year	848,070	2,208,354
up to 5 years	444,184	886,546
more than 5 years	1,331,073	1,417,280
Amounts owed to customers	**7,315,468**	**11,829,455**

27) Debts evidenced by certificates

Debts evidenced by certificates amounting to euro 17,328,664 thousand (2008 restated: euro 14,954,450 thousand, published: euro 15,212,758 thousand) are measured at amortised cost.

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Mortgage and local authority bonds	233,308	219,647	219,647
Bonds	17,095,356	14,734,803	14,971,210
Medium-term notes	0	0	21,900
Debts evidenced by certificates	**17,328,664**	**14,954,450**	**15,212,758**

Breakdown by residual term

Euro thousand	31 Dec 2009	31 Dec 2008
up to 3 months	439,332	1,005,960
up to 1 year	1,965,597	1,460,646
up to 5 years	10,906,365	8,420,971
more than 5 years	4,017,370	4,325,180
Debts evidenced by certificates	**17,328,664**	**15,212,758**

28) Trading liabilities

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Negative fair value from derivatives			
Exchange rate related transactions	105,297	54,994	54,994
Interest rate related transactions	1,128,468	711,261	711,261
Other transactions	3,146	21,364	21,364
Trading liabilities	**1,236,911**	**787,618**	**787,618**

29) Provisions

Euro thousand	Provisions for risks	Other provisions	Total	of which disposal group
As at 1 Jan 2008	37,764	76,863	114,627	10,116
Changes in the scope of consolidation	–2,509	–3,842	–6,352	–6,326
Currency translation	–179	–65	–244	0
Reclassification	19	–30	–11	0
Utilisation	–90	–28,461	–28,551	–812
Release	–11,006	–14,965	–25,970	–3,944
Addition	14,761	30,266	45,028	5,484
As at 31 Dec 2008	38,759	59,767	98,527	4,518
Changes in the scope of consolidation	–969	–6,109	–7,079	–7,120
Currency translation	–91	5	–85	0
Reclassification	0	–1,059	–1,060	0
Utilisation	–3,899	–18,970	–22,869	–503
Release	–5,903	–11,306	–17,209	–976
Addition	26,211	52,870	79,082	5,215
As at 31 Dec 2009	**54,108**	**75,199**	**129,307**	1,133

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. Furthermore provisions were built for the reorientation of the Group. 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 2008	92,159	36,224	4,602	132,985	30,161
Changes in the scope of consolidation	–14,363	–2,741	–314	–17,418	–17,018
Current service costs	924	2,825	414	4,163	1,000
Interest costs	4,940	1,838	246	7,024	1,401
Payments	–3,073	–2,838	–175	–6,086	–1,315
Actuarial gains or losses	–4,165	–3,575	–5	–7,745	177
Net present value as at 31 Dec 2008	76,422	31,733	4,768	112,923	14,405
Unrecognised actuarial gains or losses	–46	3,173	0	3,127	–280
Long-term employee provisions as at 31 Dec 2008	76,376	34,907	4,768	116,050	14,125
Changes in the scope of consolidation	–5,929	–6,301	–853	–13,082	–12,995
Current service costs	562	2,182	474	3,218	515
Interest costs	4,354	1,937	298	6,588	858
Payments	–4,979	–3,627	–377	–8,982	–1,372
Actuarial gains or losses	3,476	–3,673	333	135	238
Net present value as at 31 Dec 2009	73,860	25,425	4,643	103,928	1,370
Unrecognised actuarial gains or losses	–2,397	2,543	0	145	–191
Long-term employee provisions as at 31 Dec 2009	**71,462**	**27,968**	**4,643**	**104,073**	1,178

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 2008	43,848	7,711
Changes in the scope of consolidation	–8,289	–8,289
Return on plan assets	2,086	202
Contributions	1,371	406
Payments	–1,763	–30
Actuarial gains or losses	–4,211	0
Net present value of plan assets as at 31 Dec 2008	33,042	0
Return on plan assets	1,947	0
Contributions	5,836	0
Payments	–1,837	0
Actuarial gains or losses	1,078	0
Net present value of plan assets as at 31 Dec 2009	**40,067**	0

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
31 Dec 2008				
Long-term employee provisions	76,376	34,907	4,768	116,050
Net present value of plan assets	–33,042	0	0	–33,042
Net liability recognised in balance sheet	**43,334**	**34,907**	**4,768**	**83,009**
of which disposal group	6,380	6,918	827	14,125
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	169	882	128	1,178

Historical information

Euro thousand	2009	2008	2007	2006	2005
Net present value of obligation	**103,928**	112,923	142,524	177,291	175,025
Net present value of plan assets	**40,067**	33,042	43,848	43,341	42,314

31) Tax liabilities

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Current tax liabilities	**17,440**	28,203	30,542
Deferred tax liabilities	**129,151**	138,094	142,599
Tax liabilities	**146,591**	**166,297**	**173,142**

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 2009	31 Dec 2008 restated	31 Dec 2008 published
Loans and advances to credit institutions	511	657	657
Loans and advances to customers, including risk provisions	49,017	24,184	24,206
Trading assets	0	341	341
Financial investments	12,733	4,181	5,141
Assets for operating lease	84,760	107,546	107,546
Participations	6,381	3,002	3,002
Intangible and tangible fixed assets	14,541	13,083	13,083
Amounts owed to credit institutions	12,618	10,771	11,769
Amounts owed to customers	438	522	522
Debts evidenced by certificates and subordinated liabilities	9,711	2,592	4,415
Provisions for pensions, severance payments and other provisions	1,150	528	540
Other assets and liabilities	242,537	310,681	316,846
Other balance sheet items	15,622	13,562	19,278
Deferred taxes before netting	450,020	491,649	507,345
Offset against asset-side deferred taxes	–320,870	–353,555	–364,746
Reported deferred tax liabilities	**129,151**	**138,094**	**142,599**

32) Other liabilities

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Deferred items	56,018	53,810	56,241
Other liabilities	377,863	391,150	410,084
Negative fair value from derivatives in the investment book	971,532	1,322,666	1,347,940
Other liabilities	**1,405,413**	**1,767,626**	**1,814,264**

The table below shows the fair values of derivatives used in hedge accounting in accordance with IFRS

	31 Dec 2009		31 Dec 2008 restated		31 Dec 2008 published	
Euro thousand	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Exchange rate related transactions	43,686	3,030	79,235	6,076	79,235	6,076
Interest rate related transactions	220,277	16,521	616,230	11,187	640,770	11,187
Other transactions	92,887	0	149,794	0	149,794	0
Negative fair value from derivatives	**356,851**	**19,551**	**845,259**	**17,263**	**869,799**	**17,263**

33) Subordinated liabilities

Subordinated liabilities amounting to euro 1,923,117 thousand (2008 restated: euro 1,956,856 thousand, published: euro 2,014,314 thousand) are measured at amortised cost.

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Subordinated liabilities	1,043,706	1,076,699	1,098,928
Supplementary capital	879,412	880,156	915,386
Subordinated liabilities	**1,923,117**	**1,956,856**	**2,014,314**

Subordinated liabilities comprise hybrid tier I capital in the amount of euro 353,123 thousand (2008 restated and published: euro 355,494 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2009	31 Dec 2008
up to 3 months	2,169	23,016
up to 1 year	10,097	31,365
up to 5 years	901,862	922,087
more than 5 years	1,008,989	1,037,845
Subordinated liabilities	**1,923,117**	**2,014,314**

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
31 Dec 2009					
Carrying amount	16,078,604	7,315,468	17,328,664	1,923,117	971,532
Undiscounted cash flows	**18,142,093**	**8,538,366**	**22,149,745**	**2,317,376**	**2,265,523**
up to 3 months	7,166,696	4,878,404	758,213	11,514	73,728
up to 1 year	1,765,513	990,891	2,270,136	15,128	380,454
up to 5 years	5,194,402	791,785	12,605,996	929,172	597,429
more than 5 years	4,015,481	1,877,286	6,515,400	1,361,562	1,213,912
31 Dec 2008					
Carrying amount	18,686,846	11,829,455	15,212,758	2,014,314	1,347,940
Undiscounted cash flows	**21,848,477**	**13,124,345**	**19,226,362**	**2,780,592**	**2,362,063**
up to 3 months	7,970,477	7,240,572	1,098,381	46,942	–2,275
up to 1 year	3,714,178	2,381,430	1,867,436	120,754	371,877
up to 5 years	5,614,941	1,439,559	10,328,788	1,193,294	666,326
more than 5 years	4,548,880	2,062,784	5,931,757	1,419,602	1,326,135

The values of 2008 include the disposal group, the amounts in 2009 are shown without the disposal group.

35) Equity

As at 31 December 2009, 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.

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 2009 (2008: euro 34,078 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

	31 Dec 2009		31 Dec 2008	
Number of units	Shares	Participation certificates	Shares	Participation certificates
Shares and participation certificates outstanding as at 1 Jan	42,100,401	151,865	42,102,065	157,698
Disposal of treasury stocks and participation certificates	0	16	0	2,850
Addition of treasury stocks and participation certificates	–2,087	–2,256	–1,664	–8,683
Issue participation certificates	0	20,000	0	0
Shares and participation certificates outstanding as at 31 Dec	42,098,314	169,625	42,100,401	151,865
Treasury stocks and participation certificates	693,532	10,824	691,265	8,584
Shares and participation certificates as at 31 Dec	**42,791,666**	**180,449**	**42,791,666**	**160,449**

20,449 pieces (2008: 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, 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	2009	2008
Dividend voting capital	0	23,092
Dividend non-voting capital	2,660	14,596
Total	**2,660**	**37,688**

In the business year 2010 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 calculated in accordance with the Austrian Banking Act can be broken down as follows (the amounts include the disposal group).

Euro thousand	31 Dec 2009	31 Dec 2008
Subscribed capital (less treasury stocks)	1,845,000	837,902
Open reserves (including differential amounts and minority interest)	1,061,125	1,957,632
Funds for general banking risks	10,886	18,028
Intangible assets	–34,461	–32,574
Net loss	–68,707	–125,647
Core capital (tier I capital) before deductions	2,813,843	2,655,341
Deductions from core capital (50 % deduction pursuant to section 23 (13), and section 29 (1) and (2) Austrian Banking Act)	–99,161	–140,667
Core capital (tier I capital) after deductions	2,714,682	2,514,674
Supplementary capital	361,322	409,845
Eligible subordinated liabilities	620,201	622,127
Hidden reserves and revaluation reserves	117	3,382
IRB risk provision surplus	55,510	0
Supplementary capital (tier II capital) before deductions	1,037,150	1,035,354
Deductions from supplementary capital (50 % deduction pursuant to section 23 (13), and section 29 (1) and (2) Austrian Banking Act)	–99,161	–140,667
Supplementary capital (tier II capital) after deductions	937,989	894,688
Short-term subordinated liabilities (tier III capital)	29,790	14,284
Eligible qualifying capital	3,682,461	**3,423,646**
Capital requirements	2,361,064	2,817,183
Surplus capital	1,321,397	606,463

Core capital ratio (tier I) (in relation to the assessment base pursuant to section 22 Austrian Banking Act - credit risk)	9.96 %	7.56 %
Equity ratio (solvency ratio) (in relation to credit risk after deduction of capital requirements for market and operational risk)	12.85 %	9.82 %
Core capital ratio (in relation to the risks pursuant to section 22 (1) no. 1 - 5 Austrian Banking Act)	9.20 %	7.14 %
Equity ratio (in relation to the risks pursuant to section 22 (1) no. 1 - 5 Austrian Banking Act)	12.48 %	9.72 %

Open reserves include hybrid tier I capital totalling euro 353,123 thousand (2008: euro 355,494 thousand). Thereof euro 53,123 thousand will not account for eligible tier I capital in the course of consolidation as at 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 2009	31 Dec 2008
Risk-weighted assessment base pursuant to section 22 Austrian Banking Act - credit risk	27,255,125	33,262,990
Of which 8 % minimum capital requirements for credit risk	2,180,410	2,661,039
Capital requirements for position risk in debt instruments, equities, foreign exchange and commodities - market risk	55,241	42,140
Capital requirements for operational risk	125,413	114,004
Total capital requirements	2,361,064	**2,817,183**

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 June 2018: 6m Euribor + 10 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 : 10.30 % p.a., max. 12m Euribor + 1000 bp	1,000,000
VBAG Fixed/Floating Rate Perpetual Redeemable Supplementary Capital Notes 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
Reverse Dual Currency Note	subordinated liabilities	perpetual	4.40 % p.a.; from 8 Sep 2033 5 Y JPY-Swap Rate + 1.90 % p.a.	53,123
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 16.04.2014: 6.375 %	33,000
Supplementary bond capital 04/24	subordinated liabilities	29.04.2024	5.65 % p.a.; from 29.04.2014: 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	17,600
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.	34,700
Supplementary bond capital 05/18	subordinated liabilities	29.07.2018	6m Euribor + 72 bp; from 29.07.2015: 6m Euribor + 180 bp	63,400
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.	7,500
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	12,000
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 Jun 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.	1,179
ERP Fonds	subordinated liabilities	31.12.2011	3.50 % p.a.	1,322

Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
Subordinated 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
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	259,450
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 2009, 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 a classification of 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 2009								
Liquid funds	12	0	0	0	0	3,008,052	3,008,052	3,008,052
Loans and advances to credit institutions	13	0	0	0	0	5,961,684	5,961,684	5,961,666
Loans and advances to customers	14	0	0	0	0	24,168,604	24,168,604	22,887,538
Trading assets	16	1,764,095	0	0	0	0	1,764,095	1,764,095
Financial investments	17	0	1,066,895	1,959,208	4,466,256	1,918,289	9,410,647	9,129,808
Assets for operating lease	18	0	0	0	0	1,836,332	1,836,332	1,836,332
Companies measured at equity and participations	19, 20	0	0	0	0	726,141	726,141	726,141
Derivatives – investment book	24	1,049,080	0	0	0	0	1,049,080	1,049,080
Financial assets – total		**2,813,175**	**1,066,895**	**1,959,208**	**4,466,256**	**37,619,102**	**47,924,636**	**46,362,713**
Financial assets of the disposal group	2	0	0	0	37,106	354,993	392,099	380,898
Amounts owed to credit institutions	25	0	0	0	0	16,078,604	16,078,604	16,084,896
Amounts owed to customers	26	0	20,419	0	0	7,295,050	7,315,468	7,313,196
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	971,532	0	0	0	0	971,532	971,532
Subordinated liabilities	33	0	0	0	0	1,923,117	1,923,117	1,277,832
Financial liabilities - total		**2,208,443**	**20,419**	**0**	**0**	**42,625,436**	**44,854,298**	**44,066,966**
Financial liabilities of the disposal group	2	0	0	0	0	365,402	365,402	365,402

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 2008								
Liquid funds	12	0	0	0	0	3,875,629	3,875,629	3,875,629
Loans and advances to credit institutions	13	0	0	0	0	6,162,931	6,162,931	6,209,794
Loans and advances to customers	14	0	0	0	0	26,027,798	26,027,798	25,349,809
Trading assets	16	1,122,015	0	0	0	0	1,122,015	1,122,015
Financial investments	17	0	1,357,211	2,352,731	3,066,197	2,137,667	8,913,805	8,261,165
Assets for operating lease	18	0	0	0	0	1,852,592	1,852,592	1,852,592
Companies measured at equity and participations	19, 20	0	0	0	0	891,941	891,941	891,941
Derivatives – investment book	24	1,366,930	0	0	0	0	1,366,930	1,366,930
Financial assets – total		**2,488,945**	**1,357,211**	**2,352,731**	**3,066,197**	**40,948,558**	**50,213,641**	**48,929,875**
Financial assets of the disposal group	2	24,780	0	26,497	498,124	4,593,131	5,142,533	5,033,366
Amounts owed to credit institutions	25	0	0	0	0	20,297,505	20,297,505	20,271,149
Amounts owed to customers	26	0	7,453	0	0	8,620,514	8,627,967	8,606,208
Debts evidenced by certificates	27	0	0	0	0	14,954,450	14,954,450	14,618,968
Trading liabilities	28	787,618	0	0	0	0	787,618	787,618
Derivatives - investment book	32	1,322,666	0	0	0	0	1,322,666	1,322,666
Subordinated liabilities	33	0	0	0	0	1,956,856	1,956,856	1,582,150
Financial liabilities - total		**2,110,284**	**7,453**	**0**	**0**	**45,829,325**	**47,947,062**	**47,188,759**
Financial liabilities of the disposal group	2	25,274	0	0	0	4,783,920	4,809,194	4,808,189

Financial investments contain securities classified as held to maturity and loans & receivables with a carrying amount of euro 2,320,149 thousand (2008: euro 3,254,406 thousand), a total of euro 324,378 thousand (2008: euro 734,583 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

	Interest rate risk		**Foreign currency risk**	
Euro thousand	Available for sale	Amortised cost	Available for sale	Amortised cost
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**
31 Dec 2008				
Loans and advances to credit institutions	0	35,760	0	0
Loans and advances to customers	0	486,134	0	0
Financial investments	1,387,339	408,505	0	0
Financial assets	**1,387,339**	**930,398**	**0**	**0**
Financial assets of the disposal group	0	4,979	0	0
Amounts owed to credit institutions	0	1,861,213	0	0
Amounts owed to customers	0	960,591	0	0
Subordinated liabilities	0	14,367,262	0	144,107
Financial liabilities	**0**	**17,189,066**	**0**	**144,107**
Financial liabilities of the disposal group	0	561,604	0	0

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 2009			
Trading assets	97,672	1,666,424	1,764,095
Financial investments	4,849,904	683,247	5,533,151
at fair value through profit or loss	885,107	181,788	1,066,895
available for sale	3,964,797	501,459	4,466,256
Derivatives – investment book	0	1,049,080	1,049,080
Total	**4,947,576**	**3,398,751**	**8,346,326**
Amounts owed to customers	0	20,419	20,419
Trading liabilities	0	1,236,911	1,236,911
Derivatives – investment book	0	971,532	971,532
Total	**0**	**2,228,862**	**2,228,862**

In business year 2009 there have not been any reclassifications between the levels.

VBAG only uses market data which are from observable markets. If the system delivers prices for inactive traded positions, these prices are checked with prices based on secondary available market data, like 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	Exchange rate related transactions	Interest rate related transactions
31 Dec 2009		
up to 3 months	0	–730
up to 1 year	0	–3,091
up to 5 years	0	–26,758
more than 5 years	0	4,410
Total	**0**	**–26,170**
31 Dec 2008		
up to 3 months	2	759
up to 1 year	20	4,667
up to 5 years	22	–14,511
more than 5 years	0	7,805
Total	44	–1,280

Periods in which cash flows are expected to affect the consolidated income statement

Euro thousand	Exchange rate related transactions	Interest rate related transactions
31 Dec 2009		
up to 3 months	0	–888
up to 1 year	0	–3,463
up to 5 years	0	–27,416
more than 5 years	0	4,716
Total	**0**	**–27,051**
31 Dec 2008		
up to 3 months	8	1,785
up to 1 year	17	4,843
up to 5 years	19	–17,610
more than 5 years	0	9,777
Total	44	–1,205

The cash flows from cash flow hedges done with cross currency swaps are reported in interest rate related transactions, because it hedges the interest rate risk as well as the foreign currency exchange risk.

39) Derivatives

Derivative financial instruments

Euro thousand	Nominal value up to 1 year	1 to 5 years	more than 5 years	Total	Fair value 31 Dec 2009	31 Dec 2008
Interest related transactions	19,400,976	28,986,406	31,218,180	79,605,561	613,357	243,133
Caps & Floors	160,625	1,367,822	1,293,644	2,822,092	9,035	2,461
Forward rate agreements	1,207,774	0	0	1,207,774	137	2,483
Futures	2,601,567	25,000	0	2,626,567	–135	–510
Interest rate swaps	15,411,009	26,547,473	26,356,006	68,314,488	686,584	377,291
Swaptions	20,000	1,046,111	3,568,529	4,634,640	–82,265	–138,591
Currency related transactions	12,840,227	2,036,864	1,185,661	16,062,752	–118,261	–57,288
Cross currency swaps	457,252	1,732,494	1,003,005	3,192,751	–44,813	–62,271
Foreign exchange options	1,913,479	288,875	182,443	2,384,797	1,453	4,314
Forward exchange transactions	10,469,496	15,495	213	10,485,204	–74,901	668
Credit related transactions	196,474	3,586,508	1,368,363	5,151,345	–1,005	0
Other transactions	2,763,653	4,329,495	908,809	8,001,957	5,947	–90,850
Total	**35,201,331**	**38,939,272**	**34,681,013**	**108,821,615**	**500,038**	**94,995**

Fair values 2009 are presented excluding disposal group. In 2008, the disposal group reported a fair value for interest rate related transactions of euro – 494 thousand.

All derivative financial instruments – except for futures – are OTC products.

40) Hedge of a net investment in a foreign operation

In business year 2009 there was no hedge of a net investment in a foreign operation.

In 2008, VBAG hedged the foreign currency risk of VB Czech Republic using a foreign exchange option. The hedge was effective for the entire term to 29 December 2008. An amount of euro 11,117 thousand was recognised directly in the currency reserve in equity and a further euro 10,681 thousand was recognised directly in the minority interest in currency reserve. The option premium amounting to euro –2,725 thousand was recognised in profit or loss under income from financial investments.

41) Assets and liabilities denominated in foreign currencies

On the balance sheet date, assets denominated in foreign currencies (non-MUM currencies) totalled euro 11,870,805 thousand (2008: euro 17,701,597 thousand), whereas liabilities denominated in foreign currencies stood at euro 5,972,045 thousand (2008: euro 9,547,460 thousand). Differences between the amounts of foreign currency assets and liabilities are covered by derivative transactions.

42) Trust transactions

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Assets from trust transactions			
Loans and advances to credit institutions	4	15	15
Loans and advances to customers	189,487	164,510	173,567
Financial investments	3,694	727	727
Mutual funds	3,138,022	2,993,907	2,993,907
Liabilities arising from trust transactions			
Amounts owed to credit institutions	0	742	2,474
Amounts owed to customers	189,491	164,510	171,836
Debts evidenced by certificates	3,694	0	0
Mutual funds	3,138,022	2,993,907	2,993,907

43) Subordinated assets

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Loans and advances to customers	14,688	18,193	18,193
Financial investments	341,723	327,458	327,458

44) Assets pledged as collateral for the Group's liabilities

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Assets pledged as collateral			
Loans and advances to customers	751,760	460,577	460,577
Financial investments	55,937	579,951	579,951
Other assets	0	120,795	120,795
Liabilities for which assets have been pledged as collateral			
Amounts owed to credit institutions	807,697	970,296	970,296
Amounts owed to customers	0	38,200	38,200

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and advances to customers in the amount of 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 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-Würtemberg and KfW Bankengruppe. This is subject to the same terms as for OeKB.

45) Contingent liabilities and credit risks

Euro thousand	31 Dec 2009	31 Dec 2008 restated	31 Dec 2008 published
Contingent liabilities			
Acceptances and endorsements	132,965	197,860	199,489
Liabilities arising from guarantees	4,950,992	4,821,935	4,995,841
Liabilities arising from assets pledged as collateral	88,141	90,263	90,263
Others (amount guaranteed)	41,201	44,098	44,098
Commitments			
Liabilities arising from sales with an option to repurchase	0	102,203	102,203
Unutilised loan commitments	6,663,748	6,159,133	6,527,926

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 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
31 Dec 2008			
Carrying amount	6,527,926		
Undiscounted cash flows	**6,527,926**		
up to 3 months	3,763,495		
up to 1 year	2,057,906		
up to 5 years	616,503		
more than 5 years	90,022		

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 44,177 thousand.

46) Repurchase transactions and other transferred assets

As at 31 December 2009, VBAG as pledgor had buy-back commitments under genuine repurchase agreements in the amount of euro 831,169 thousand (2008 euro 180,777 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 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	1,104
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	62
Provisions	2,791	0	0	0	0
Liabilities arising from guarantees	54,413	31	0	39,011	0
31 Dec 2008					
Loans and advances to credit institutions	564	753,896	0	30,911	0
Loans and advances to customers	621,321	442,604	6,244	0	4,573
Risk provisions (–)	–27,200	–10,831	0	0	0
Debt securities	0	0	0	956	956
Amounts owed to credit institutions	1,671	927,819	0	2,738,161	4,036
Amounts owed to customers	684,287	131,164	36,017	0	2,986
Provisions	0	0	0	0	0
Liabilities arising from guarantees	0	0	0	40,011	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.

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 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**
31 Dec 2008			
Mortgage bonds	495,640	218,555	277,085
Covered bonds	1,396,008	1,351,223	44,786
Total	**1,891,648**	**1,569,778**	**321,870**

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 public sector guaranteed debentures and surplus cover of 2 % calculated on the basis of the net present value of all outstanding covered bonds.

49) Branches

	31 Dec 2009	31 Dec 2008
Domestic	11	50
Foreign	583	610
Total number of branches	594	660

Due to the deconsolidation of the retail banks, the number of domestic branches decreased by 38. As at 31 December 2009, VB Linz+Mühlviertel owns 10 branches (31 December 2008: 11).

50) Events occurring after the balance sheet date

In the first quarter of 2010 negotiations for the sale of VB Linz+Mühlviertel initiated. This intended sale is the result of the continuation of the reorientation of the Group, which already started in 2009. In 2010 further strategic options and arrangements will be reviewed. The main focus of attention will be the evaluation of strategic partnerships. This project already begun and is overseen by Lazard & Co GmbH.

No further events with a significant impact on the Group's financial statements as at 31 December 2009 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 19 March 2010. 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 four 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. The allocation of refinancing was changed in the 2009 business year. Equity is now allocated for 10 % of the allocated asset item. For the remaining 90 %, amounts owed to credit institutions and debts evidenced by certificates are allocated in relation to refinancing at Österreichische Volksbanken-AG. The comparative figures have been restated accordingly.

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, with Investkredit Bank AG being responsible for management of operations. Volksbank Malta Limited and VB Factoring Bank AG are also included in this segment.

Retail

The Retail segment consists of the domestic retail, retail Central and Eastern Europe, and movable property leasing business areas. The domestic retail division combines the activities of Volksbank Vienna AG, Volksbank Linz-Mühlviertel rGmbH, Bank für Ärzte und Freie Berufe AG as well as IMMO-Bank AG, which are combined in the line "Result from the disposal group" as a result of the sales already carried out and the planned sale of VB Linz+Mühlviertel. Retail 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 movable property leasing division.

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.

Financial Markets

All activities relating to raising liquidity in the money and capital markets as well as medium-term and long-term strategic investments in national and international markets are concentrated in this segment. The money and securities trading division is responsible for the management of VBAG's trading book and offers clients the full range of standard money market products.

Other Operations

The Other Operations segment is entrusted with all other activities which cannot be clearly assigned to any one of the segments described above. Investment income and loss absorption which the parent company receives from consolidated and unconsolidated subsidiaries is reported under net interest income. This figure is negative in the 2009 business year. In the previous year, this item contained a portion of the special dividend of euro 400 million. Furthermore, net interest income also includes a net interest loss of VBAG resulting from the severe decline in the interest rate level in 2009. 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 it carries 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. 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 Kommunalkredit disposal group was allocated here in the previous year, as the Public Finance segment was wound up.

Consolidation

Consolidation issues are reported separately from other activities in the column Consolidation. The most significant amounts included in net interest income are the consolidation of investment income and loss absorption from fully consolidated subsidiaries. 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	Corporate Finance	Retail	Real Estate	Financial Markets	Other Operations	Consolidation	Total
Net interest income							
2009	**136,567**	**557,692**	**–122,914**	**56,763**	**–363,847**	**159,968**	**424,229**
2008	170,823	450,286	152,811	72,073	571,428	–262,746	1,154,675
Risk provisions							
2009	**–383,224**	**–268,890**	**–169,113**	**–39,158**	**–3,002**	**0**	**–863,387**
2008	–44,588	–108,802	–18,992	25,870	2,846	0	–143,666
Net fee and commission income							
2009	**12,439**	**87,487**	**6,096**	**28,964**	**21,233**	**–6,266**	**149,952**
2008	22,165	108,685	7,780	34,706	18,365	–6,716	184,985
Net trading income							
2009	**549**	**3,639**	**3,825**	**117,964**	**5,091**	**–10,403**	**120,665**
2008	–159	16,377	–22,350	54,268	–4,441	–2,232	41,461
General administrative expenses							
2009	**–65,271**	**–347,809**	**–59,256**	**–52,039**	**–66,641**	**30,757**	**–560,258**
2008	–88,142	–385,608	–80,895	–56,215	–44,526	30,963	–624,423
Other operating result							
2009	**897**	**6,913**	**–30,917**	**131**	**31,092**	**–21,845**	**–13,729**
2008	–8,313	6,158	–166,248	–131	29,363	–21,645	–160,815
of which impairment of goodwill							
2009	***0***	***–4,232***	***–640***	***0***	***0***	***0***	***–4,872***
2008	*0*	*0*	*–176,332*	*0*	*0*	*0*	*–176,332*
Income from financial investments							
2009	**–1,029**	**–3,749**	**–19,236**	**–94,091**	**–154,522**	**0**	**–272,626**
2008	–108,880	–8,324	–21,233	–105,174	–51,728	0	–295,339
Income from the disposal group							
2009	**0**	**71,702**	**0**	**0**	**0**	**0**	**71,702**
2008	0	24,203	0	0	–582,930	0	–558,727
Annual result before taxes							
2009	**–299,072**	**106,984**	**–391,513**	**18,535**	**–530,597**	**152,210**	**–943,453**
2008	**–57,094**	**102,975**	**–149,127**	**25,396**	**–61,624**	**–262,375**	**–401,849**
Total assets							
31 Dec 2009	**8,535,828**	**18,489,368**	**7,172,286**	**4,883,234**	**31,404,526**	**–22,368,797**	**48,116,444**
31 Dec 2008	10,520,254	24,399,651	7,294,909	5,329,270	31,190,609	–22,919,782	55,814,911
Loans and advances to customers							
31 Dec 2009	**5,869,540**	**13,647,505**	**4,312,301**	**643,841**	**1,544,913**	**–1,849,496**	**24,168,604**
31 Dec 2008	6,657,537	14,280,770	4,502,838	422,499	2,182,075	–2,017,922	26,027,798
Amounts owed to customers							
31 Dec 2009	**517,849**	**4,781,101**	**657,796**	**1,443,467**	**362,575**	**–447,320**	**7,315,468**
31 Dec 2008	1,050,204	4,906,315	690,970	2,142,179	674,972	–836,673	8,627,967
Debts evidenced by certificates, including subordinated liabilities							
31 Dec 2009	**3,681,178**	**764,292**	**886,568**	**1,015,974**	**16,730,517**	**–3,826,747**	**19,251,782**
31 Dec 2008	2,895,822	782,684	914,647	943,426	13,678,882	–2,304,155	16,911,306

b) Segment reporting by regional markets

Euro thousand	Austria	Central and Eastern Europe	Other markets	Total
Net interest income				
2009	**8,109**	**323,850**	**92,270**	**424,229**
2008	564,736	529,267	60,672	1,154,675
Risk provisions				
2009	**–401,814**	**–262,498**	**–199,076**	**–863,387**
2008	–46,291	–104,552	7,177	–143,666
Net fee and commission income				
2009	**53,377**	**88,813**	**7,762**	**149,952**
2008	81,239	111,203	–7,457	184,985
Net trading income				
2009	**116,774**	**341**	**3,550**	**120,665**
2008	32,603	12,064	–3,206	41,461
General administrative expenses				
2009	**–190,913**	**–347,679**	**–21,666**	**–560,258**
2008	–203,544	–396,582	–24,297	–624,423
Other operating result				
2009	**18,981**	**–32,931**	**221**	**–13,729**
2008	11,793	–177,742	5,133	–160,815
Income from financial investments				
2009	**–234,055**	**–2,620**	**–35,951**	**–272,626**
2008	–33,834	–10,586	–250,918	–295,339
Income from the disposal group				
2009	**71,702**	**0**	**0**	**71,702**
2008	–558,727	0	0	–558,727
Annual result before taxes				
2009	**–557,838**	**–232,724**	**–152,890**	**–943,453**
2008	**–152,026**	**–36,927**	**–212,896**	**–401,849**

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 economic and financial crisis has had a strong impact on the risk management activities of VBAG in the past financial year. As well as rounding off the risk profile by developing methods to quantify credit spread risk and real estate risk on the basis of value at risk approaches, it was also necessary to speed up ongoing reporting and optimise its content in order to provide real-time, relevant management information, thus allowing a prompt reaction to current developments.

New calculation methods have been defined for liquidity risk and non-performing loans and the periodicity of both internal and external reports containing this information has been increased. The presentation of strategic investment book positions has been expanded considerably. The Group's economic collateral catalogue to be applied across the Group has been revised and the measurement and limiting of transfer risk has been stepped up further.

In addition, the issue of stress testing also played a key role. Firstly, stress scenarios were developed and system-relevant banks were subjected to a stress test by the Austrian National Bank as part of the Financial Sector Assessment Programme in spring and autumn of 2009 on the basis of IMF forecasts on economic development. Secondly, the methods behind the process developed by VBAG to carry out bank-wide risk stress tests were further developed in 2009 and have been performed every six months since mid-2009. Finally, changes were also made to the structural organisation, which are described in further detail under Point a).

In terms of lending, an intensive watch list procedure has been implemented for corporate customers which helps to identify credit risks at an early stage.

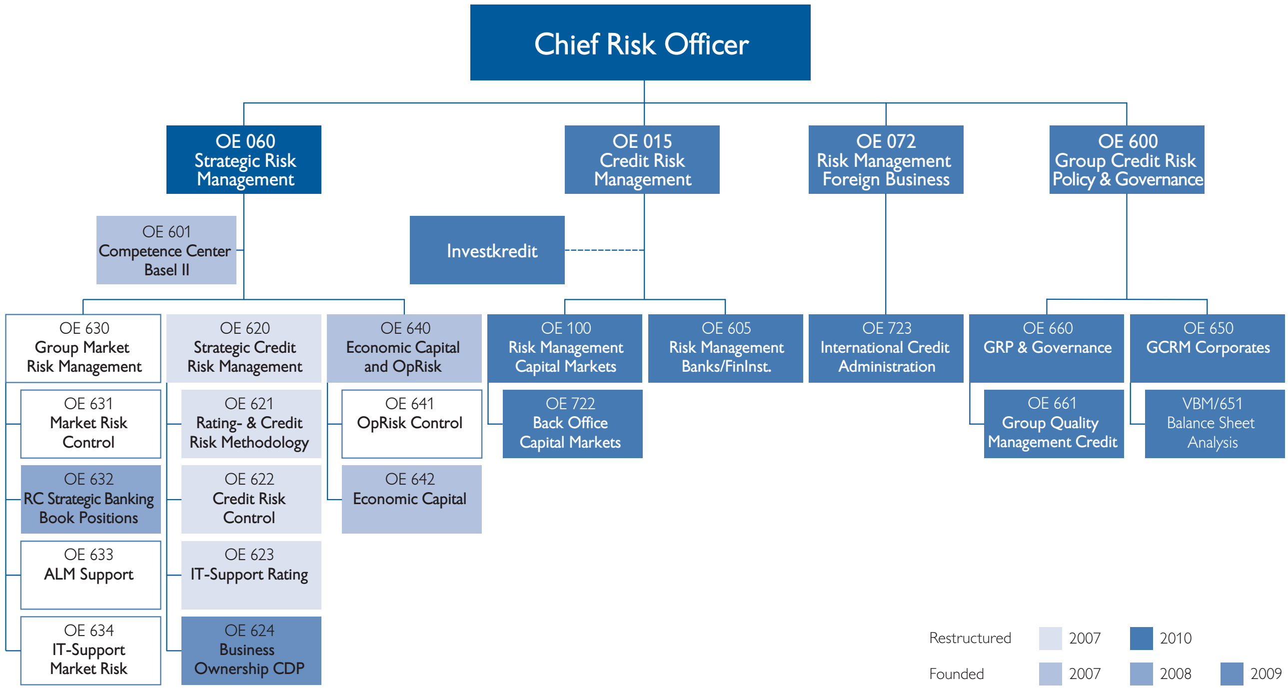
a) Risk management structure and basic principles of risk policy

Risk management structure

The VBAG Group has implemented the organisational precautions necessary to meet the requirements of a modern risk management system. 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.

As of 1 January 2009, Michael Mendel took over the position of Group Chief Risk Officer from Wolfgang Perdich. All centrally managed and regulated risk management activities in the VBAG Group are concentrated in this 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 end of 2009, operational risk management was restructured at Group level. Dr. Monika Fürnsinn, who was appointed Chief Risk Officer at Investkredit with effect from 1 January 2010, will at the same time manage the Operational Risk Management unit at Group level, in which banking and capital markets back office functions have been combined. A dedicated Group Risk Control unit has also been created, which combines risk management principles, balance sheet analysis and quality management for lending processes.



Basic principles of risk policy

The basic principles of risk policy encompass the standards 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 the most significant types of risk (market, interest rate, liquidity, credit 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.

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.

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 parameter estimations relating to the variable probability of default (PD), loss given default (LGD), exposure at default (EAD), credit conversion factor (CCF) and value at risk (VaR) calculations are based on past values, they are always validated 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.

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. 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.

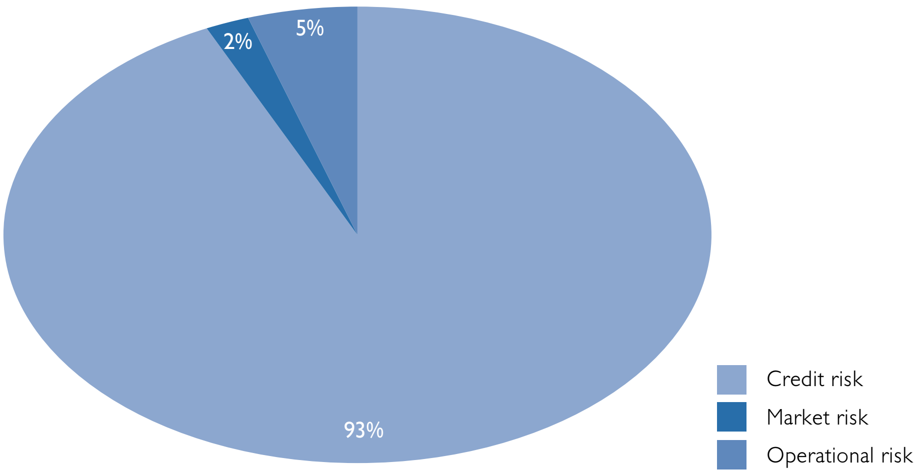
In line with this principle and based on risk assessments conducted across the Group as a whole, the VBAG Group regularly ascertains what risks are present in ongoing banking operations within the Group as well as their significance and the danger they potentially pose for the Group. This process involves 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. In 2009, risk assessment was carried out electronically for the first time 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, which 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.

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 2009, the Managing Board of VBAG resolved upon a regulatory overall bank risk limit. In the course of the risk monitoring process, the risk-bearing ability is calculated, compliance with this limit is monitored on a monthly basis and the Group risk report is produced.

As at 31 December 2009, the regulatory overall risk position is composed as follows:



In 2009, 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.

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 VBAG.

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.

Controlling the credit risk also necessitates the development of sophisticated models and 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 with 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.

A new process has been established in the area of corporate lending used to identify early risk features of borrowers, which has grown to become an important link between credit management in normal transactions and the management of problem loans.

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 credit risk manual 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:

- 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

The CVaR results will also serve as a means of obtaining additional information for portfolio analysis and management, with CVaR being calculated at entire Group level.

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 six risk groups and five markets based on external ratings and business strategy.

Concentration risks

Concentration risks are quantified and assessed quarterly on a Group-wide 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 homepage of Österreichische Volksbanken-AG.

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 60 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 euros. Of the current number of around 63 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

The credit risk section of the Group risk report provides a detailed reporting dayspecific presentation of the existing credit risk in the VBAG Group.

The report contains 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
- Credit rating distributions
- Credit risk concentrations
- Non-performing loans
- Country group analyses
- Customer segments (customer segment split)
- Sector distributions (commerce)

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. In future, the report will also be extended to cover the findings of the portfolio model for calculating the risk capital for the loan portfolio.

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 [1]. The disposal group is not included in the various tables.

[1] Due to changes in the composition of the Group and allocation to the individual business units, a year-on-year comparison has been omitted.

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 2009
Gross carrying amount	30,130,288
Risk provision	1,245,350
Carrying amount	28,884,937
Individual impairment	
Risk category 1 (1A - 1E)	47,408
Risk category 2 (2A - 2E)	160,371
Risk category 3 (3A - 3E)	1,887,063
Risk category 4 (4A - 4E)	701,616
Risk category 5 (5A - 5E)	1,885,427
Risk category 6 (NR)	24,745
Gross carrying amount	4,706,629
Risk provision	1,166,608
Net carrying amount	3,540,021
Receivables not impaired but past due 90 days	
Risk category 1 (1A - 1E)	0
Risk category 2 (2A - 2E)	4,689
Risk category 3 (3A - 3E)	11,510
Risk category 4 (4A - 4E)	14,216
Risk category 5 (5A - 5E)	104,266
Risk category 6 (NR)	50
Gross carrying amount	134,733
Neither impaired nor past due	
Risk category 1 (1A - 1E)	5,499,199
Risk category 2 (2A - 2E)	2,714,641
Risk category 3 (3A - 3E)	11,902,985
Risk category 4 (4A - 4E)	3,611,978
Risk category 5 (5A - 5E)	399,848
Risk category 6 (NR)	1,160,275
Gross carrying amount	25,288,926
Portfolio based allowance	78,742
Total net carrying amount	**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 Group-internal defaulted receivables. The distribution of risk provisions is also clarified accordingly. Receivables in risk category 6 [2] are receivables for which there is no external rating and for which there is no regulatory requirement to produce an internal rating.

[2] This also concerns ratings that have not been prepaired in a very small number of cases.

The following table shows gross and net carrying amounts of receivables that have been subject to individual impairment according to risk category.

Euro thousand	Loans and receivables to credit institutions and customers Gross	Net
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 impairments outside default category 5 take place only in a very small number of cases, when complete reversal of individual impairment of a customer that had originally defaulted and then recovered is not carried out for reasons of prudence. 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.

	Receivables total		Receivables in loss		Receivables alive	
Euro thousand	Exposure	Unsecured	Unsecured	Risk provision	Unsecured	Expected Loss
31 Dec 2009						
Real Estate	3,143,421	1,367,812	130,868	104,373	1,236,943	14,557
Corporate	7,075,830	4,913,026	524,756	345,368	4,388,270	42,487
Retail Domestic	2,239,797	1,315,090	29,566	25,285	1,285,524	7,316
Retail CEE	10,356,192	3,765,170	396,640	363,502	3,432,061	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
Total	**30,130,288**	**16,678,001**	**1,269,766**	**995,301**	**15,471,765**	**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	Loans and receivables to credit institutions and customers 31 Dec 2009
Collaterals for individual impaiment loans and receivables	2,289,901
Liquid funds	44,869
Securities	41,095
Mortgages	1,954,243
Guarantees	49,437
Movable goods	164,226
Others	36,031
Collaterals for loans and receivables not impaired but past due 90 days	83,921
Liquid funds	1,482
Securities	0
Mortgages	77,532
Guarantees	1,223
Movable goods	893
Others	2,790
Collaterals for loans and receivables which are neither impaired nor past due	11,078,464
Liquid funds	502,606
Securities	109,761
Mortgages	7,268,750
Guarantees	721,698
Movable goods	2,208,637
Others	267,013
Total value of collaterals	**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	None EU Europe	USA and Canada	Others	Total
31 Dec 2009							
Real Estate	579,622	505,896	1,812,873	142,271	6,257	96,502	**3,143,421**
Corporates	3,234,249	1,862,398	1,476,434	368,712	39,578	94,459	**7,075,830**
Retail Domestic	1,760,207	415,598	51,648	4,444	7,899	0	**2,239,797**
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**
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".

The table below shows the portfolio sub-divided by sector and customer segment with utilisation in the respective categories.

Euro thousand	Puplic sector	Banks	Corporates	Retail SME	Retail Private	Special finance	Total
31 Dec 2009							
Real Estate	10,205	46,414	1,189,081	81,277	3,516	1,812,928	**3,143,421**
Corporates	107,934	278,891	5,764,243	175,055	57,854	691,852	**7,075,830**
Retail Domestic	8,447	787,249	931,896	93,105	348,170	70,930	**2,239,797**
Retail CEE	217,492	838,539	2,253,141	1,228,878	4,565,301	1,252,840	**10,356,192**
Leasing	21,217	8,346	259,072	2,200,501	322,008	44	**2,811,188**
Financial Markets	67,484	4,016,423	411,768	8,186	0	0	**4,503,861**
Total	**432,778**	**5,975,863**	**10,809,202**	**3,787,002**	**5,296,850**	**3,828,593**	**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.

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 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
Accounts 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:

Euro thousand Collaterals	31 Dec 2009 Allowable amount
Financial collateral	699,813
Real estate collateral	9,300,526
Other tangible collateral	2,373,756
Accounts receivables	49,329
Life insurance	256,505
Guarantees	772,358
Credit derivatives	0
Total	**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 via exposure).

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 as at 31 December 2009:

Euro thousand Personal guarantees	31 Dec 2009 Allowable amount
Abstract guarantees	447,947
Guarantees	82,328
Joint security / Guarantees and payer liability (pursuant to section 1357 Austrian Civil Code)	119,116
Second degree security / Deficiency guarantee (pursuant to section 1356 Austrian Civil Code)*	19,659
Second degree security / Ordinary guarantee (pursuant to section 1346 Austrian Civil Code)*	30,856
Guarantee of a bill of exchange acc. Bill of Exchange Act / (Joint security)	61,482
Strict letter of comfort	10,971
Total	**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 via exposure).

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.

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:

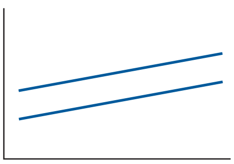
Repricing risk

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.

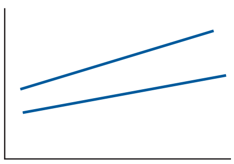
Yield curve risk

Yield curve risk results from disadvantageous changes in an interest rate curve, for example:

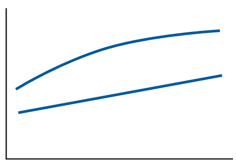
Parallel shift



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 what are termed 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.

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 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. 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.

The following tables have been taken from the SIBP risk report.

As at 31 December 2009, the VBAG Group has a portfolio of structured debt instruments with a nominal value of euro 1,995 million and a current carrying amount of euro 1,703 million. The portfolio is presented in the following tables broken down by asset class and rating structure, asset class and region and asset class and categorisation according to IFRS.

Structured credit portfolio according to asset class and rating structure as at 31 December 2009

Euro thousand	AAA	AA	A	BBB	NIG	Total
Capital Guaranteed Products	19,150	0	28,637	0	0	47,788
CDO	58,716	44,605	10,889	3,324	29,079	146,632
CDO OF ABS	58,567	3,297	2,916	1,560	24,201	90,540
CDO OF CDOS	3,131	0	128	405	3,684	7,348
CDO OF TRUPS	0	6,895	0	19,500	26,221	52,615
CLO	101,076	290,368	172,815	119,981	44,507	728,748
CMBS	48,425	56,168	14,282	9,974	737	129,586
Consumer Loans	20,994	0	0	168	232	21,394
CSO	107,424	4,594	0	7,002	0	119,020
LSS	14,255	0	0	0	9,988	24,243
Others	15,982	0	20,315	15,810	9,686	61,794
RMBS	208,225	39,859	6,098	11,636	7,362	273,180
Total	**655,947**	**445,786**	**256,080**	**189,358**	**155,716**	**1,702,888**

Structured credit portfolio according to asset class and region as at 31 December 2009

Euro thousand	Austria	EU	USA	Others	Total
Capital Guaranteed Products	0	47,788	0	0	47,788
CDO	0	56,652	16,431	73,549	146,632
CDO OF ABS	0	50,948	25,453	14,139	90,540
CDO OF CDOS	0	0	6,612	736	7,348
CDO OF TRUPS	0	0	50,080	2,536	52,615
CLO	0	390,429	299,165	39,096	728,690
CMBS	3,450	116,905	4,076	5,154	129,586
Consumer Loans	0	17,523	3,471	400	21,394
CSO	0	61,073	3,352	54,594	119,020
LSS	0	24,243	0	0	24,243
Others	7,164	18,432	7,939	28,258	61,794
RMBS	0	247,876	871	24,492	273,238
Total	**10,615**	**1,031,869**	**417,450**	**242,954**	**1,702,888**

Structured credit portfolio according to asset class and categorisation according to IFRS as at 31 December 2009

Euro thousand	At fair value through profit or loss	Available for sale	Held to maturity	Loans & receivables	Total
Capital Guaranteed Products	17,288	0	30,500	0	47,788
CDO	84,852	1,041	35,711	25,028	146,632
CDO OF ABS	1,235	928	10,810	77,567	90,540
CDO OF CDOS	3,131	0	0	4,217	7,348
CDO OF TRUPS	0	618	10,838	41,160	52,615
CLO	0	11,911	49,863	666,972	728,745
CMBS	0	3,930	14,601	111,056	129,586
Consumer Loans	0	168	3,471	17,755	21,394
CSO	119,020	0	0	0	119,020
LSS	24,243	0	0	0	24,243
Other	14,948	2,585	11,259	33,002	61,794
RMBS	0	11,516	4,000	257,668	273,184
Total	**264,716**	**32,695**	**171,054**	**1,234,423**	**1,702,888**

Approximately 90 % of the structured credit portfolio has an investment grade rating (AAA to BBB) as at 31 December 2009. CLO bonds from Europe and America represent the main focus of the portfolio. Besides asset class CLO/CDO, RMBS and CMBS bonds constitute the main component of the structured credit portfolio. At almost 90 %, the focus of the portfolio is on first or second securitisation tranches.

A risk limit is to be introduced in 2010 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 is also to be put in place in 2010 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 for a mild and severe recession scenario 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 or for rating migrations for securitisations 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 and rating migrations based on the macroeconomic specifications. In this way, stress test results can be provided on an economic basis for the bond and credit default swaps 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 forecast 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.

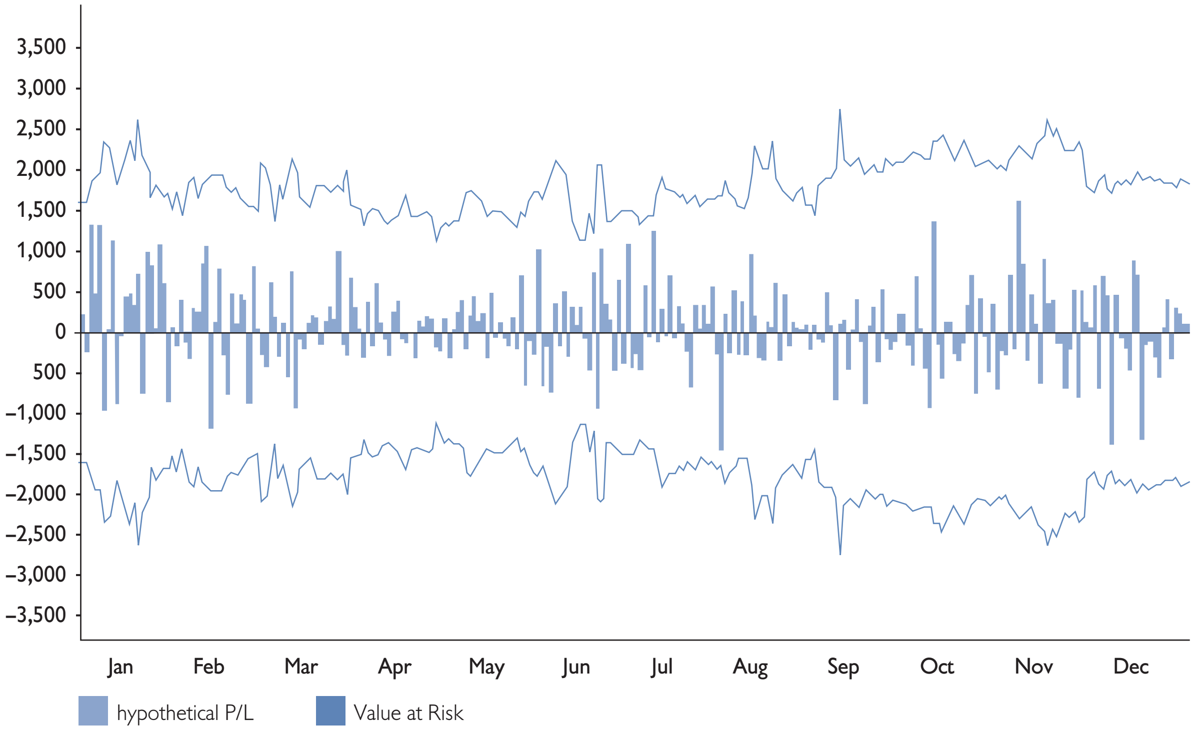
The plausibility and reliability of the risk ratios is reviewed daily by way of backtesting. In this process, the potential risk amounts calculated by the model on a daily basis are compared ex post with the trading results, whereas the Austrian supervisory authorities favour the use of hypothetical 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 for which the portfolio can be assumed to remain constant. On the following day, the portfolio on which the VaR calculation is based is reassessed using the then current prices/results of the calculation model. If backtesting identifies cases where the VaR calculated on an ex ante basis is exceeded, a corresponding analysis of the causes is conducted and immediately forwarded to the Austrian Financial Market Supervisory Authority and the Austrian National Bank.

Despite the extreme volatility on the interest rate, currency, share and commodity futures markets, no outliers were identified in 2009. The best possible multiplier of three for calculating capital requirements thus remains unchanged.

Backtesting results for the trading book in 2009

Amounts in 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. The effectiveness of hedging strategies is ensured through comprehensive position data management and daily market data checks. 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.

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.

Pursuant to section 225 Austrian Solvency Regulation, the VBAG risk monitoring office performs extensive crisis tests on a quarterly basis. For VBAG, extensive means that crisis tests are performed across all trading book portfolios. 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 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. For example, the following crises are used at VBAG:
- Black Monday (16 - 19 October 1987)
- Gulf Crisis (1 - 30 August 1990)
- Mexican Peso Crisis (20 December 1994 to 23 January 1995)
- Asian Crisis (24 - 27 October 1997)
- Russian Crisis (18 August - 8 October 1998)
- Dot-com Crisis (24 March to 14 April 2000)
- 11 September 2001

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 that is forwarded to management as part of daily reporting on the risk and earnings situation.

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. No assumptions are made with regard to early repayment of loans. 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 can be 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 by +1 bp
- Parallel shift by –1 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 by +200 bp
- Parallel shift by –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, the following limits are also monitored for the purpose of limiting internal risk across the Group.

In order to limit interest rate risk, interest rate risk is limited and monitored at between 5 % and 15 % for individual institutions and sub-groups on the basis of the standard procedure. A limit of 10 % has been resolved upon for the VBAG Group. Current utilisation is far below allowed limits in most cases. Sub-groups, but also individual institutions, may also resolve upon tighter restrictions and additional limits.

At VBAG, limits are set using the interest rate sensitivity limit (PVBPs) and gap volume limits for the main currencies (EUR, USD, CHF).

Group gap report

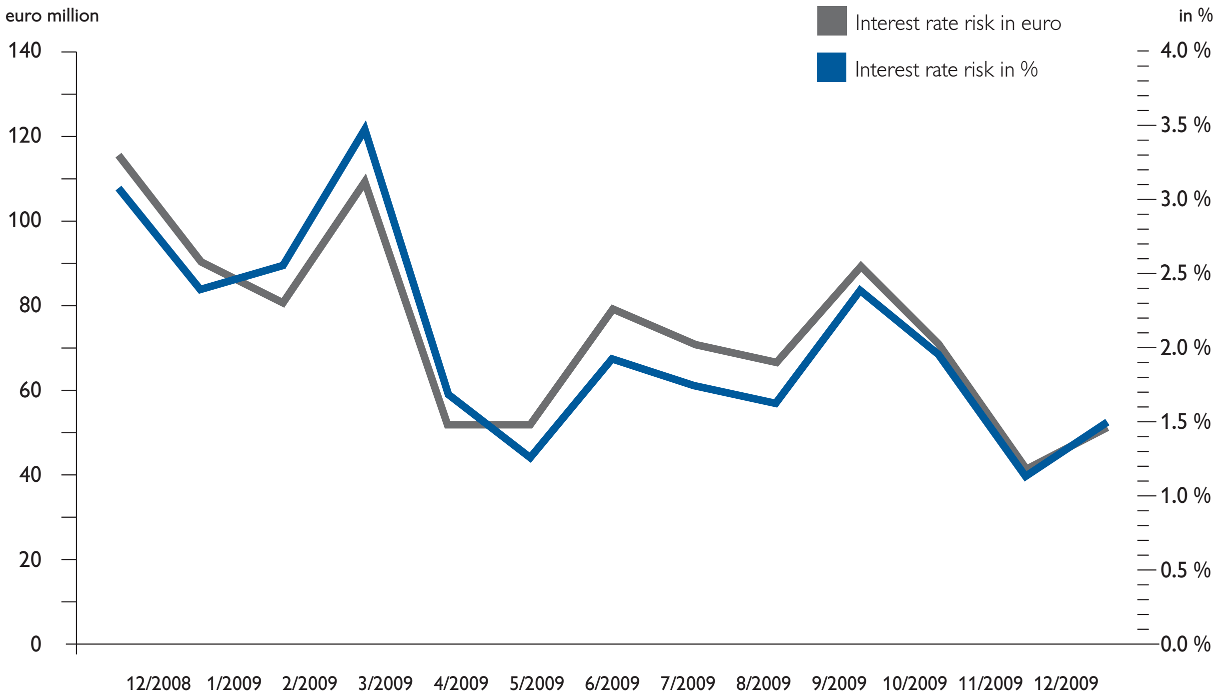
Absolute interest rate risk has declined year-on-year from euro 115.4 million (3.07 % of own funds) to euro 50.8 million (1.48 % of own funds).

As at the same period of the previous year (Dec 2008), these changes totalled euro -65 million on an absolute basis or a decline of 1.59 % 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 other items present in the Group.

Euro thousand	2009		2008	
Currency	Interest rate risk	In % of allowable own ressources	Interest rate risk	In % of allowable own ressources
EUR	13,340	0.39 %	66,801	1.78 %
USD	1,775	0.05 %	17,926	0.48 %
CHF	7,365	0.21 %	6,400	0.17 %
JPY	9,461	0.28 %	111	0.00 %
Others	18,898	0.55 %	24,151	0.64 %
Total	50,838	1.48 %	115,389	3.07 %

Interest rate risk development

This graph shows the net present value interest rate risk in millions of euros (left axis) and in relation to eligible qualifying capital (right axis) over time. In the 2009 business year, a stable interest rate risk was apparent which was low in relation to own funds. Maximum utilisation in the 2009 business year was 3.47 % (March 2009), and the smallest utilisation was 1.11 % (November 2009).



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 until 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 2009.

Changes in the 2009 business year

In order to improve the transparency and standardisation of data collection and to optimise the management of operational risks, the new platform for operational risks, BART, was rolled out across the Group at the start of 2009.

In addition to a module for event documentation (loss event database), the new BART platform provides further modules for tasks such as risk assessment documentation and recording measures and checks. The indicators module allows for the monitoring of measurable indicators. By handling all issues relevant to opRisk on a Group-wide basis in one single tool, this allows for optimal fulfilment of Group requirements and the collective management of operational risks.

Extensive training (introduction to OpRisk management, training sessions aimed at promoting risk and safety awareness and technical training for the new 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 pf 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 order to optimise information content for the Managing Board and the internal supervisory bodies, the Group report has also been revised. The first data loss report was also issued to the Austrian National Bank in 2009.

The risk early warning system was further developed and piloted and an anti-fraud management concept was evaluated.

In the course of operating contingency planning, extensive process 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 a number of units.

The latest threat posed by a new strain of influenza in 2009 was managed by OpRisk Control and the respective measures were devised and coordinated together with the relevant departments such as HR, the works doctor, Facility Management and the Works Council.

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.

VBAG's refinancing strategy is based on five principles:

1. Refinancing in compliance with maturities: The duration of asset and liability positions for each business unit must be co-ordinated. VBAG started several years ago to increase the share of long-term liabilities by expanding the issue of securities. The high share of long-term capital market refinancing transactions has enabled VBAG to emerge unscathed from the liquidity crisis.
2. Deployment of a comprehensive transfer pricing system: By means of active liquidity pricing, ALM manages the maturity structure contribution, thereby enabling an economically transparent comparison of the segments.
3. Optimisation of the cost risk factor: ALM has the task of ensuring long-term refinancing, but at liquidity costs that enable competitive lending transactions to be carried out. Planning is based on the liquidity tool of operative liquidity management and makes rolling observations over the next twelve months. A rough plan for the issue of securities is set out in a 4-year outlook and reconciled with budgeted growth planning.
4. VBAG is the central refinancing unit for the Group and the Volksbanken sector. A suitable planning tool for the sector is currently being tested (together with the ÖGV) which may be based on the VBAG tool, thus allowing for sector-wide liquidity planning.
5. Expansion and management of the liquidity buffer: The pool consists of securities and loans that can be deposited as collateral with the ECB at any time for the purpose of refinancing.

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.

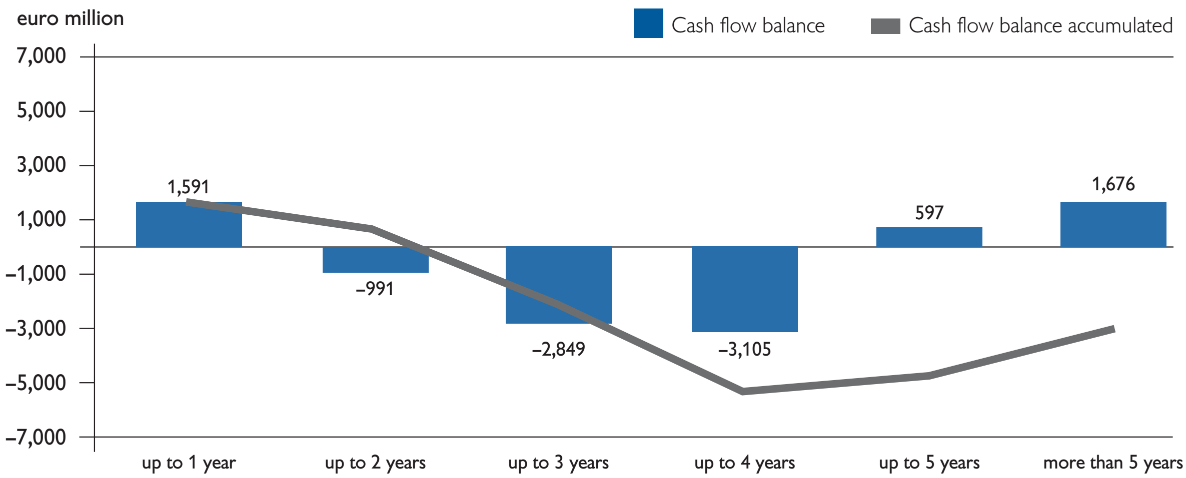
Operational liquidity management comprises five key tasks:

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 30 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

In order to present medium and long-term liquidity risk management in the bank, a liquidity overview is produced in which the cash flows resulting from various bank products are added up for each maturity band. Both capital cash flows and interest cash flows are calculated and modelled in their original currency first of all and are then aggregated and translated into euros. It is possible to obtain a flexible presentation of the desired currencies or maturity bands at any time in the reporting tool. Surplus cover and deficits from the cumulative cash flows are identified and analysed using the GAP method.

Liquidity commitment gaps in the VBAG Group as at 31 December 2009



Capital and interest cash flows are taken into consideration in accordance with the cash flow matching approach. The above graph only shows the actual status. It does not include the option of ECB refinancing via ECB eligible securities, the extension of transactions, new transactions or planned liquidity procurement measures.

The point at which the cumulative cash flows intersect the x-axis is 2 years.

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 (in particular by Europolis). As regards project companies, particular attention is paid to overlaps with investment risk and credit risk.

Risk measurement and controlling
In order to control real estate risks at portfolio level, a dedicated internal approach was developed in 2009 based on a value at risk model. After delimiting the portfolio, the first calculations have already been carried out for the VBAG Group which are to be included in the ongoing risk reporting process from the end of 2009 onwards.

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 from 2010 onwards, 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
“Poland Central Unit 1” Sp. z o.o.; Warszawa	SO	75.00 %	75.00 %	2,863
“VBL POSREDNIK” d.o.o.; Sarajewo	SO	49.36 %	49.95 %	1
“VBRO Services” SRL; Bukarest	HD	50.52 %	50.76 %	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
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
BAVO-Holding GmbH; Wien	SO	100.00 %	100.00 %	18
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
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 %	54
EPC Pi Limited; Limassol	SO	65.00 %	65.00 %	1
EPC Platinum Limited; Limassol	SO	100.00 %	100.00 %	2
EPC Rho Limited; Limassol	SO	65.00 %	65.00 %	1
EPC Three Limited; Limassol	SO	65.00 %	65.00 %	2,491
EPC Two Limited; Limassol	SO	65.00 %	65.00 %	968
Europolis ABP Kft.; Budapest	SO	51.00 %	51.00 %	162
Europolis AG; Wien	KI	100.00 %	100.00 %	5,000
Europolis Bitwy Warszawskiej Sp.z.o.o.; Warszawa	SO	51.00 %	51.00 %	12
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 %	48
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 Ingatlanüzemeltö Kft.; Budapest	SO	51.00 %	51.00 %	19
Europolis IPW Kft.; Budapest	SO	65.00 %	65.00 %	186
Europolis Lipowy Office Park Sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	17
Europolis M1 Kft.; Budapest	SO	51.00 %	51.00 %	203
Europolis Orhideea B.C. SRL; Bukarest	SO	65.00 %	65.00 %	0
Europolis Park Blonie Sp. z o.o.; Warszawa	SO	65.00 %	65.00 %	266
Europolis Park Bucharest Alpha S.R.L.; Bukarest	SO	65.00 %	65.00 %	12,831
Europolis Park Bucharest Beta S.R.L.; Bukarest	SO	65.00 %	65.00 %	1,688
Europolis Park Bucharest Gamma S.R.L.; Bukarest	SO	65.00 %	65.00 %	0
Europolis Park Bucharest Infrastructura S.R.L.; Bukarest	SO	65.00 %	65.00 %	600

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
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	100.00 %	100.00 %	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 %	106
Europolis Real Estate Asset Management s.r.o.; Praha	SO	100.00 %	100.00 %	38
Europolis Real Estate Asset Management Sp. z o.o.; Warszawa	SO	100.00 %	100.00 %	122
EUROPOLIS Sarisu Holding GmbH; Wien	SO	84.62 %	84.62 %	35
Europolis Saski Crescent Sp.z.o.o.; Warszawa	SO	51.00 %	51.00 %	12
Europolis Saski Point Sp. z o.o.; Warszawa	SO	51.00 %	51.00 %	12
EUROPOLIS Selini Holding GmbH; Wien	SO	100.00 %	100.00 %	35
Europolis Sema Park S.R.L.; Bukarest	SO	65.00 %	65.00 %	15,150
Europolis Sienna Center Sp. z o.o.; Warszawa	SO	51.00 %	51.00 %	1,116
EUROPOLIS Technopark s.r.o.; Praha	SO	51.00 %	51.00 %	8
EUROPOLIS Zagrebtower d.o.o.; Zagreb	SO	65.00 %	65.00 %	2,102
Gefinag-Holding AG; Wien	HD	100.00 %	100.00 %	436
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 Mittelstandsfinanzierung 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 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
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 %	15
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	FI	18.46 %	100.00 %	10
Investkredit Funding Ltd.; St. Helier - JERSEY	FI	18.46 %	100.00 %	10
Investkredit International Bank p.l.c.; Sliema	KI	18.46 %	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
Leasing-west GmbH, BRD; Kiefersfelden	FI	100.00 %	100.00 %	51
Magyarországi Volksbank zrt; Budapest	KI	48.67 %	49.72 %	55,713
Mithra Holding Gesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	18

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
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 %	76
OLYMPIA Teplice s.r.o.; Praha	SO	51.00 %	51.00 %	76
Oprah Enterprises Limited; Limassol	SO	100.00 %	100.00 %	3
ÖVAG FINANCE (JERSEY) LIMITED; St. Helier - JERSEY	HD	100.00 %	100.00 %	0
Pet Plus Usluge drustvo s ogranicenom odgovornoscu za usluge; Zagreb	FI	50.06 %	50.07 %	548
PJSC Volksbank; Lviv	KI	50.95 %	50.95 %	22,277
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
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 %	38
RCP Amazon s.r.o.; Praha	SO	65.00 %	65.00 %	38
RCP Beta s.r.o.; Praha	SO	65.00 %	65.00 %	2,788
RCP Delta s.r.o.; Praha	SO	65.00 %	65.00 %	38
RCP Gama s.r.o.; Praha	SO	65.00 %	65.00 %	3,662
RCP ISC s.r.o.; Praha	SO	65.00 %	65.00 %	38
S.C. IMMOROM DELTA SRL; Bukarest	SO	100.00 %	100.00 %	4,251
S.C. Premiumred s.r.l.; Bukarest	SO	100.00 %	100.00 %	0
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"; Kiew	SO	65.10 %	65.10 %	18,198
TzoV "Logistyk-Tsentr A"; Kiew	SO	65.10 %	65.10 %	3
Új Garai tér Ingatlanforgalmi Kft.; Budapest	SO	48.67 %	49.72 %	2,589
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 %	135,155
VB LEASING d.o.o.; Zagreb	FI	50.11 %	50.13 %	10,246
VB Leasing doo Beograd; Novi Beograd	FI	49.72 %	49.72 %	4,486
VB Leasing Finanzierungsgesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	18
VB LEASING POLSKA S.A.; Wroclaw	FI	50.00 %	50.00 %	1,959
VB LEASING ROMANIA IFN S.A.; Bukarest	FI	50.10 %	50.15 %	241
VB Leasing Services, spol. s r.o.; Brno	FI	50.00 %	50.00 %	385
VB LEASING SK, spol. s.r.o.; Bratislava	FI	49.32 %	49.60 %	4,149
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
VBKA-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VBL BROKER DE ASIGURARE SRL; Bukarest	SO	50.10 %	50.15 %	6
VBL SERVICES DOO BEOGRAD; Beograd	FI	50.00 %	50.00 %	87
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
VBS Leasing d.o.o.; Ljubljana	FI	49.96 %	49.96 %	28,973
VBV Anlagenvermietungs- und Beteiligungs-GmbH; Wien	FI	100.00 %	100.00 %	13,444
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 Kereskedlmi Kft.; Budapest	HD	48.67 %	49.72 %	1,490
Verwaltungsgenossenschaft der IMMO-BANK eG; Wien	SO	86.76 %	86.76 %	2,891
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

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VOBA-Holding GmbH; Wien	SO	100.00 %	100.00 %	36
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 %	61,102
VOLKSBANK BH d.d.; Sarajewo	KI	48.68 %	49.90 %	24,031
Volksbank CZ, a.s.; Praha	KI	50.05 %	50.24 %	75,752
Volksbank d.d.; Zagreb	KI	50.58 %	50.67 %	84,332
Volksbank Ingatlankezelö Kft; Budapest	HD	48.67 %	49.72 %	6,101
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 Linz - Mühlviertel registrierte Genossenschaft mit beschränkter Haftung; Linz	KI	97.45 %	97.45 %	14,906
Volksbank Malta Limited; Sliema	KI	100.00 %	100.00 %	167,821
Volksbank Romania S.A.; Bukarest	KI	50.52 %	50.76 %	95,945
VOLKSBANK Slovensko, a.s.; Bratislava	KI	46.41 %	47.89 %	33,207
Volksin d.o.o.; Zagreb	HD	51.00 %	51.00 %	934
Warsaw Towers Sp. z o.o.; Warszawa	SO	51.00 %	51.00 %	12

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 applicabel 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, 19 March 2010

Gerald Wenzel
Chairman of the Managing Board
Finance, Human Resources, Legal Affairs, Marketing

Michael Mendel
Member of the Managing Board
Risk

Martin Fuchsbauer
Member of the Managing Board
Treasury

Wolfgang Perdich
Member of the Managing Board
Markets/International Acitivties

Dieter Tschach
Member of the Managing Board
Organisation/IT

AUDITOR'S REPORT

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Österreichische Volksbanken-Aktiengesellschaft, Wien, for the financial year from 1 January 2009 to 31 December 2009. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2009, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year ended 31 December 2009 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 Austrian Standards 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 2009 and of its financial performance and its cash flows for the year from 1 January to 31 December 2009 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, 19 March 2010

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

Martin Wagner	Renate Vala
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 ADRESSES

SUPERVISORY BOARD AND MANAGING BOARD

Supervisory board

Chairman
Walter ZANDANELL
Chairman of the Managing Board of
Volksbank Salzburg e. Gen.
(until 28 May 2009)

Hans HOFINGER
Syndic and chairman of the Managing Board
of the Federation of Austrian Credit
Co-operatives (Schulze-Delitzsch)
(from 28 May 2009)

First deputy chairman
Gerald WENZEL
Chairman of the Managing Board of
Volksbank Baden e. Gen.
(until 30 April 2009)

Rainer KUHNLE
Member of the Managing Board of
Volksbank Krems-Zwettl AG
(from 1 May 2009)

Second deputy chairman
Franz FRISCHLING
Chairman of the Managing Board of
Volksbank Vöcklamarkt-Mondsee rGmbH

Members

Harald BERGER
Chairman of the Managing Board of
Volksbank Südburgenland rGmbH

Thomas BOCK
Chairman of the Managing Board of
Volksbank Vorarlberg e. Gen.

Thomas DUHNKRACK
Member of the Board of DZ BANK AG
Deutsche Zentral-Genossenschaftsbank
(until 30 June 2009)

Klaus FLEMMING
Member of the Board of
ERGO Versicherungsgruppe AG
(until 28 May 2009)

Erich HACKL
Chairman of the Managing Board of
Allgemeine Bausparkasse rGmbH
(from 28 May 2009)

Herbert HUBMANN
Deputy chairman of
ADEG Österreich Großeinkauf der
Kaufleute rGmbH

Wolfgang KIRSCH
Chairman of the Managing Board of
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Wolfgang KÖHLER, CFA
Member of the Managing Board of
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank
(from 23 September 2009)

Jochen MESSEMER
Member of the Managing Board of
ERGO Versicherungsgruppe AG
(from 28 May 2009)

Anton PAUSCHENWEIN
Chairman of the Managing Board of
Volksbank Niederösterreich Süd rGmbH
(from 28 May 2009)

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 e. Gen.
(from 28 May 2009)

Delegated by the staff council

Hans LANG
Chairman of the staff council
Ilse HABERLEITNER
Michaela POKORNY
Richard PREISSLER
(until 31 January 2010)
Christian RUDORFER
Matthäus THUN-HOHENSTEIN
Christian WERNER

State commissioners

Senior legal secretary
Doris RADL
(until 30 September 2009)
Senior legal secretary
Franz Philipp SUTTER
(from 1 December 2009)
Senior legal secretary
Viktor LEBLOCH
Deputy state commissioner

Managing board

Chief Executive Officer
Franz PINKL
(until 30 April 2009)

Chief Executive Officer
Gerald WENZEL
(from 1 May 2009)

Deputy Chief Executive Officer
Michael MENDEL
(from 1 January 2009)

Wilfried STADLER
(until 30 June 2009)

Manfred KUNERT
(until 30 June 2009)

Wolfgang PERDICH

Dieter TSCHACH

Martin FUCHSBAUER, MBA
(from 1 January 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
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Deputy Chairman of the Managing Board of
Volksbank Kärnten Süd e.Gen.

Johannes FLEISCHER
Chairman of the Managing Board of
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Hermann GEISSLER
Lawyer

Franz KNOR
Deputy Chairman of the Managing Board of
Volksbank Südburgenland rGmbH

Michael PESCHKA
Chairman of the Managing Board of
Volksbank Eferding-Grieskirchen rGmbH

Gerhard REINER
Chairman of zhe Managing Board of
Volksbank Graz-Bruck rGmbH

Othmar SCHMID
Member of the Managing Board of
Österreichische Apothekerbank rGmbH

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Chairman of the Managing Board of
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Claudius SEIDL
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VR-Bank Rottal-Inn eG.

Peter SEKOT
Deputy Chairman of the Managing Board of
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the Federation of Austrian Credit
Co-operatives (Schulze-Delitzsch)

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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, Europolis AG, 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 FinanzierungsgmbH

Volksbank primary banks
Local Volksbanks including 6 banks with specialised professional expertise (Österreichische Apothekerbank reg. GenmbH, Gärtnerbank reg. GenmbH, Immo-Bank AG, Sparda-Bank Linz reg. GenmbH, Sparda Bank Villach/Innsbruck reg. GenmbH, Wiener Spar- und Kreditinstitut reg. GenmbH (WSK)) and 4 credit co-operative banks

Volksbank-Sector
Volksbank primary banks and VBAG Group

Association of Volksbanks
Volksbank-Sector, Allgemeine Bausparkasse reg. GenmbH (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.

Imprint:

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Robert Polster, Doris Kucera, VBAG, ÖGV

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Press date: 2. April 2010

Imprint Corporate Responsibility Report:

This report corresponds to the GRI G3 level A+ and is the first Corporate Responsibility Report of Österreichische Volksbanken-AG. The report will be updated on an annual basis.

The Corporate Responsibility Report in German and in English is also available on www.verantwortung.volksbank.com

Editors:
Mirjam Ernst, Manuela Eder and members of the coreteam

Advisor:
Karl Resel, Denkstatt GmbH

Grafik Design:
Heidemarie Schalk

Pictures:
Robert Polster and VBAG

Press date: 6. April 2010

FSC
Mix
Produktgruppe aus vorbildlich
bewirtschafteten Wäldern und
anderen kontrollierten Herkünften

greenprint*
klimaneutral gedruckt

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