

**ONLY THOSE
WHO ADJUST
THEIR
PERSPECTIVE
WILL SEE
OPPORTUNITY
IN THE CRISIS.**

CONSOLIDATED ANNUAL REPORT 2008

 VOLKSWAGEN AG

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 VOLKSBANK AG

Key figures of Volksbank AG

In euro million	2008	2007	2006	2005	2004
Balance sheet ¹⁾					
Total assets	52,924	78,641	67,429	54,800	23,771
Loans and advances to customers	28,818	24,764	31,110	24,825	14,310
Amounts owed to customers	11,829	10,191	8,087	7,039	6,576
Debts evidenced by certificates	15,213	13,436	30,846	24,358	8,916
Subordinated liabilities	2,014	1,457	1,817	1,298	699
Own funds					
Core capital (tier I) after deductions	2,515	2,767	2,664	1,972	1,438
Supplementary capital (tier II, tier III) after deductions	909	1,491	1,451	765	508
Eligible qualifying capital	3,424	4,258	4,114	2,737	1,946
Assessment base credit risk	33,263	38,502	33,895	26,283	13,606
Capital requirement market risk	42	58	51	51	57
Capital requirement operational risk	114	0	0	0	0
Surplus capital	606	1,120	1,352	584	801
Core capital ratio in % ²⁾	7.6	7.2	7.9	7.5	10.6
Equity ratio in % ³⁾	9.8	10.9	12.0	10.2	13.9
Income statement ¹⁾					
Net interest income	1,235.3	760.6	662.9	412.0	378.0
Risk provisions	-155.0	-96.4	-61.7	-52.4	-41.7
Net fee and commission income	202.7	175.9	135.3	101.9	96.6
Net trading income	41.4	55.9	70.6	69.9	41.4
General administrative expenses	-682.8	-582.0	-507.4	-395.6	-377.1
Other operating result	-165.5	-3.8	-1.2	56.5	36.5
Income from financial investments	-293.6	-2.2	-12.5	7.1	10.2
Income from the disposal group	-584.4	80.1	23.3	20.5	0.0
Annual result before taxes	-401.8	388.1	309.4	219.9	143.9
Income taxes	191.0	-42.2	-46.7	-9.1	-26.5
Annual result after taxes	-210.9	345.9	262.8	210.9	117.4
Minority interest	58.9	-126.2	-107.6	-50.5	-29.3
Consolidated net income	-152.0	219.7	155.2	160.4	88.1
Key ratios ⁴⁾					
Cost-income-ratio	57.1 %	59.0 %	59.3 %	61.1 %	67.0 %
ROE before taxes	7.8 %	12.9 %	12.3 %	13.5 %	11.3 %
ROE after taxes	10.9 %	11.3 %	10.5 %	12.9 %	9.2 %
ROE consolidated net income	14.6 %	12.2 %	10.8 %	16.2 %	10.1 %
ROE before taxes (regulatory)	8.2 %	16.1 %	14.4 %	15.2 %	14.9 %
Ressources ¹⁾					
Staff average	8,587	7,204	6,388	5,482	4,952
of which domestic	2,035	1,837	2,328	2,030	1,957
of which foreign	6,552	5,367	4,060	3,452	2,995
Staff at end of period	8,926	8,055	6,762	5,963	5,147
of which domestic	2,080	1,938	2,401	2,203	1,982
of which foreign	6,846	6,117	4,360	3,760	3,165
Number of branches	660	595	388	263	235
of which domestic	50	49	79	79	89
of which foreign	610	546	309	184	146

¹⁾ The comparative figures of 2007 were restated by disposal group in line with IFRS 5

²⁾ In relation to credit risk

³⁾ In relation to credit risk after deduction of capital requirement for market and operational risk

⁴⁾ In 2008, the cost-income-ratio was calculated without taking into account impairment of goodwill
In 2008 and 2007, all ROEs were displayed without including the disposal group

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

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**WE KNOW
FROM 150 YEARS
EXPERIENCE:
TIMES CHANGE.**

The Volksbank AG

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INTRODUCTION FROM THE CHIEF EXECUTIVE OFFICER

CRISES CREATE OPPORTUNITIES



Worldwide stock indexes have plummeted. Entire local economies and industries have collapsed. How could this have even happened?

In fact, we are facing one of the largest financial crisis in all of history. At the same time, we are witnessing the most significant economic downturn since World War II. The crisis first surfaced in the USA. The subprime market came into existence there in times of low interest rates, seemingly unlimited availability of liquidity and growing opportunities for securitising risks in derivatives and selling them on. It collapsed when interest rates rose again and property prices stopped rising. The decrease in the value of securitised mortgages

triggered substantial losses outside the US. Following the collapse of Lehman Brothers and Washington Mutual, a new wave of losses hit the tightly networked international financial sector.

Although the crisis started in the US, the entire world economy is now affected. It has also badly hurt our national credit institutions. Did the Austrian banks also participate in the speculation?

All national credit institutions comply with a very solid corporate policy. However, the pivotal problem is the dimension of the credit crisis. All of the financial market's protective mechanisms failed, completely disrupting the world's cash flow. This caused unprecedented write downs on banks' assets. Fortunately, a number of governments injected billions of euros into the financial markets, preventing a complete standstill of the world economy.

Kommunalkredit, a subsidiary of Volksbank AG faced liquidity problems last autumn and the Austrian government had to step in. How could this have happened?

Volksbank and Kommunalkredit were coping with the subprime crisis in 2007 as the risks initially seemed manageable. However, Kommunalkredit was in the special situation as their excellent rating enabled it to obtain funding at very favourable terms and thus offer customer financing with very small margins. This was not a problem as long as the markets were liquid. The crisis of confidence following the default of Lehman Brothers on 15 September last year completely destroyed this business model with one swift blow.

The US financial sector was already in trouble since the middle of 2007. It was only a question of time until it would spread to Europe. Was the situation of Kommunalkredit ignored too long?

The global financial crisis was not foreseeable. Who would have predicted in mid-2007 that the then shining examples of the international financial sector (e.g. AIG, Royal Bank of Scotland, City Group) would find themselves under state control by the end of 2008? One should remember that Kommunalkredit enjoyed high ratings by international rating agencies for a very long time.

What are the implications for the VBAG Group?

With Kommunalkredit's failure, the VBAG Group lost an important linchpin practically overnight. That was also an emotionally difficult phase for the company and all those involved. Moreover, the sale of Kommunalkredit resulted in a charge of euro 584 million for Volksbank AG. That is quite a large sum. However, Volksbank AG's structure relies on several business segments and is resilient enough to withstand worst-case scenarios, something that unfortunately has happened in this case.

Would Volksbank AG have survived this crisis without government intervention?

As of 31 December 2008, own funds of Volksbank Group amounted to a respectable EUR 3.4 billion. The Tier I ratio was 7.6 %. In May 2008, the VBAG Group succeeded in strengthening its capital base by issuing participation capital with a volume of euro 500 million. The equity ratio is now at 9.8 %. Overall, this represents a significant surplus equity of euro 600 million. We have attained this without a single euro of government money. This shows that the capital base of our company is also very solid without government support. But the financial crisis has made it general consensus that banks now need an even higher equity ratio. For this reason, we have decided to follow suit with other major Austrian banks and take funds from the government.



The costs for additional equity from the government are substantial. Why is Volksbank AG issuing additional equity to the government?

With our equity ratio now at 9.8 %, we are in a solid position. However, in a difficult environment as is currently the case, one must be prepared for any event. We now need a solid equity capitalisation to deal with unforeseen emergencies. Naturally, additional capital from the government will cost us in interest. Nevertheless, this cushion prepares us for even harder times. We should not forget that we still cannot say what course this crisis will take in the years to come. Additional capital gives us the means to take quick action without any bureaucratic hindrances.

Until recently, Austrian banks' greatest strength was their intense focus on Eastern Europe. Can this advantage become a disadvantage in the future?

Any possible disadvantage from concentrating on Eastern Europe will only be temporary. In the long-term, this will rather prove to be an advantage. The markets in Eastern Europe also offer future growth potential. A decisive factor during the financial crisis was the strategic approach of our subsidiary Volksbank International. Unlike their competition, Volksbank International expanded its CEE network mostly through organic growth and not with expensive acquisitions. This now has paid off. With a plus of euro 11 million in annual profit before taxes, the banks in CEE showed the largest gains in the VBAG Group.

How is business developing throughout the member companies of Volksbank AG?

Due to well-known external conditions, the VBAG Group's result after taxes unfortunately is negative. We showed a loss of euro 152 million in our 2008 annual statement. This was due to the loss of Kommunalkredit as well as the dramatic decline in the real estate market. On the positive side, however, there was an interest surplus of euro 1,235 million, an increase of 62.4 % in comparison to 2007. Also, net interest income in the Retail Banking segment in Central

and Eastern Europe grew by 36.7 % or euro 90 million to euro 355 million. One can see that our business model has proved itself despite the crisis. This is also our capital for the future.

When do you think the economy will start to improve?

I believe that we will not see any steady recovery in the next six to twelve months. In the second half of the year, we will begin to see whether the business and bank bailouts from around the world will actually start stimulating the economy. Low prices for commodities should definitely help. I do not expect to see the business cycle pick up before 2010.

How will Volksbank AG behave in the market in the next months?

We cannot now just sit back and wait until the bad weather is gone but rather, we must act. We have already initiated numerous internal measures. Most important is to constantly stay in contact with our customers and to find solutions together to the actual problems. Here one should not forget that a crisis also offers opportunities and these must be actively used. We are following this strategy and also communicating this to our customers. Currently, the most important goal of all banks' is to re-establish confidence with the customers, in the markets and amongst competitors!

Which strategic measures will Volksbank AG put in place for the difficult year of 2009?

For VBAG's individual business segments, there will be some adjustments to our strategic alignment, owing to the new underlying conditions. VBAG will continue to carry out its tasks within the Volksbank-Sector and will concentrate on its core target groups of private customers and medium-sized enterprises. We will strategically focus on the Retail segment. The segment Corporates will maintain its focus on medium-sized enterprises. In the Real Estate segment, a realignment of the business volume will take place in 2009. Here the focus will be on real estate financing. These measures are aimed at achieving a balanced weighting of all four segments.

Will cost cuts have to be made and will these affect employees?

We are currently looking at cost saving measures and implementing some. In fact, Volksbank AG's entire Managing Board is forgoing their annual bonuses as a sign of solidarity. Moreover, our employees and management have had to make big sacrifices regarding their bonuses. However, all of these steps were broadly accepted given the general situation. I am very proud of the strong spirit of co-operation in our company. However, the cost cutting process is not over. Through a hiring stop and internal reshuffle, we were able to avoid severe personnel cuts. This is especially important, as our employees are our most valuable capital.

How do you see the long-term future of Volksbank AG?

The dramatic changes in the world's financial markets will lead to a structural change in the entire market. Customers and business partners will increasingly revert to conservative values while aggressive growth, high profits and short-term profit maximisation will become less important. Trust, customer proximity and local market roots will once again play a central role in the customer relationship. As the leading co-operative institution, VBAG represents these values and helps to preserve them by means of a sustainable corporate policy. We are working together for our future.



The editors conducted this interview. The interview is based on numerous internal and external inquiries for information in recent weeks.

On 26 March 2009, Chief Executive Officer Franz Pinkl announced his decision to step down from his position of Chairman of the Managing Board of Volksbank AG as of 30 April 2009. The Supervisory Board of Volksbank AG has acknowledged this step with respect and paid tribute to Franz Pinkl's outstanding achievements during his time as Chairman of the Managing Board of VBAG. A decision regarding his successor will be made within a month to ensure a seamless transition.

REPORT OF THE SUPERVISORY BOARD



For the financial year 2008, the company's Supervisory Board held five regular and two 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.

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft audited the annual statement and the notes from 31 December 2008 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 profit distribution proposed in the Managing Board's report and VBAG's annual financial statement according to section 125 (2) company laws. Additionally the Group's financial statement from 31 December 2008 and management report was reviewed and noted. 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.

On 1 October 2008, Managing Board member Dieter Tschach succeeded KR Erich Hackl as Chief Operations Officer (COO). Mr. Hackl had stepped down from the Managing Board on 30 June 2008. Moreover, Michael Mendel was named as the Chief Risk Officer (CRO) by the Managing Board and assumed his position on the Managing Board starting 2 January 2009.

The Österreichische Volksbanken-AG's development in 2008 was marked by turbulence in the financial sector. Specifically, Kommunalkredit Austria AG was strongly affected by developments in the international financial markets. For this reason, Österreichische Volksbanken AG's 50.78 % share of Kommunalkredit Austria AG was sold to the Republic of Austria for the nominal amount of 1 euro in accordance with the Financial Market Stabilisation Act. After the sale of Kommunalkredit Austria AG, VBAG Group's core capital ratio was at 7.6 % in relation to credit risk as of 31 December 2008.

To strengthen VBAG Group's equity base, participation capital in the amount of euro 500 million was successfully issued to international investors.

Basel II also dominated 2008. The IRB approach has been deployed in VBAG's Austrian subsidiaries since April 2008. Additionally, foreign subsidiaries will be included in three roll-out phases.

The Construction Committee functioning as a sub-committee to the Supervisory Board was regularly updated on the construction progress of the new headquarters.

In the national market, Investkredit Bank AG is developing from its origins in the long-term financing niche into a bank for companies with a broad scope of specialised services. In international markets, the bank is focusing on different niches in the corporate finance business. In spite of the confidence crisis in the financial markets, the deposit business with commercial customers showed positive development and the volume was increased on a sustained basis. In addition, the business areas of trade finance and subsidy projects showed an overall positive development in 2008. The credit syndication business was further developed by obtaining new syndicate partners in Austria, Germany, Central and Eastern Europe. Syndicated loans increased by 32 % compared to the previous year. Co-operation with the local Volksbanks was intensified for structured trade and export financing. Investkredit Bank AG, Europolis Group, Immoconsult Leasinggesellschaft m.b.H. and Premiumred Real Estate Development GmbH make up the Real Estate segment. The segment offers a competent, broad spectrum of services in all areas of commercial real estate.

The national retail banks of VBAG Group – Volksbank Wien AG, Volksbank Linz+Mühlviertel reg. GenmbH, Bank für Ärzte und Freie Berufe AG and IMMO-BANK AG – were all able to strengthen their market position in 2008 due to their professional expertise as well as active, high-quality consulting services. The Financial Markets segment achieved a positive after-tax profit for the year, despite the turbulent and difficult environment. The currency and derivative currency business produced record results. VB Investments successful certificate business resulted in an increase in our share of the Austrian market.

For the VBI Group, the financial year 2008 was extraordinarily positive, despite the financial and economic crisis. A clear strategy, a conservative business model, strong customer loyalty and our employees strong sense of commitment produced another record result. VBI Group's network consists of ten subsidiary banks in nine countries in Central and Eastern Europe (Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Rumania, Bosnia and Herzegovina, Serbia and the Ukraine). The Group currently comprises 609 sales offices with 5,849 employees. As of 31 December 2008, the VBAG Group employed 8,926 persons, 6,846 working for foreign subsidiaries.

The Supervisory Board would like to thank the Managing Board as well as all employees for their demonstrated commitment and strong contributions, particularly in this difficult economic environment.

President of the Supervisory Board
Chief Executive Officer Dr. Walter Zandanell
Chairman of the Managing Board, Volksbank Salzburg eG

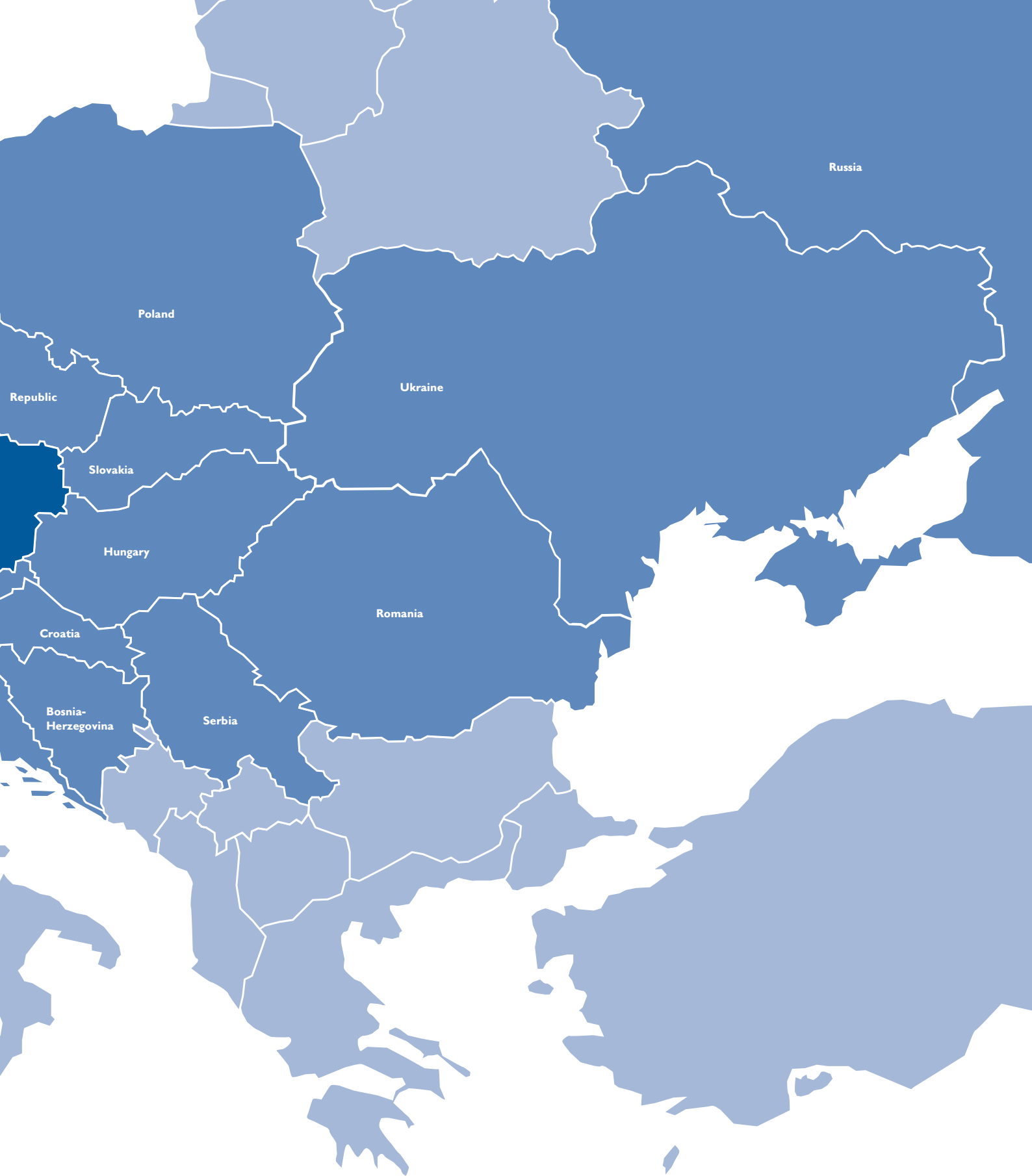
Vienna, March 2009

VBAG GROUP NETWORK

Volksbank AG is one of Austria's leading providers of financial services. Founded in 1922 as the central institution of the local credit co-operatives, the bank has traditionally played a key function as a partner to the Austrian business community – in particular for small and medium-sized enterprises. In addition to Corporates the Group's business segments also include Retail, Real Estate Financing and Financial Markets. In 1991 VBAG was one of the first Austrian banks to expand its operations to central and eastern Europe. Together with its member banks (local credit co-operatives) and ABV Bausparkasse, a building and loan association, VBAG Group forms the Volksbank Group.

The member banks are credit co-operatives which are deeply rooted in their local markets and service their core target groups of small and medium-sized enterprises and private customers by offering a full range of banking services. Maintaining about 600 branches they ensure the provision of local banking services throughout Austria. At an international level Volksbank International's subsidiary banks also strive to ascertain the regional provision of financial services. With a total of 609 sales outlets, Volksbank International ensures customer proximity in 9 central and eastern European countries.





More detailed information on the regional distribution of VBAG Group can be found under 49) Segment reporting and 50)g) Risk report.

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.

STRATEGY

The 2008 business year of VBAG Group was marked by the discontinuation of an entire segment. With the sale of Kommunalkredit Austria AG to the Republic of Austria on 3 November 2008 for the nominal amount of 1 euro, VBAG departed from the Public Finance segment. The strategic decision to withdraw from Public Finance had become inevitable due to the extreme market disruptions which are still prevailing. In the meantime, banks across Europe specialising in Public Finance have had to seek state protection. The strategic decision to sell Kommunalkredit was thus a decisive step towards limiting risks. The clear division of business models between VBAG and Kommunalkredit Austria AG facilitated this step.

Following the sale of Kommunalkredit, Volksbank Group is going to continue its activities within the four remaining strategic segments. The Retail and Financial Markets segments generated respectable results in 2008. Due to the challenging environment last year, the Corporates and Real Estate segments however could not reach previous year's results. While the sale of Kommunalkredit resulted in a loss at Group level, a profit was posted in the VBAG individual financial statements. As a result servicing the existing hybrid and participation capital certificates for 2008 is ensured.

Key pillar of the economy

VBAG Group's vision and strategy are based on the values of a cooperative economic system and the principles of a stakeholder business model. The ownership structure enables VBAG Group to define its goals and strategy with a long-term orientation. An important strategic cornerstone is the sustained support of the cooperative system and the Volksbank-Sector. VBAG – as central institution of the Volksbank-Sector – therefore is a key pillar of the Austrian economy. This is also underpinned by its position as a system-relevant bank and its access to the Austrian bank support measures.

Due to the changed business environment VBAG will adjust its strategic alignments within the four remaining segments. In this respect VBAG is orientating itself in line with the motto of this annual report "Change provides the opportunity for a successful future". Implementation of the strategic changes that have now become necessary has already been started in some areas. An initiative with the aim of reducing costs over the next few years has likewise been launched in order to strengthen internal financing.

The constantly changing market conditions call for a high degree of flexibility and adaptability as this is the only way in which VBAG can remain successful on the market in the future.

Four strategic segments

VBAG will continue to carry out its tasks within the Volksbank-Sector and will concentrate on its core target groups of private customers and medium-sized enterprises. The core segment Financial Markets and various staff divisions will further expand and enhance the provision of service and support to primary banks. The Financial Markets segment was and remains a successful product supplier thanks to its customer proximity. It not only serves special niches but also successfully places retail products such as certificates on the market. VBAG has the necessary flexibility and innovative energy to respond to the changing customer requirements with professional solutions.

In 2009 the strategic focus remains on the Retail segment in Austria and in CEE. The aim is to increase the deposit base as well as placing investment products. With regard to the latter we expect a rise in demand from our customers owing to the long-term low interest rate level to be expected in Europe.

The Corporate segment will uphold its focus on medium-sized enterprises. Investkredit will continue to provide its customers with its long-standing high standard of professional advice spanning the entire spectrum of corporate lending (such as e.g. subsidised lending). VBAG considers it as one of its duties to support its customers with their long-term financial planning, especially in an environment of economic difficulty.

In the Real Estate segment a realignment of the business volume, focusing on the area of real estate finance, will take place in 2009. Only selected and ongoing projects and financing activities will be carried out in the other related areas. These measures are aimed at achieving a balanced weighting of all four segments.

The dramatic changes in the world of banking will give rise to structural and global changes to financial services in 2009 and 2010. Customers and business partners increasingly revert to conservative values while aggressive growth, high profits and short-term profit maximisation will become less important. Trust, customer proximity and local market roots will once again play a central role in customer relationship. As the central institution of the Volksbank-Sector, VBAG represents and preserves these values by means of a sustainable corporate policy. Therefore VBAG is optimally equipped to cope with the new market challenges thanks to its structure, strategy and principles.

THE MANAGING BOARD



Franz Pinkl

Head of department

Press Relations &
Internal Communications
Corporate Communications
(since 1. January 2009)
Group Development
Auditing
Marketing
Human Resources Management
Legal Affairs
Controlling/Accounting/Taxes

Curriculum Vitae

Personal details

Born 19 March 1956 in Ternitz

Education

1973 Graduation from the Commercial college in Wiener Neustadt

Diploma in accounting awarded by the Austrian Institute of Economic Research
Attendance at a number of technical seminars and courses of Volksbank Akademie

1982 Management Examination

Professional career

1973 Joined

Volksbank Niederösterreich Süd

1983 Authorised signatory of

Volksbank Niederösterreich Süd

1991 Managing Director and Deputy Chairman of the Board
Volksbank Niederösterreich Süd

since 2004

CEO and Chairman of the Managing Board of VBAG



Manfred Kunert

Head of department

Banks/Liquidity
Asset Liability Management
Group Treasury
Issues
Capital Markets
Volksbank Invest KAG
Immo Kapitalanlage AG

Curriculum Vitae

Personal details

Born 23 November 1946 in Vienna

Education

1965 School-leaving examination at Realgymnasium (secondary school focussing on natural sciences) in Vienna

1967 Completion of a bank apprenticeship, Creditanstalt Bankverein, Vienna

Professional career

1968 Joined Bank of America, Vienna
Head of currency, foreign exchange and customer account trading departments

1975 Head of trading activities of Privatbankhaus Winter&Co., Vienna

1977 Chief trader in foreign exchange and euro-currency trading of Genossenschaftliche Zentralbank AG, Vienna



Michael Mendel

1981 Treasurer for Germany and Austria of Chase Manhattan Bank, Frankfurt

1984 Joined DG BANK, Frankfurt
Global General Manager Treasury;
Managing director of the broker firm Carl Kliem GmbH

1992 Global General Manager Treasury of DG BANK, Frankfurt

since 1998

Member of the Managing Board of VBAG

Head of department

Strategic Risk Management
Risk Analysis Capital Markets
Risk Analysis Corporates
Risk Analysis Banks/Financial Institutions
Foreign Credit Risk Management
VB Managementberatung

Curriculum Vitae

Personal details

Born 13 June 1957 in Hamburg

Education

1980 Completion of a bank apprenticeship,
Bayerische Vereinsbank, Munich
(Qualification as bank clerk)

1984 Completion of studies at University of Augsburg (Degree in economics)

1984 Participation in the trainee program of Bayerische Vereinsbank, Munich

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



Wolfgang Perdich

Head of department

International activities
Volksbank International AG
Volksbank-Leasing International
Holding GmbH
Volksbank Leasing Finanzierungs GmbH
Leasing-West GmbH&Co KG
VB Factoring Bank AG
Volksbank Linz+Mühlviertel
reg. GenmbH
Volksbank Wien AG
Bank für Ärzte und Freie Berufe AG
Immo-Bank AG

Curriculum Vitae

Personal details

Born 10 January 1958 in Vienna

Education

1980 Completion of business
administration studies at Vienna
University of Economics and
Business Administration

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



Wilfried Stadler

Head of department

Investkredit Bank AG and its subsidiaries

Curriculum Vitae

Personal details

Born 12 May 1951 in Salzburg

Education

1977 Joined an enterprise owned by the
Stadler family (Practical experience)

Professional career

1977 Joined an enterprise owned by the
Stadler family (Practical experience)
1983 Economic policy desk at the
Austrian Business Association
since 1987
Investkredit Bank AG, initially
customer services officer for
customer lending
1992 Head of the corporate finance
department
1990 Member of the Managing Board
of Kommunalkredit Austria AG
(until 1995)
since 1995
Member of the Managing Board of
Investkredit Bank AG



Dieter Tschach

since 2002

CEO and Chairman of the Managing Board of Investkredit Bank AG

since 2006

Member of the Managing Board of VBAG

Head of department

Group-Project-Management Organisation/IT

Processing

Back Office Service für Banken GmbH (B.O.G.)

ARZ Allgemeines Rechenzentrum GmbH
VB IT-Services GmbH

Curriculum Vitae

Personal details

Born 18 May 1963 in Wiener Neustadt

Education

1988 Completion of business administration studies at Vienna University of Economics and Business Administration

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

**THOSE WHO
FACE THE
PRESENT
HAVE MORE
FUTURE.**

Management Report

- 20** Economic Environment 2008
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MANAGEMENT REPORT

Economic Environment 2008

Macroeconomic development

The global economic environment deteriorated significantly in the past year. The euro zone and Japan entered a recession in the second quarter of 2008. In the USA, gross domestic product continued to grow in the second quarter – thanks in particular to government stimulus measures (tax rebates for consumers) – but economic output has been on the slide since the third quarter.

In Austria, too, economic momentum has slowed significantly. Moderate positive growth was generated in the third quarter, with industrial production remaining up on the previous year until November. However, the annual growth rate of only 0.7 % in November and the year-on-year decline in incoming orders in the Austrian industrial sector in October serve as indicators of a pronounced downturn that is likely to last well into the current year.

After reaching new highs midway through 2008, the price of oil, metals and agricultural raw materials fell sharply in the second half of the year. Inflation (consumer prices) also declined tangibly in the last months of the past year, with the figure for December amounting to 1.6 % for the euro zone and 1.5 % for Austria.

The speed and extent of the downturn in the investment- and export-driven economy in Austria and the euro zone were attributable to the international financial crisis and the deflationary consequences of the bursting of the real estate bubble in the USA and the United Kingdom, the two major export markets for European companies. After a temporary high in March following the rescue of the investment bank Bear Stearns by JP Morgan, the crisis culminated in September with the collapse of the US investment bank Lehman Brothers and the largest US savings bank, Washington Mutual, as well as the bankruptcy of the three largest Icelandic banks. The difficulties affecting the Icelandic government led to a radical shift in risk attitudes towards small, capital-importing economies. The level of loan loss provisions in banks increased steadily. Central banks initially responded by providing additional financing options, followed by sharp cuts in interest rates later in the year. The aforementioned decrease in inflationary pressure in the euro zone meant that this policy was ultimately also pursued in the single currency area. At the end of the year, the USA, Japan and Switzerland had effectively adopted a zero-interest policy, while the ECB's minimum refinancing rate was 2.5 %. Following the example set by the USA, most European governments – including Austria – have now provided financial assistance to domestic banks, the majority of which will only be utilised in 2009.

Financial markets

In this environment, money market interest rates increased sharply between March and October 2008. In the fourth quarter, the situation eased as a result of the prime rate cuts, liquidity provision by the central banks and the governmental measures aimed at stabilising the financial system. The decline in the inflation and growth expectations of financial market participants was accompanied by a sharp downturn in bond yields in the second half of the year. Yields from short-term government bonds in particular fell, with the yield curve becoming significantly steeper once again. The underlying preference for "safe havens" and rising default risk due to the economic downturn led to a substantial increase in credit spreads for both private and government issuers. Yield spreads also expanded significantly within the euro zone. Due to its comparatively strong connection with the capital-importing economies of Central and South-Eastern Europe – which are particularly susceptible to the consequences of the financial crisis – and the reduction in the level of secondary market liquidity, spreads for Austrian government bonds also increased substantially compared with the German benchmark. The spread for 10-year bonds increased from around 10 bp at the start of 2008 to around 90 bp at the end of the year.

In contrast to 2007, the euro deteriorated against the US dollar, the Japanese yen and the Swiss franc in 2008. In the second half of the year, the US dollar benefited from the sharp reduction in oil prices, the reduction in foreign investments by US banks (repatriation) and demand for short-term US government bonds as a "safe haven". The reduction in carry trades and financing was the main reason for the appreciation of the euro against the Swiss franc and the yen. The financial crisis also underlined the economic differences between the individual euro zone states. The long-term upward trend in the currencies of Central and Eastern Europe was interrupted in 2008: while the Czech koruna remained essentially unchanged compared with the start of the year and the Slovak koruna again gained just under 12 % against the euro in the run-up to the adoption of the single currency, the value of the Hungarian forint (4 %), the Romanian leu (11 %) and the Serbian dinar (12 %) all declined against the euro, while the Ukrainian hryvnia deteriorated by more than 33 %.

Share prices also slumped in the past year, with the economic downturn, the resulting reduction in profit forecasts, the temporary sharp rise in oil prices and growing risk aversion among investors emerging as the primary factors in the decision by market participants to sell their shares. The annual performance of global share indices varied from –30 % for the FTSE and Dow Jones Industrial, –40 % for the DAX and –50 % for the ATX through to –70 % in the case of the Russian RTS index.

Course of Business 2008

Results in detail

In the third quarter, the strained situation on the financial markets led to a number of municipal lenders in Europe requesting state aid. Kommunalkredit Austria AG also experienced a liquidity bottleneck, forcing the Group to sign an agreement on 3 November 2008 in accordance with the Austrian Financial Market Stabilisation Act under which the shares in Kommunalkredit were sold to the Republic of Austria for a nominal amount of one euro. Accordingly, the Kommunalkredit Group was deconsolidated with effect from 3 November 2008. The result of euro –261 million generated prior to the deconsolidation date, the impairment of goodwill in the amount of euro –125 million and the deconsolidation result of euro –198 million are reported in the result from the disposal group. In order to ensure comparability, the prior-year figures relate to the restated result for 2007, in which the Kommunalkredit Group is presented as a disposal group in accordance with IFRS 5.

In 2008, the consolidated result of the VBAG Group after taxes and minority interests amounted to euro –152 million. This was primarily attributable to the sale of Kommunalkredit and the need to recognise value adjustments in the form of write-downs (Lehman, Iceland, structured credit portfolio, goodwill). This result can be broken down as follows:

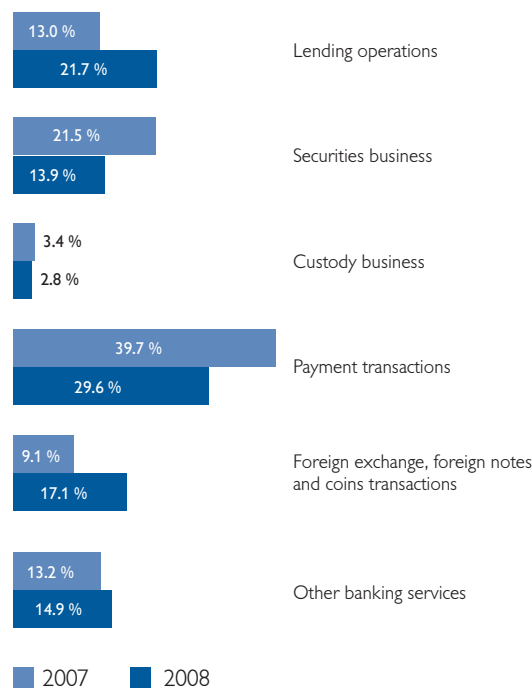
Net interest income increased by 62.4 % year-on-year to euro 1,235 million. This was primarily attributable to special dividends from unconsolidated companies in the amount of euro 491 million. Changes in value for investment property in accordance with IAS 40 declined significantly from euro 97 million in 2007 to euro 17 million on the back of the weaker real estate market. Net interest income adjusted for these effects amounted to euro 728 million, up euro 64 million or 9.7 % on the previous year (euro 663 million). The largest increase was in the Retail CEE business area, which recorded a rise in net interest income of euro 90 million or 36.7 %.

Net fee and commission income made a further key contribution to the Group's earnings growth in 2008, increasing by euro 27 million or 15.3 % year-on-year to euro 203 million. The largest gains were generated by CEE banks in the amount of euro 17 million. Corporate banking was also successful and doubled its net fee and commission income from euro 11 million in the previous year to euro 22 million.

The structure of net fee and commission income changed as follows compared with 2007: Net income from payment transactions again accounted for the largest share of net fee and commission income; however, this figure declined from 39.7 % in 2007 to 29.6 % in 2008 as a result of the reduction in fees for foreign payment transactions on the back of new EU legislation. All in all, net income from foreign payment transactions decreased by 30 %, from euro 42 million to euro 30 million. The share of net fee and commission income

attributable to securities and custody business also fell from 24.9 % in 2007 to 16.7 % in the past fiscal year as a result of the general weakness of the capital and financial markets. All in all, these areas generated euro 20 million less than in the previous year. By contrast, net fee and commission income from lending operations increased significantly (euro +21 million).

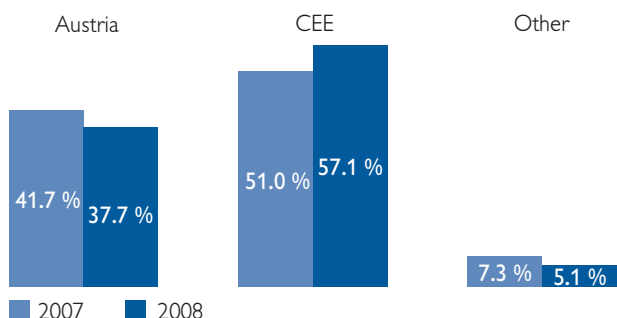
Net fee and commission income



Net trading income declined from euro 56 million in 2007 to euro 41 million in 2008. This was due to the volatile financial and currency markets, which provided the VBAG Group with lower income than in the previous year.

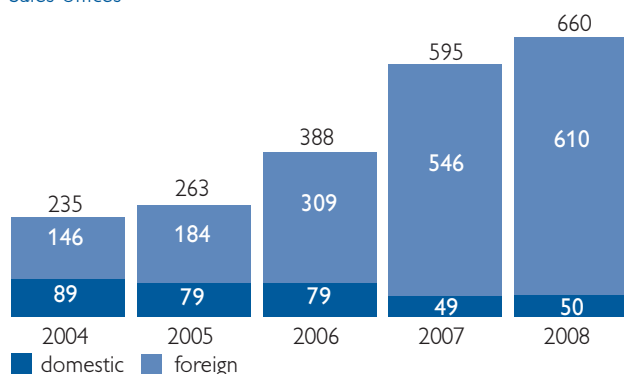
Adjusted for the non-recurring factors described above (dividends from unconsolidated companies, changes in value of investment property), operating income (net interest income, net fee and commission income and net trading income) increased by euro 77 million to euro 972 million. The share of operating income generated in CEE was 57.1 % (2007: 51 %), with Austria accounting for a further 37.7 % (2007: 41.7 %). The remaining 5.2 % was attributable to other countries.

Breakdown of operating income by region



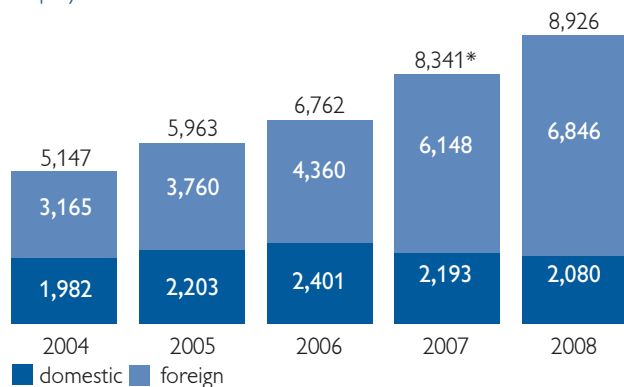
The Group continued to expand its branch network outside Austria, with the total number of sales offices increasing by 64 to 610 compared with the start of the year. All in all, the VBAG Group had a network of 660 sales offices in Austria and abroad as at 31 December 2008.

Sales offices



In line with this policy, the workforce expansion focused on CEE banks, which employed more than 700 additional staff. As at 31 December 2008, the VBAG Group had a total of 8,926 employees. Adjusted for the deconsolidation of the Kommunalkredit Group, this was around 870 more than at year-end 2007. As a result of this expansion, general administrative expenses increased by 17.3 % to euro 683 million.

Employees



* including employees of Kommunalkredit

Employees are the key to success in expert organisations. This is particularly apparent in crisis situations. In order to ensure sustainable economic success, the VBAG Group continues to pursue a policy of targeted, innovative training and further education in the spirit of cooperative values. The development and qualification program for 2008 again concentrated on the established cooperation with the Volksbank Academy. The number of training sessions as part of the proven "Wissen Intern Nutzen (WIN)" initiative increased by 40 % in 2008. In the area of languages and IT, in-house training was performed to a greater extent. Activities also focused on the topic of talent management. The VBAG Group developed a concept for a sustainable HR process allowing the potential and performance of senior managers to be strategically developed in future on the basis of a uniform VBAG expertise model.

The crisis on the financial markets was intensified by the collapse of the investment bank Lehman Brothers and the three largest Icelandic banks. The VBAG Group was also affected by these developments, which impacted its result for the year in the form of write-downs and risk provisions. An impairment charge of 90 % for Lehman Brothers and Icelandic banks depressed income from financial investments to the tune of euro -141 million, while impairments of euro -61 million were recognised in the structured credit portfolio; however, some of the latter were covered by the risk provisions recognised in 2007 for potential future risks arising from the sub-prime crisis. Income from financial investments totalled euro -294 million. The euro -59 million increase in risk provisions to euro -155 million is a proactive measure in response to the deterioration in the economic environment.

Due to the VBAG Group's conservative accounting policy, the goodwill of Europolis that was initially recognised on acquisition in 2005 was impaired in full in the 2008 consolidated financial statements. This impacted other operating result in the amount of euro -176 million. No other evidence of goodwill impairment was identified. At 31 December 2008, the VBAG Group's balance sheet contained goodwill of euro 72 million, of which euro 40 million was attributable to CEE banks (including euro 13 million for Volksbank Ukraine).

The cost-income ratio (which describes the relationship between general administrative expenses and net interest income, net fee and commission income and net trading income as well as other operating result - excluding impairment of goodwill - and income from financial investments) improved from 59 % in the previous year to 57.1 %. The figure for 2007 was restated to exclude the disposal group.

In fiscal year 2008, return on equity (ROE) calculated on the basis of the annual result before taxes adjusted for the result attributable to the disposal group amounted to 7.8 % (2007 restated: 12.9 %).

As a result of the negative events presented above and the resulting expenditure, the income from deferred taxes recognised in 2008

in the amount of euro 192 million (excluding the disposal group) will be used over the coming years through the utilisation of tax loss carryforwards.

Balance sheet

Total assets amounted to euro 52.9 billion as at 31 December 2008. Taking into account the figure of euro 32.9 billion attributable to the Kommunalkredit Group in the 2007 balance sheet, total assets increased by 15.8 % or euro 7.2 billion as against 31 December 2007.

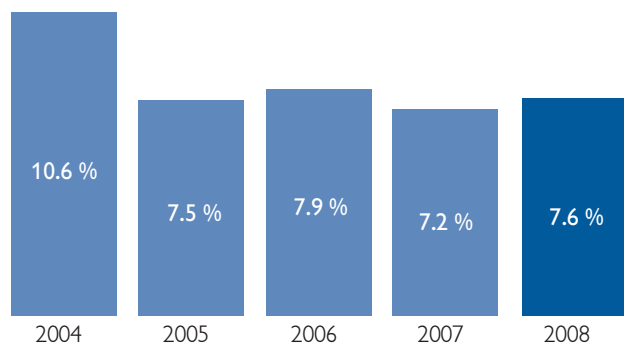
Loans and advances to customers increased by euro 4.1 billion or 16.4 % up to euro 28.8 billion. The highest growth rates were attributable to the CEE banks (euro +2.6 billion or 35.7 %) and the Investkredit Group (euro +0.8 billion).

Customer deposits contributed to the refinancing of the Group's lending growth, increasing by euro 1.6 billion or 16.1 % to euro 11.8 billion. Despite the difficult market environment, the issuing activity within the VBAG Group meant that debts evidenced by certificates rose by euro 1.8 billion or 13.2 % to euro 15.2 billion.

As the central institution of the Austrian Volksbank-Sector, VBAG is responsible for safeguarding the liquidity of the association of Volksbanks. Accordingly, amounts owed to credit institutions were increased in order to ensure short- and medium-term liquidity. The co-owners of Volksbank International and VB Leasing International were also employed to a greater extent to refinance activities in the CEE region. As a result, total amounts owed to credit institutions increased by euro 3.1 billion compared with year-end 2007.

At 31 December 2008, the VBAG Group had own funds of euro 3.4 billion. The tier I ratio (ratio of core capital to the assessment base for credit risk) was 7.6 %. In May 2008, the VBAG Group succeeded in strengthening its capital base by issuing participation capital with a volume of euro 500 million. The equity ratio (total own funds less capital requirements for market and operational risk in relation to the assessment base for credit risk) amounted to 9.8 %. All in all, the Group has a substantial surplus of own funds of euro 600 million.

Development of tier I ratio



Risk Management

Risk management is the responsibility of the Chief Risk Officer (CRO), who is a member of the Managing Board. The duties, competencies and responsibilities that make up the risk management process are clearly defined and specified. This serves to ensure 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 (back office). In this way, the organisational structure also enables the separation of the front office and back office functions required by the regulatory authorities.

The quantification of risk and collateral as well as the management of risk are performed by the centralised strategic risk management unit, which is independent of the front office functions, and its organisational sub-units. The subsidiaries of Volksbank AG are actively engaged in the ongoing development of methods and processes within the risk management system. This helps to ensure a shared understanding of risk and the efficient use of existing expertise within the Group at an early stage in the process, while also establishing the foundations for consistent risk measurement and control throughout the VBAG Group.

Further details on risk management can be found in the risk report contained in the notes to the consolidated financial statements.

Expected Development

Economy and financial markets

Economic development is likely to be extremely weak in the first half of 2009 and the overall outlook is subject to an unusually high degree of risk. In the USA, the economic stimulus measures initiated by the government are expected to only partially offset the decline in consumer demand. In Japan, in the euro zone as a whole and in Austria, the economic downturn is likely to be extremely pronounced in the first half of the year, with the state aid programmes in Austria and most other European countries only starting to have an impact on macroeconomic demand over the course of the year.

Lower share prices and the expansion of credit spreads have made it more expensive for banks and companies to obtain capital market financing despite declining interest rates. Although the state aid measures will provide some relief, this scenario will have a negative impact on investments in 2009, which generally respond to strained financing conditions with a delay of around three quarters. The sharp downturn in orders on hand and capacity utilisation since the end of the past year also indicate that private capital expenditure on equipment in 2009 will fail to make a contribution to growth in the euro zone or Austria. Although private consumption is being hit by rising unemployment, it could benefit from the growth in real income due to the reduction in inflation unless a long-term

downward trend in consumer prices (deflation) starts to emerge. The risk of deflation in industrialised nations would be a barrier to growth in 2010.

Inflation in all relevant countries will continue to fall until mid-2009. In the first half of the year, the consequences of the weak demand situation – which is gradually being rectified by government measures – will reinforce the basis effects of the price development of oil and other raw materials, which rose sharply in the first six months of 2008 before declining significantly later in the year. In 2010, oil prices will increase again on the back of demand factors such as the lower level of production in older oil fields, sluggish investment in new oil wells due to the financial crisis and the current fall in prices. Together with the elimination of the basis effects and the near-simultaneous relaxation in global monetary policy, this is likely to lead to a gradual increase in inflation in 2010.

Slightly positive growth in the current fiscal year is a realistic target for most Central and Eastern European countries. Although the high contributions to growth from consumer spending are likely to decrease, these countries are less exposed to the global economy than exports and investments are. Currency depreciation has increased their competitiveness in the international marketplace. As the level of loans as a percentage of GDP is comparatively low, the difficulties in accessing global capital will have an adverse effect on growth, and on investments in particular, but will not necessarily result in an actual recession. Nevertheless, growth in 2009 will be significantly lower than in previous years. Countries with a high current account deficit, such as Romania, Bulgaria and Serbia, remain exposed to substantial exchange rate risk. The highest negative growth rates for the year as a whole are expected in Hungary and Ukraine. However, the other countries in the region are also likely to record negative quarterly rates due to the strong correlation between their financial and real economic development and the depressed euro zone economy.

Economic development in the core markets of Volksbank AG 2006 – 2009

Real growth p.a.

	2006	2007	2008	2009e
Austria	3.2 %	3.1 %	1.7 %	-1.2 %
Germany	2.5 %	2.5 %	1.3 %	-2.3 %
Euro zone	2.7 %	2.7 %	0.9 %	-1.9 %
Bosnia and Herzegovina	6.9 %	6.8 %	5.0 %	-1.0 %
Croatia	4.8 %	5.6 %	2.5 %	-2.0 %
Poland	6.2 %	6.6 %	4.8 %	1.5 %
Romania	7.9 %	6.2 %	7.8 %	0.0 %
Serbia	5.6 %	7.1 %	6.1 %	-2.0 %
Slovakia	8.5 %	10.4 %	6.4 %	2.0 %
Slovenia	5.9 %	6.8 %	4.4 %	0.0 %
Czech Republic	6.8 %	6.0 %	3.5 %	0.4 %
Ukraine	7.3 %	7.6 %	2.1 %	-5.0 %
Hungary	4.1 %	1.1 %	0.3 %	-3.0 %

Source: European Commission, WIIW

Fiscal year 2009

Results in 2009 will be impacted by the consequences of the financial crisis. Accordingly, the Group's planning for 2009 includes a high level of risk provisioning. The VBAG Group will continue to record lower growth in the Real Estate segment than in the past, as well as reducing its investment book exposure in the Financial Markets segment. Activities in the Retail CEE business area will be reinforced with a view to generating additional primary deposits, while lending growth in Austria and CEE will focus on small and medium-sized enterprises to an even greater extent.

The sustained crisis of confidence affecting the financial markets means that banks will come under greater pressure to increase their tier I ratios to around 8-9 %. To ensure its future competitiveness, the VBAG Group has therefore resolved to implement measures to increase its core capital in order to meet the new requirements of the market.

**DIFFERENT
PERSPECTIVES
ARE OUR
DAILY BUSINESS.**

The Four Strategic Segments

- 28** Segment Corporates
- 32** Segment Retail
- 37** Segment Real Estate
- 40** Segment Financial Markets

SEGMENT CORPORATES

The segment Corporates consists of Investkredit Bank AG, Investkredit Investmentbank AG, Investkredit International Bank p.l.c., VB Factoring Bank AG, Volksbank Malta Limited and other fully consolidated companies.

Performance over the business year

Net interest income rose from euro 124.7 million to euro 170.8 million in the year under review. This resulted from the increased focus on higher credit margins in Central and Eastern Europe as well as in Germany and greater income from the private equity product area. Credit risk provisions were increased since due to the increasingly challenging economic environment. Actual credit losses remained at a very low level in the year under review. Net fee and commission income increased from euro 11.4 million to euro 22.2 million. This was primarily a result of higher income from guarantee fees and service revenue from trade financing. General administrative expenses increased by a disproportionately low amount compared to operating income to reach euro 88.1 million. Income from financial investments is below expectations with a loss of euro 108.9 million.

Owing to the financial market crisis and higher provisioning, annual result before taxes are down on the previous year with a negative result of euro -57.1 million. Following income from deferred taxes and minority interests, a negative segment result of euro 43.2 million is posted.

Investkredit Bank AG

Investkredit sees itself as a bank for companies and entrepreneurs. On the domestic market, Investkredit is developing from the long-term financing niche into a bank for businesses offering a broader specialised range of services (relationship management/transaction bank). On foreign markets the bank concentrates on various niches in the corporate finance business. This focus is reflected in corresponding market-product combinations. Key product areas are the lending business, debt capital markets and special finance, structured international and export finance, subsidies, cash management, treasury sales, corporate finance (private equity and M&A consulting in Austria and Germany) and project finance.

Corporate product area

545 financing agreements with a total volume of euro 3.8 billion were concluded within Investkredit's lending business in 2008. Like all other market participants, Investkredit was also affected by the dramatic fall in liquidity. The tense situation on the international money markets and the shortage of liquidity already resulted in a marked decline in growth of the lending business towards the end of the third quarter. The increased funding costs exerted pressure on the margins but could be passed on to customers with some delay.

Debt Capital Markets

Debt Capital Markets was impacted by the low level of activity on the capital market in 2008. The Vienna Stock Exchange closed the year with the lowest volume of new listings for five years. Investkredit participated in four new issues in Austria. By concentrating on medium-sized core customers, Debt Capital Markets accordingly focused on capital market consulting and further development of the product offering in the securitisation of trade receivables. Despite the confidence crisis in the financial markets, deposits from corporate customers developed positively. The volume of deposits was increased on a sustained basis from an original level of around euro 460 million. Following a volatile phase in the final quarter, total deposits of some euro 670 million and around USD 90 million were recorded at the end of 2008.

Despite the increasingly gloomy financial market environment, Investkredit succeeded in expanding its loan syndication business. The volume of syndicated loans increased by 32 % compared with 2007. Furthermore, Investkredit gained new syndication partners in Austria, Germany and Central and Eastern Europe.

Trade Finance and Subsidy Projects

The overall development of the Trade Finance and Subsidy Projects business areas in 2008 was positive. In terms of volume, Investkredit achieved a top 3 position as an ERP trustee bank in 2008 on the basis of project costs eligible for subsidy. Investkredit's share of the total volume of ERP loans amounts to 17 %. With a market share of 7 % in export fund loans, Investkredit is number five among the trustee banks. An individual loan from the EIB (European Investment Bank) for euro 50 million was concluded with the long-standing Investkredit customer AVL List. This comprises a so-called risk sharing finance facility consisting of a direct loan by the EIB amounting to euro 30 million and a euro 20 million loan from Investkredit. With regard to structured trade and export finance, co-operation with the local Volksbanks was intensified. The total sum owed for refinancing via OeKB (Oesterreichische Kontrollbank AG) came to just under euro 676 million at the end of 2008. A further task comprises the refinancing of subsidiaries of Volksbank AG by OeKB: By means of low-interest new issues of euro 1.6 billion via OeKB it was possible to increase the total amount owed on such financing agreements for foreign subsidiaries of the VBAG Group to euro 2.6 billion in 2008.

Cash Management

The development of the department Cash Management and Transaction Services was pursued further in 2008. A new department deals exclusively with product management and specialist customer advice with regard to payment transactions. The Customer Service unit supports customers with giro accounts, bank overdrafts, payment transactions, term deposits, cash advances and securities. In January 2008, the Single European Payments Area (SEPA) was

launched with the introduction of the new SEPA remittance facility. Investkredit fully supports the new SEPA remittance facility across all its systems.

Treasury Sales

Activities at Corporate and Real Estate Treasury Sales were dominated by the turbulent events on the financial markets in 2008. The focus of consulting in particular from the second half of the year onwards lay in the return to plain vanilla hedging, i.e. the hedging of an existing risk by means of basic products or simple structures. The volatile interest, FX and commodity markets call precisely at times like this for in-depth risk management on the customer side as well. Against this market environment, customers were provided with special support by Corporate and Real Estate Treasury Sales in the deployment of a range of complex structures from the risk perspective.

Corporate Finance

Customers of the Corporate Finance department are medium and large-sized enterprises and professional financial investors such as private equity funds. At Corporate Finance Investkredit offers both structuring and implementation services for complex financing agreements in the case of corporate acquisitions and disposals as well as comprehensive services with regard to succession issues. In 2008 the demand for structuring services for shareholder buyouts remained unbroken. The excellent market position of the previous year as one of Austria's market leaders was retained in 2008.

Business in Germany proved particularly successful in 2008 despite the significant downturn in the market in the fourth quarter due to the financial and economic crisis. Income from interest and commission reached a new record high. Despite the increase in risk provisions in the final quarter and a downturn in income from financial investments compared with 2007, annual result before taxes were in line with the budget. The Frankfurt branch accordingly once more made a significant contribution to the segment Corporates result. The branch concentrates its business activities on medium-sized corporate finance transactions. In terms of acquisition finance up to a corporate value of euro 100 million, the branch in Germany has established itself as one of the market leaders in recent years. This position was likewise successfully defended in 2008.

The Mergers & Acquisitions (M&A) and Private Equity activities are bundled within IKIB (Investkredit Investmentbank AG), a fully-owned subsidiary of Investkredit Bank AG. In 2008, IKIB supported several M&A projects in Austria and cross-border projects in CEE in its capacity as transaction consultant. The Private Equity business area enables IKIB to act as an investor and long-term partner of private equity funds. In the Direct Holdings department IKIB offers medium-sized enterprises innovative equity instruments for implementing growth projects and corporate takeovers. Holdings

in nine Austrian and international private equity funds were acquired in 2008. In addition, three co-investments were concluded in the Direct Holdings department.

IKIB participated in the Congress for Family Businesses organised by WirtschaftsBlatt with the specialist discussion entitled "Lockerer and IKIB – strongly expanding family business and investment bank as sparring partners". The cooperation on the topic of family businesses in Austria was continued by Investkredit. The winner of the "Swarovski-Investkredit-WirtschaftsBlatt Award" was Riedel Tiroler Glashütte GmbH.

Project finance

Project finance essentially stands for the financing of investments in infrastructure (toll motorways, airports, telecom etc.) and energy (power plants, renewable energy etc.). Based on its tradition of providing long-term funding to companies, Investkredit has also developed expertise in the financing of these assets. For over a decade it has successfully supported the construction and operation of wind power plants. In parallel with the European regulations governing binding quotas of renewable energy, it has also been possible to offer project financing for wind parks in particular in Germany but more recently also in the Czech Republic and Hungary. Investkredit has taken into account the 'price security' of wind and solar energy as a key competitive advantage against biomass and biogas plants and accordingly accompanied customers (and in selected cases new partners as well) with their investments in Europe. Thus further investments in the photovoltaic sphere in Spain or in the construction of power plants in England could be financed.

Know-how about subsidies

Investkredit demonstrated its know-how about subsidies once more with the release of the sixth fully revised and expanded edition of the Handbook of EU-conforming Subsidies (Hannah Rieger, Angela Platzer, Redline Wirtschaft, 2008) drawn up especially for the target group of small and medium-sized enterprises. In the autumn the handbook, which provides answers to questions regarding subsidies in business practice in the new funding period up until 2013, was already out of stock owing to the high level of demand. The seventh updated version is scheduled to appear in the summer of 2009. The handbook also provided the basis for joint technical events between local Volksbanks and Investkredit. Within the scope of the Investkredit-Volksbank Corporate Subsidy Forum, some joint technical workshops took place in several federal states in 2008: with all Carinthian Volksbanks at Industriepark Völkermarkt, Volksbank Wien at Investkredit, Volksbank Vorarlberg at Wolford AG and Volksbank Donau-Weinland and Volksbank Tulln at the Z 2000 Events Centre in Stockerau. The media partner for the series of events was Der Standard. Subsidies will in future form one of the key focal points of Investkredit's product portfolio.

Investkredit held two specialist seminars at the 22nd Alpbacher Financial Symposium: The impact of financial market volatility on the operating result: fate or controllable? and Optimising financial engineering through the simulation of financing and risk transfer products. Investkredit once again received the prize for the most innovative financial service (financial navigator) that is awarded by all companies present.

At the start of 2008, Investkredit's target customers included commercial and industrial enterprises in Central and Eastern Europe with revenues of euro 30 million as well as professional financial market players such as private equity funds. In addition to the financing of acquisitions and expansions, the structuring of sophisticated corporate lending took place in deliberate complementarity to the branches of Volksbank International AG active in the region. 2008 was marked by several factors: A thoroughly intact business climate during the first three quarters that enabled the strategy described to be successfully implemented contrasted with an extremely difficult fourth quarter. Investkredit has responded very swiftly to this situation by reducing its lending business in the region.

Owing to the constant demand, the InvestGlossar reference book (published by Manz) appeared in a fourth and updated version in 2008. It contains 1,588 terms from the world of finance and provides both entrepreneurs and heads of finance with an insight into modern financial management.

VB Factoring Bank AG

Volksbank AG's specialist factoring bank once more recorded very good business development in 2008. The sum of purchased receivables increased by 16.2 % or euro 128 million on the previous year to euro 921 million so that VB Factoring Bank AG now holds a 14.6 % share of the Austrian market.

Revenues from factoring contracts with customers brokered via regional Volksbanks went up in 2008 by an impressive 27.4 % to euro 252 million compared with the previous year.

This accordingly exceeded the record operating result of 2007, thereby producing a record result for the sixth time in succession. The budgeted targets were not only achieved but exceeded.

VB Factoring is a wholly owned subsidiary of Volksbank AG. It was founded in 1980 and its head office is in Salzburg. A representative office in Vienna is operated by Investkredit. VB Factoring is primarily positioned as a financing partner for medium-sized enterprises.

In addition to dynamic revenue financing the key activities include the assumption of complete credit control and the hedging of defaults. Based on the comprehensive industry knowledge of VB Factoring Bank AG, customers receive individually tailored solutions for revenue-adjusted financing.

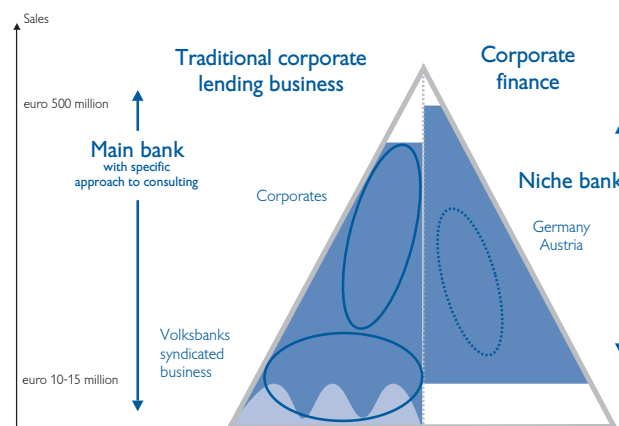
Outlook for the segment Corporates

The co-operation between Investkredit and the local Volksbanks will be stepped up further in 2009 with the aim of providing service to syndicated customers with regard to corporate subsidies and in the trade finance business. As illustrated by the crisis, it is important for companies to have reliable bank partners to ensure the provision of the necessary liquidity. Despite the ongoing tense situation, the new business planned for 2009 should marginally exceed that of 2008.

All in all, the regional concentration of the segment Corporates on the German-speaking area with simultaneous optimisation of the cost-income ratio should contribute towards the achievement of stable financial performance despite the significantly higher risk costs to be expected in the next two years. An important accompanying measure in this respect comprises the promotion of corporate subsidies. The Austrian and international subsidy programmes on offer promise to ensure corresponding risk and liquidity relief.

A significantly lower overall market volume in acquisition finance and the corporate finance business is expected for Germany in 2009. Club deals for medium-sized enterprises will dominate the transactions since the syndication market should only display extremely low acceptance of acquisition finance (especially with regard to leveraged buyouts).

Fields of business in Corporates



In the area of Debt Capital Markets, an interest in asset-backed financing (ABF) transactions can be observed on the one hand, while on the other hand initial leanings towards corporate bonds are already visible. ABF transactions offer the opportunity of combining the benefits of secured financing with the effects of equity protection. A revival is therefore to be expected in the medium term in this area.

In 2009 the positioning as a bank providing subsidised and export financing for both Investkredit and Volksbank customers will be strengthened: Investments in Austria, research and development, innovation, subsidised working capital financing for domestic exporters, financing of Austrian investors abroad and the medium and long-term financing of individual projects of Austrian exporters will be the key themes. Specifically, the focus on products for domestic customers will be on refinancing for SMEs via the ERP Fund and OeKB as well as EIB and KfW Bankengruppe. OeKB investment financing including all-round servicing is to be systematically expanded for Austrian corporate customers and for the Group.

In 2009 the expansion of Cash Management will be increased further together with the local Volksbanks and supplemented by the provision of appropriate specialist advice. This should enable greater use to be made of the available cash management potential of existing customers. In November 2009 the new SEPA Direct Debit system is to be introduced throughout the entire SEPA zone and made available to customers.

At times of crisis companies adapt their fields of business to the changed conditions. Since Investkredit has a high level of expertise in the area of corporate finance, additional business opportunities are to be expected in view of the expected transactions.

IKIB is planning in 2009 to strengthen its position in the M&A area as a transaction consultant in the Austrian medium-sized enterprise segment. The positioning as an investor in sustainable private equity transactions focusing on Germany, Austria, Switzerland and CEE is to be promoted.

By concentrating on renewable energies, project finance has established itself as a form of financing that is largely independent of the economy. Furthermore, there is the opportunity to participate in various government sponsored economic programs such as investments in state infrastructure and energy which are aimed at countering the recessionary effects.

Investkredit is continuing to concentrate on providing its main bank customers with adequate support in terms of risk-bearing ability and liquidity. Sophisticated financing technologies (capital structure management, long-term liquidity management, financial navigator, M&A consulting etc.) aim to optimise the deployment of these resources. Particular attention is being paid here to the provision of intensive support for owner-managed Austrian core customers for whom we intend to consolidate further our position as the main bank.

There is barely any financial product that is developing so dynamically across the world as factoring. VB Factoring Bank AG is increasingly turning factoring into an integral component of corporate lending, with wholesale, production and service enterprises of all shapes and sizes and from a diverse range of sectors now making use of factoring

to finance expansions. Factoring for companies of all sizes is also proving a creative solution in view of Basel II since it enhances their liquidity and capital ratio.

Factoring offers numerous advantages for companies especially in the current challenging economic environment: Liquidity is preserved, risks are reduced and creditworthiness is increased. The factoring market should therefore also grow again this year.

SEGMENT RETAIL

Volksbank AG serves its customers in the Retail segment through an extensive network, in Austria and abroad. Volksbank Wien, Volksbank Linz+Mühlviertel, Bank für Ärzte und freie Berufe and Immo-Bank operate in Austria. The VBAG Group is represented in each of nine CEE countries by Volksbank International and VB LEASING International.

2008 was an exceptionally successful year for the Retail segment. Total assets rose by 26.2 % to euro 24.4 billion. Annual result before taxes remained at almost the same level as in 2007 and amounts to euro 103 million in 2008.

Volksbank Wien AG

The 2008 business year was a successful one for Volksbank Wien. Despite the generally challenging economic situation, its standing as THE advisory bank on the Viennese market was reinforced. Active and consistent marketing brought success.

With 32 branches equipped with state-of-the-art technology, Volksbank Wien offers its customers a broad branch network. A newly leased location in 1010 Vienna is set to open in 2009.

Deposits increased by 25 % compared to 2007. At the end of 2008, amounts owed to customers, including medium-term notes, came to euro 2.1 billion. As before, the lending policy was geared toward qualitative growth. As a result, the lending business increased by 17 % to euro 1.2 billion year-on-year.

At 56.1 %, the loan-deposit ratio (adjusted volume of loans to primary deposits) showed a slightly declining trend from 2007, due to the strong upturn in deposits.

With regard to securities investments, 2008 was the most challenging year in decades. Many stock exchange indexes recorded declines of 50 % and more. Bonds also saw historic price losses. Considering the current market climate, investment business at Volksbank Wien was good. Active, high-quality advisory services helped to limit portfolio outflows to 10 % for the year. Security deposits in the retail business totalled euro 521 million at the end of the year.

Increased transaction volume and dynamic interest rate development had a positive impact on the total interest position. Net interest income rose by roughly 6 % due to the increase in business volume in 2008.

Service business increased in the areas of lending business and payment transactions; fee and commission income declined in the area of securities. Overall, net fee and commission income rose by 4 % from the previous year and amounts to 0.7 % of total assets.

In joint projects with the Natural History Museum and the City of Vienna, Volksbank Wien invited all primary schools and kindergartens in Vienna to the "Tiere in Wien" [animals in Vienna] exhibition. Profound talks by experts of the Natural History Museum gave the children an opportunity to gain valuable knowledge about the exhibits. The exhibition inspired over 5,000 children.

The acquisition campaign targeting small and medium enterprises launched in 2007 continued to be a focus in 2008. Regular information for this target group and events such as the continuing professional development programme for SMEs, "Fit for Business", garnered good response.

The wide range of events to encourage customer loyalty among midsize companies, private investors and families was borne out by the positive feedback of those attending.

Volksbank Linz+Mühlviertel reg. GenmbH

Despite difficult conditions, both intensive customer loyalty projects and successful customer acquisitions caused total assets to increase slightly from euro 377 million to euro 378 million. The annual result before taxes reached euro 162 thousand.

In the past year, the lending policy was geared toward qualitative growth. Loans to customers increased by 8.1 % from the previous year to euro 196 million (deducting risk provisions). Despite the uncertainty of depositors – whose disquiet declined following the decision of the Government to fully guarantee deposits of private individuals – Volksbank Linz+Mühlviertel posted savings deposit growth of 2.4 % to euro 157 million.

At 31 December 2008, Volksbank Linz+Mühlviertel employed a staff of 75. Highly qualified and motivated employees are the key to success of Volksbank. The statistics for employee training and development also bear this out. In 2008, 50 employees completed 94 seminars at the Volksbank Academy.

Specialist training and continuing professional development of employees and building of soft skills will continue to take priority. Only in this way will the quality of advisory services continue to improve steadily. Efforts to strengthen customer relationships on the basis of improved service and support for customers took the form of a wide range of marketing campaigns in 2008. For example, product-specific sales campaigns in the areas of home construction, pension and annuity products and other topics were extremely well received.

Since 2004, the Lentos Kunstmuseum in Linz, in cooperation with Volksbank Linz+Mühlviertel, has invited personalities from the world of art and culture to a series of forums called "sonntags um 11" [Sunday at 11]. The highlight of the discussion series during the past

business year was a conversation with the executive director of the Albertina Museum, Dr. Klaus Albrecht Schröder, which was attended by 200 interested guests.

In the autumn of that year, the traditional business cocktail focused on the topic of design. Under the heading of "Designing Desire – creating objects of desire", Katharina Rothbacher, graduate of the Linz University of Art and member of top design firm KISKA GmbH, offered approximately 100 guests interesting insights into the creative process of design.

In a one-of-a-kind press conference at the "Volksbank tower", Christina Stürmer – the only Austrian pop star who has scored international hits – presented her latest acoustic album.

Bank für Ärzte und Freie Berufe AG

As an expert bank and partner to the medical profession, ärztebank had another successful year in 2008. The spectrum of services targets a specific group and goes far beyond the usual services of a bank. The Bank's many years of experience in the health care field and its specialist professional expertise guarantee solid support for the customers – particularly as conditions grow tougher. ärztebank offers more than classic financing. The new "financial ECG" – an IT-based consulting programme developed especially for physicians – was used to create individualised financing solutions.

The key advantage of ärztebank consulting is its availability regardless of time or location. Customer advisors are available to their clients in the evening, at the weekend, in the bank or wherever the customer is located. Moreover, advisors know the specific needs of a physician and have on hand the statistical data and ratios of the various medical specialties. What makes ärztebank different from other banks is its financial consulting expertise in matters concerning the establishment or transfer of a practice and the assessment of initial and subsequent investments.

The bank's headquarters is located in Vienna. In addition, ärztebank is represented in Graz, Linz and – since a new branch opened in July 2008 – also in Innsbruck.

The positioning of ärztebank as an expert bank with a private banking alignment for a specific profession proved its worth in the year under review as well. More than 1,000 new customers were gained. The product portfolio of ärztebank has always been orientated toward the special needs of the medical profession. Deposits showed growth of euro 179 million or 43 % from 2007. Growth drivers were the Ärzte-Premium-Sparkonto [premium savings account] and the new Ärzte-Fixzins-Sparkonto [fixed-interest savings account] launched in 2008.

In the lending business, the bank continued to pursue its business strategy of qualitative and target group-orientated growth systematically with a moderate growth of euro 32 million or 8.9 %. New loans are concentrated in the core customer business.

The introduction of the Duo product line, which links fixed interest time deposits with a specific security, represented another attractive investment product. Despite the success of the new products 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 the investors.

Increased transaction volume and dynamic interest rate development had a positive impact on operating income. Despite today's challenging conditions, since 2007 operating income increased by 9.2 % to over euro 13.5 million. Annual result for ärztebank rose by 10.1% from the previous year.

Supporting measures such as attendance at medical conferences or holding specialist seminars for medical professionals on the economy or starting a business helped to boost name recognition.

IMMO-BANK AG

As the housing construction bank of the Volksbank-Sector, a specialist bank, established in 1932, consolidated its position further in the relevant business areas and showed pleasing growth in 2008.

During the past business year, the annual result before taxes at IMMO-BANK AG has increased by 9 % from 2007 to euro 8.4 million. Total lending volume transacted or managed by IMMO-BANK AG during the reporting period rose to euro 2 billion (IMMO-BANK AG plus transferred syndicate shares). In comparison to 2007, this represents an increase of about 8 %.

The solid market performance in the lending business is primarily a result of the subject-specific expertise of the specialist bank. Specialised knowledge on banking or subsidised lending is as much a basic precondition as knowledge of the law governing tenancy and home ownership. There is also broad experience of projects and matters specific to construction. This high degree of bundled expert knowledge in the wide-ranging field of residential real estate lending is the result of long-term training and continuing professional development for the employees. This specialist knowledge was also gained from the operations of the subsidiaries in the residential buildings segment.

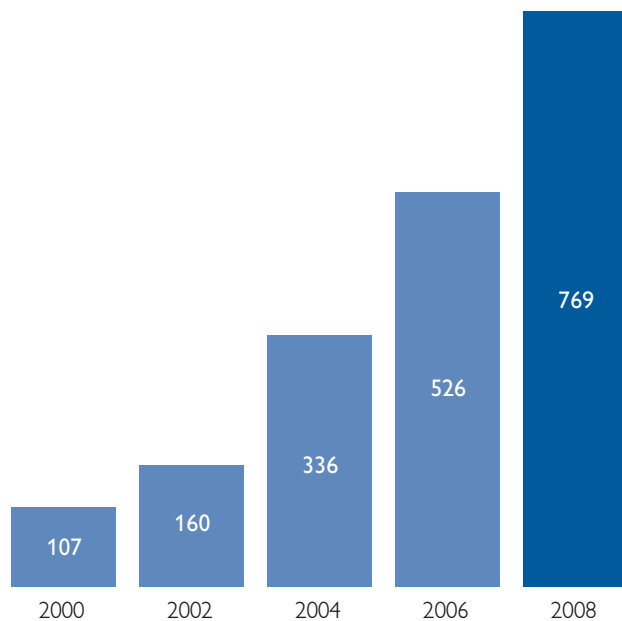
Another factor of success is the flat organisational structure of the company. Therefore borrowers are serviced by speedy decisions and thus prompt availability of capital.

The subsidised residential property business represents the first key pillar of the lending business. Groups targeted for sales are non-profit residential building contractors. IMMO-BANK AG customers

also include private homeowners, independent residential building contractors, institutions and companies listed on the stock exchange. In the commercial real estate business, the second pillar, the focus is on refinancing residential real estate projects in Austrian conurbations. As part of the third pillar of the lending business, IMMO-BANK AG also services private customers who wish to purchase residences.

The investment sector is also an important and lucrative area of IMMO-BANK AG. In addition to the "classic investment" products, tax-privileged mortgage bonds have been issued in the form of convertible bonds since 1993. The withholding tax exemption up to a nominal interest rate of 4 % and the high rating – particularly in such turbulent times as these – ensure active market demand for this investment product. The issue volume of the residential construction bonds increased from 2007 by a respectable 15 % to euro 769 million.

Issue volume of IMMO-BANK residential construction bonds in million euro



The regional Volksbanks are reliable distribution partners. They remained responsible for the sale of the mortgage bonds to private investors in 2008. The issue of these convertible bonds forms the basis for the attractive range of IMMO-BANK AG loan products.

By awarding land in the form of long-term construction rights to housing co-operatives, IMMO-BANK AG supports the construction and allocation of affordable housing to private consumers. In doing so, the institution contributes significantly to creating or maintaining the best possible housing conditions.

The successful business development of IMMO-BANK AG is based on a high level of cost efficiency in the area of personnel and back office.

Volksbank International AG

The formation of a banking subsidiary in Slovakia in 1991 made Volksbank International AG (VBI) one of the first Austrian banks to become involved in the promising growth markets of Central and Eastern Europe.

Today, VBI, domiciled in Vienna, manages a network of 10 Volksbanks in the following nine CEE countries: Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Romania, Bosnia and Herzegovina, Serbia and Ukraine. The Group already has 609 sales offices and in December 2008 employed a staff of 5,849 who service roughly 1.5 million customer accounts.

VBAG is the majority shareholder in VBI with a 51 % interest. Since 2004, the German co-operative banks DZ BANK AG and WGZ BANK AG and the French Banque Fédérale des Banques Populaires have each held a 24.5 % interest in VBI as well.

VBI has relied mainly on organic growth and in the past has refrained from making any purchases with an equity multiple exceeding 3.5. As a result VBI avoided high levels of goodwill in its balance sheet while competitors paid amounts of up to 6 times equity in the past. Moreover the conservative risk policy for lending has paid off. For example, Volksbank Ukraine, has insisted on a high degree of collateralisation and therefore has not granted any unsecured loans. In terms of refinancing, VBI is also solidly positioned. More than 90 % of amounts owed to banks are long-term loans with maturities falling between 2013 and 2018 and are provided by the shareholders of VBI.

VBI in figures

Despite the impact of the financial and economic crisis in 2008, the VBI Group not only increased its earning power but also recorded dynamic growth.

The annual result before taxes rose by 21.2 % during the 2008 business year to euro 65 million (after deduction of Group overheads) This is the fourth record result for VBI in a row and was made possible by a clear strategy, conservative business model, strong customer service orientation and the great commitment of all employees. Total assets increased in the past business year to euro 14.7 billion. The lending volume rose to euro 9.9 billion and the deposit volume posted a respectable increase of 13.9 % to euro 5.1 billion.

In 2008 total assets of 5 of the 10 VBI banking subsidiaries in the CEE exceeded euro 1 billion: Romania euro 5.3 billion, Hungary euro 2 billion, the Czech Republic euro 1.8 billion, Slovakia euro 1.5 billion and Croatia euro 1.1 billion.

All banking subsidiaries of Volksbank International AG are very well represented in their home markets. This can be seen particularly from the steadily increasing number of customer accounts managed (December 2008: 1,474,000).

Retail business

In the retail business, the VBI banks showed significantly more dynamic development than other market participants.

For years, VBI has concentrated on specific areas of business. The business model confirms now its effectiveness. The retail lending volume of 2008 rose to euro 5.5 billion. The total volume of retail deposits increased by 13 % to more than euro 2.9 billion. At the same time, the conservative risk policy of VBI ensures an excellent collateralisation ratio. In addition, the high level of collateral for loans in foreign currencies and the rigorous restriction of loan terms limit the credit risk.

Corporate business

The corporate business also performed well once again in 2008. At the end of 2008, the corporate financing volume of the VBI Group stood at roughly euro 4.4 billion. Real estate financing accounted for about 22 % of this amount.

This success is attributable primarily to the consistent focus on small and midcap companies, which contribute an impressive 58 % share to total transaction volume.

Moreover, in the past business year, the focus was on continuing to build profitability. Cross-selling products from the transaction banking area (deposit management, payment transactions, liquidity management) and from treasury continued to be pushed.

VB-Leasing International Holding GmbH

VB LEASING International is a joint venture between VBAG and VR-LEASING AG. It is a leading property leasing provider in Central and Eastern Europe. Currently VB LEASING – whose holding company is in Vienna – maintains subsidiaries in Poland, the Czech Republic, Slovakia, Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Romania.

2008 witnessed the biggest changes in the history of VB LEASING International. The shift already initiated in 2007 – away from volume and toward greater quality in refinancing – was a correct one and led to considerably higher margins. This quality offensive was supported by all employees of the VB LEASING Group and, as a result, was successfully implemented in all markets of Central and Eastern Europe.

In the first three quarters of 2008, the business development of VB LEASING exceeded planned levels. A decline was recorded only in the last quarter. Overall, the record value of 2007 was nearly reached. The volume of new business in 2008 amounted to roughly euro 1.5 billion, representing a drop of roughly 10 % from the record year of 2007. The Czech company achieved the highest volume of new business with more than euro 373 million, followed by the Polish company with about euro 361 million. In 2008 as well, these two subsidiaries were the driving force behind the VB LEASING Group. The two companies closed a total of more than 22,000 deals.

The most successful country development came from the companies in Slovenia and Bosnia and Herzegovina. In 2008, both companies beat the record result of the previous year. The quality campaign launched in 2007 and intensified in 2008 helped to defend successfully our leading position among equipment leasing providers in Central and Eastern Europe. Profitability in 2008 was satisfactory. The annual result before taxes for the year reached euro 14 million. (after deduction of Group overheads)

A key strategic move was made in Hungary during the past fiscal year. VB LEASING Hungary was merged with Lombard Lizing, a 100 % subsidiary of VR-LEASING AG. In return, VB LEASING International received an interest in the Hungarian market leader, Lombard Lizing. In the context of the tough Hungarian market situation, this represents a decision of high importance. Forces were combined to ensure our national and international clients benefit from a further improvement in the service and by the synergies generated by the merger with the market leader.

Outlook for the segment Retail

The retail banks of the VBAG Group view the turmoil on the international financial markets and the resulting difficult global economic situation as an opportunity.

The retail business of Volksbank Wien continues to focus on partnering with the customers in day-to-day practice. Customer services are optimised and expanded on an ongoing basis. Strengthening the market position remains a key goal for the coming years. In 2009, the growth strategy of Volksbank Wien will be supported by the owners by providing additional own funds.

Partnering with customers – whether in the area of corporates, in the retail business or in financial investment – is a central concern for Volksbank Wien. As an experienced banking institution and successful, reliable partner, Volksbank Wien will meet the challenge of maintaining a high level of quality in offering and handling all financial services in 2009.

In 2009, Volksbank Linz+Mühlviertel will continue to focus on corporate customer business, residential construction and servicing private customers in order to solidify its market position. Particular emphasis will be placed on an active partnership with customers

through personal contact. In keeping with the principle of regional focus, priority will be given to supporting people, companies, associations, institutions and the economy locally.

To achieve the goals that have been set, it will be necessary to monitor ongoing developments and to react quickly by adapting costs if necessary. If development goes according to plan, it will be possible to improve results in comparison to 2008.

The ärztebank views the uncertainty over economic developments going forward – which is likely to persist – as an opportunity to establish further the lifecycle concept in its customer service practices. For example, entrepreneurs need broad-based support in all phases of building their business. In the first three years after setting up business, the bank provides an annual "finance check" with information about the financial situation, liquidity and investment and cost planning. It offers the same services to established practitioners. The expert bank regularly reviews the performance of the practice and assists physicians in planning their capital expenditure.

The expansion of financial consulting and the launch of new products for entrepreneurs and established medical practices represent another focus. Marketing activities will concentrate more heavily on the perception of ärztebank as a financial planner and partner in challenging times.

Because of the degree of specialisation and clear positioning in the Volksbank-Sector, IMMO-BANK AG foresees a broad range of development opportunities for 2009. Strategic focuses will be intensive marketing to the building management target group and supporting private or institutional investors. Special payment transaction systems and customised service and financing products will provide the ideal framework for intensifying business with existing customers and for recruiting new partners. IMMO-BANK AG also expects positive business impulses from processing the market together with relevant special interest groups in the area of residential property.

IMMO-BANK AG is optimistic that it can continue to increase earnings and extend its already outstanding reputation on the market.

The past years of Volksbank International were characterised by particularly dynamic growth, and this will continue – if at a slightly slower pace due to the current financial crisis. The gap in growth between Central and Eastern Europe (CEE) on one hand and the "West" on the other has remained positive despite the financial crisis. While a drop in economic output is predicted for most Western EU countries, critical estimates still show positive signs for the CEE region.

Overall, Volksbank International is solidly positioned, even in an economic climate that is worsening. The strategic approach of VBI has proven its worth amid the financial crisis as well and will be maintained. In the future, the network of banks in CEE will expand mainly on the strength of organic growth rather than that of expensive acquisitions. The Volksbanks in Central and Eastern Europe are very well positioned as a whole.

In 2009, the VBI Group intends to continue building its existing network and local representation. Despite the global financial and economic crisis, Volksbank International is optimistic about the future.

From a current perspective, the consequences of the global economic crisis for the leasing markets in Central and Eastern Europe cannot yet be estimated. The CEE states of Serbia, the Czech Republic and Romania have seen a higher than average impact from the financial crisis. Rapid declines in the automobile industry begin to show. Particularly the downturn in the new-car segment affects the leasing business. It will now be a matter of waiting to see what the impact will be of measures instituted by individual states and by the EU.

Over the medium term, the growth of the Central and Eastern European markets will be significantly above the EU average. For the VB LEASING Group, this means that the successful path will be pursued and that responsible action, sustainability and strong customer loyalty will be given priority over short-term maximisation of gains. For this reason, long-term profitable growth remains the objective.

SEGMENT REAL ESTATE

Fields of business in the segment Real Estate

INVESTKREDIT	IMMOCONSULT	PREMIUMRED	EUROPOLIS
Financing		Development	Asset Management
Loans	Leasing		
Financing commercial real estate projects in Austria and CEE	Real estate leasing in Austria and CEE	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 <i>Division Head of Real Estate Finance</i>	Gerhard Höfler Brigitte Fruhstorfer <i>Managing Directors</i>	Leopold Deufl Ralph Bezjak Julius Gaugusch <i>Managing Directors</i>	Julius Gaugusch Thomas Erdmann <i>Board of Management</i>

The segment Real Estate consists of the following business units: Investkredit Bank AG for real estate financing, Immoconsult Leasinggesellschaft m.b.H. for real estate leasing and Premiumred Real Estate Development GmbH for real estate project developments. Europolis AG is a real estate investor and asset manager in Central, Southern and Eastern Europe.

In line with its self-conception as a provider of “Excellence in Real Estate”, the real estate segment offers a broad range of professional services covering all issues relating to commercial real estate.

Performance over the business year

Altogether, the performance of the real estate segment remained significantly behind the record result posted in 2007. Net interest income decreased from euro 197.7 million to euro 152.8 million. Credit risk provision expenses increased to euro 19 million. General administrative expenses rose to euro 80.9 million. Significant expense was incurred due to impairment of goodwill at Europolis amounting to euro 176 million. Income from financial investments also fell significantly short of the comparative value of the previous year which was significantly boosted by the lucrative sale of a Prague office property. The annual result before taxes of euro -149.1 million remained negative due chiefly to the impairment of goodwill. Total assets have risen to euro 7.3 billion due to increases in real estate loan financing.

Investkredit Bank AG – real estate financing

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. The demand for modern office, retail and warehouse space in Central and Eastern Europe has been and still remains much greater than in the west, despite the present financial crisis and gloomy economic outlook. The focus of Investkredit lies in financing office, retail and warehouse property developments and

acquisitions as well as business hotels. Owing to the financial crisis, new business had to be significantly curtailed in the second half of the year. The resulting shortfall in fee income (commitment fees payable when new loans are taken out) affected profits. Sixty financing agreements with a total volume of euro 488 million were concluded in the area of real estate financing in 2008.

Our real estate services also received awards again in 2008. For the fourth time in succession, the London-based international finance magazine Euromoney presented the prestigious Liquid Real Estate Awards in 2008 which are based on the results of international surveys carried out at companies in the real estate sector.

Immoconsult Leasinggesellschaft m.b.H.

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. At around euro 282 million, the volume of new business at Immoconsult in 2008 was below that of 2007. This is due to lower investments by core customers. Immoconsult has two strategic fields of business – real estate leasing and large-volume equipment leasing. The focus of real estate leasing lies on Austria (servicing the local Volksbanks) as well as on Central and Eastern Europe. Large-volume equipment leasing is offered as a complementary product to supplement real estate finance. A successful niche product for Immoconsult is container leasing. Despite the difficult economic environment, real estate leasing agreements totalling around euro 173 million and large-volume equipment leasing agreements in the order of some euro 109 million were concluded. Highlights in terms of real estate leasing in 2008 included the financing of two shopping centres in Croatia (approximately euro 22 million) and three hotel projects in Vienna (approximately euro 33 million). For large-volume equipment leasing 2008 was the most successful and profitable year ever. Container

financing amounting to around euro 72 million for two of the world's largest shipping companies in Italy and Israel are particularly worthy of mention.

Premiumred Real Estate Development GmbH

Premiumred is the competence centre for international real estate project development within the Volksbank Group. In line with its self-conception as a "development artisan", Premiumred covers the entire product cycle of a property without any operational partners. The product cycle spans from project acquisition and development, planning, constructional implementation, letting and property management through to the sale to final investors. This way Premiumred achieves a very high level of profitability compared with the sector.

The office buildings constructed in 2008 stand out markedly from competitor projects as the artistic design of the lobbies is considered an integral part of project development. Peter Kogler designed the foyers for the "Smichov Gate" project in Prague and "Premium Plaza" project in Bucharest. A ceiling painting by Otto Zitko is being incorporated in the "Premium Point" office building in Bucharest, which is currently under construction.

Premiumred can look back on its most successful year ever: "Premium Plaza", an office building located in central Bucharest with a rentable area of around 8,600 m², was already completely let when it was opened in July. Ernst & Young occupies almost half the building. The "North Gate" "Class A" office tower in Warsaw – Premiumred's largest project to date with 30,100 m² of usable floor space – was already over 90 % let when it was opened in October. At the end of the year a rental agreement was drawn up with a British insurance company for over half of "Premium Point", another office building in Bucharest. The opening of the building with around 6,500 m² of usable floor space is scheduled for April 2009. During 2008, land was acquired in Prague and Warsaw for the envisaged development of the "River Gardens" (rentable area around 23,000 m²) and "Salomea Business Park" (rentable area around 28,000 m²) office projects.

Europolis AG

The Europolis Group was founded in 1990 and has 126 employees. Over the past few years, it has developed into one of the most important real estate companies in the CEE region. Europolis sees itself as a long-term oriented investor and asset manager in the area of real estate and creates portfolios for investors in accordance with strategic investment guidelines. Europolis manages the acquired projects in line with sustainable criteria on behalf of its investors and sells real estate and portfolio investments following the expiry of specific holding periods. The portfolios, which have received numerous real estate awards, are among the ones with the highest quality in the region. Portfolio investors include the following companies: VBAG, Union Investment Real Estate, AXA Investment Managers Deutschland and EBRD (European Bank for Reconstruction and Development). Europolis currently owns 45 properties and projects in the Czech Republic, Hungary, Poland, Romania, Slovakia, Croatia, Russia and the Ukraine. The contractually fixed investment volume amounts to euro 2 billion, euro 1.3 billion of which is allotted to completed and rented properties.

In 2008, a negative result was posted for the first time in the company's history. The reason for this was that in the second half of the year the effects of the financial crisis hit Eastern Europe in full scale. This led to significant devaluations of individual properties, above all in Russia. Owing to the increased financing costs and almost complete freeze in demand, yields in the real estate markets rose considerably. Furthermore, it was barely possible to obtain financing any longer, especially for real estate project developments. In the operational area Europolis was able to increase its earnings from rentals and fee and commission income.

On the investment side further warehouses were completed in 2008 at the logistics centres Europolis Park Blonie in Poland and Europolis Park Bucharest. The Lipowy office building in Warsaw with 39,000 m² of usable floor space was also put into operation. The rentable area of the Europolis Group increased by 20 % overall to some 900,000 m². In the summer of 2008, the Vremena Goda shopping centre in Moscow was purchased together with the Canadian investor Ivanhoe Cambridge. Europolis now has a 40 % holding in the project, which comprises 150 shops and 32,000 m² of retail space. In St. Petersburg the KPP shopping and entertainment centre is under development. In view of the economic circumstances, a project in Volgograd is to be sold again prior to completion. A warehouse development project has also been transferred back to the seller in the Czech Republic. The Europolis Park Arad warehouse was completed and the first rental agreements have already been signed. Logistics centres now make 26 % of the portfolios. Europolis only achieved gains from revaluation of a few properties in Poland and for properties which were expanded or show improvements in rental levels. Significant devaluations were necessary in many countries – especially in Romania, the Czech Republic and in Russia.

The Asset Management area was characterised by successful letting in all markets in 2008. Some 153,286 m² of office space, around 127,609 m² of rentable area in warehouse parks and 5,293 m² in shopping centres was newly let or relet. The highlight was letting the Lipowy office building in Warsaw. The largest Polish office rental transaction enabled Europolis to incorporate a 39,000 m² building let out exclusively to Pekao SA into its investment properties portfolio following completion.

In the area of financing Europolis concentrated on loans to proprietary holding companies and expanded the credit volume by some euro 240 million. Despite the difficult financial market situation, further financing partners were found for Europolis projects. The Kavci Hory office development in Prague and the expansion of the Teplice shopping centre in the Czech Republic were refinanced through other banks for euro 61 million, as was the acquisition of the Moscow shopping centre for a total sum of USD 155 million. Europolis also secured further refinancing to the tune of some euro 132 million that will become cash-effective in 2009.

Excellence in Real Estate

The third Real Vienna exhibition took place in May 2008 at MessezentrumWienNeu, where Investkredit ran an exhibition stand together with Europolis, Immoconsult and Premiumred. The real estate segment of Volksbank Group contributed two key items to the exhibition program: the property talk Green Buildings, Green Developments – The Interplay of Ecology and Profit and the panel discussion Warehouse Real Estate in CEE and SEE – Growing in Leaps and Bounds.

Outlook for the segment Real Estate

The rise in yields in the real estate markets of Central and Eastern Europe could continue in certain areas. However, owing to the deteriorating economic data, an increase in the vacancy rates of rental properties is to be expected. The slump in the price of listed real estate companies and the credit crunch also suggest that real estate companies will increasingly be confronted with economic problems. However, in view of the sharp reduction in development projects, the structural backlog demand for high-quality real estate in Central and Eastern Europe should remain in place. The readiness of banks to finance real estate projects in Central and Eastern Europe will remain very limited in 2009.

The following situation is to be expected in real estate financing in 2009: The continued restraint with regard to new business will significantly reduce interest revenue. The resulting fall in income can be partially compensated by existing and not yet fully utilised credit lines (construction loans) due to be drawn down in 2009. However, owing to the impact of the financial crisis on the real economy, a rise in rent losses and vacancies is to be expected. An improvement

of the situation is dependent on a revival of the refinancing markets and the development of the economy in Austria and Central and Eastern Europe.

Immoconsult will also be very cautious with regard to new business in 2009. Planning permission for the properties in Prague and Warsaw purchased by Premiumred in 2008 (“River Gardens” and “Salomea Business Park”) is expected to be obtained by the fourth quarter of 2009. In order to accommodate increasing demand from tenants and real estate funds for office buildings that can be managed in a sustainable and energy-efficient manner, the Prague-based “River Gardens” project is being developed as Premiumred’s first “green building”.

Owing to the current real estate environment, Europolis will concentrate fully on the area of real estate asset management in 2009. The aim is to build on the successful letting achieved in 2008 and to continue to keep vacancy rates well below the average for the CEE region. While work on projects currently under construction will be continued, some development projects are to be put on hold for the time being. Development projects such as the Orhideea Towers office complex in Bucharest will only be carried out if there is sufficient advance letting. Altogether, Europolis will focus more on managing its portfolio than on new developments. In addition, the sale of real estate from the first Europolis portfolio “E1” will be prepared following the expiry of the investment period. In the Czech Republic the third office building of the successful “River City Prague” complex, the Amazon Court project, is due for completion in 2009. In Bucharest the two office buildings of the “River Place” project have already been fully let out prior to completion. In the area of real estate finance Europolis will continue to concentrate on transactions with core customers and refinancing existing properties.

SEGMENT FINANCIAL MARKETS

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 three profit centres: Group Treasury, Capital Markets and Volksbank Investments.

The segment in figures

The 2008 business year was turbulent and challenging for the Financial Markets segment. Despite adverse and exogenous influences, an annual result before taxes of euro 25.4 million was achieved in the year under review. Compared with 2007, which itself posed a challenging business year, this only represents a marginal decline of euro 7.8 million. Income from financial investments primarily contains security impairments on Lehman Brothers, structured credit positions and credit risk funds. The positive result in terms of credit risk provision is due to the reversal of portfolio-based allowances for impairment losses formed in 2007 amounting to euro 35 million. An impairment of structured credit positions was carried out in return. Earnings from interest and currency trading were primarily responsible for the very good trading income. In currency and currency derivative trading, a record result was achieved. The certificate business of VB Investments, which has been extremely successful for many years, also posted excellent results once more. The market share in Austria increased to an impressive 42 %.

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 and holding of special customer events. In addition, Group Treasury also serves institutional and corporate customers as well as universal banks and special institutions at home and abroad. The product range not only comprises traditional interest and price products but also individually tailored derivatives.

Trust and co-operative partnership are essential requirements for achieving an edge amid increasing competition. Group Treasury therefore sets great store on supporting all business partners by means of professional support of the secondary market.

Fixed Income & Derivatives consolidated its existing customer relations in the year under review as well as acquiring a large number of new customers. The market position was significantly expanded. Personal customer contact was and remains a key success factor

for the direct placement of VBAG issues. Even in the current very challenging market environment sales of over euro 5 billion were generated in 2008. Most of this volume was placed by the sales teams at Institutional Sales & Relationship Management as well as Financial Institutions & Funds.

Institutional Sales & Relationship Management focuses on the sale of bonds, registered bonds and promissory notes to insurance companies, pension funds and superannuation schemes in Germany and Austria.

Financial Institutions & Funds has also succeeded in further expanding its existing, well diversified customer base with the successful acquisition of banks and investment companies in eight countries as new customers.

Owing to the challenging stock market environment and general risk aversion, there was a significant increase in the tendency of customers to favour savings products in the traditional field of investments. This upturn in primary deposits at Austrian local Volksbanks was successfully endorsed by means of a considerably broader product range.

Group Treasury has always regarded the refinancing and refinancing advice provided to the Volksbank-Sector as one of its key tasks. The "Treasury 4 You" project introduced a new standard of quality in sales support for the primary banks. This platform enables transactions to be carried out with customers directly on site, with order execution and back office processing dealt with via VBAG and the Back Office Service Gesellschaft m.b.H. (B.O.G.).

Consolidating and expanding the good position on the international money market was a focal point in 2008. By means of confidence-building measures at national and international conferences and congresses, the number of reciprocally active money market partners was increased despite all market difficulties. This intensification of trading relationships and the acquisition of new sources of refinancing paid off in particular during the escalation of the financial market crisis in the third and fourth quarters of 2008.

Thanks to enhanced process efficiency in the conclusion of treasury transactions, a significant increase in the volume of transactions was achieved via the electronic trading platform VB-ONE. For the first time, a new order routing system (VB-ORS) was deployed by order management for customers not linked to us via traditional data processing interfaces. This system will be used with further customers in 2009 and serve to increase the degree of automation of standard orders. In addition, the new version of the Portfolio Illustrator software for providing Volksbank customers with advice in the securities business was completed. As a result, the quality of advice across the entire Volksbank-Sector will have achieved a further major improvement.

Volksbank Investments

By merging the investment company and certificate business under the joint umbrella brand Volksbank Investments, VBAG successfully carried out a pioneering move for the investment market in 2008. Volksbank Investments is the first company on the market to offer an integrated range of products from a single source. The motto applied here is to offer "the best product in the best packaging". The core feature of the strategy lies in the separation of market-driven yields achieved in the structured investments product group from the non-market-driven yields achieved in the alpha investments product group. The asset management product group now offers a perfect combination taken from both product groups.

This new dimension in asset management paid off even during the most difficult market phases of 2008. The fund business recorded a sharp decline due to price losses and cash outflows. On a positive note and contrary to the general market trend the volume of certificates sold to Austrian private investors was upheld at the previous year's level of just under euro 12 billion. This enabled the long-standing market leadership in the certificate business to be expanded further.

In the Alpha Investments product group, which is being further developed according to schedule, Alpha Strategy funds set the tone. With a return of over 65 %, the Alpha Strategy Futures MH fund proved to be the best performer on the market. This success underlines the fact that Volksbank Investments is now also among Austria's leading providers of alternative investment products in the Managed Futures segment. The Alpha Strategies Futures MH, with a return of +38.9 % was ranked as the best global fund in October 2008 in BARRON's, a renowned international performance comparison. The large amount of international interest also enabled a very valuable award to be achieved: In the "Germany's Annual Hedge Fund Award 2008", the Alpha Strategy Futures MH fund won third place out of a total of over 1,000 funds submitted in the "German Single Hedge Funds" category.

The so-called "traditional funds" were restructured in 2008 and are being maintained in a considerably leaner product portfolio. The successful go-ahead for the investment product series under the "Leben³" brand was a further highlight of the year under review. Furthermore, the asset management product group was established with the target groups comprising companies, insurance companies, pension funds, trusts and banks. At the end of the year, Volksbank Investments launched the Europe Bonus Fund as the first Austrian structured fund in accordance with section 20a of the Investment Fund Act.

The international activities in the year under review were merged within a joint sales team under the Volksbank Investments brand. Country-specific products are currently already been offered via subsidiary banks of Volksbank International and other partners in Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Bosnia and Herzegovina and Serbia.

With its open "immofonds 1" product, Immo Kapitalanlage AG (IMMO KAG), a subsidiary of Volksbank Investments, achieved stable performance again in 2008. The decisive factor behind this was again the conservative investment strategy that attaches particular importance to sustained real estate performance. The fund volume declined slightly as a result of the financial crisis but nevertheless remains at an impressive level.

The uncertainty among investors was particularly exacerbated in Austria by events taking place at other real estate corporations and dramatic falls in value. Cash outflows have accordingly occurred at all Austrian open real estate funds since October 2008, resulting in a reduction of liquidity. In order to maintain the liquidity of "immofonds 1", IMMO KAG sold two Austrian properties in December 2008.

The management of IMMO KAG concentrated primarily on the execution of real estate transactions already underway and on optimising its real estate portfolio in 2008.

A further increase in the pursuit of professional asset management enabled an above-average tenancy rate of around 97 % to be achieved in 2008. The goal of Immo Kapitalanlage AG in 2009 is to maintain the liquidity and value of "immofonds 1" optimally and to continue to expand in a targeted manner.

Capital Markets

The Capital Markets profit centre is responsible for the management of the investment book within VBAG Group as well as for the provision of asset management to institutional customers (primarily insurance companies, pension funds, employee provision funds).

Assets under management came to just over euro 5 billion at the end of 2008. Due to market developments the portfolio was managed very restrictively in the year under review. The outstanding volume of the investment book is broadly diversified in terms of both products and individual securities and continues to display a good average rating. In the Structured Credit portfolio there was only a marginal net impairment requirement of euro 18 million owing to the provisions made in 2007 in anticipation of a deteriorating market environment.

Other activities

A reorganisation of the service units was carried out at International Financial Markets Relations in 2008. Global Treasury Coordination focuses on public relations and initiating new transactions with international business partners at Treasury level. International Financial Institutions is responsible for relationship banking and analysing our business partners. Furthermore, a switch to a new internal rating system for banks has taken place alongside the introduction of Basel II.

Since the start of 2008, Institutional Investor Relations has been working more intensively on enhancing name recognition and optimising the servicing of investors and credit analysts. The need for information on the part of investors and analysts has risen sharply, not only as a result of the financial crisis but also due to the provisions of Basel II.

In terms of capital, regulatory core capital was strengthened by euro 500 million in May through the issue of participation capital. The new tier I product developed by the Issues department was mainly sold to European retail asset managers, primarily in Germany.

By updating our euro 10 billion debt-issuance-programme we set another milestone in terms of product diversity. This now enables an extremely broad range of issues also to be launched directly in a format suitable for retail sale. Demand-oriented and flexible product development was the key contributory factor behind the successful placement of VBAG issues throughout the entire year.

In the course of the realignment of the customer business, all functions supporting front-end activities were subsumed within the Financial Markets Operations division and key interfaces bundled within the Group.

The focus here was on topics such as position alignment, limit testing, speeding up the product approval procedure and above all measures to reduce operational risks in the Financial Markets segment. The first tests of contingency plans ran positively and conveyed a high degree of professionalism.

The Asset Liability Management Committee (ALCO) is the co-ordination body within VBAG Group responsible for the management of ALM risks. The risks dealt with at ALM comprise the interest rate risk, the currency risk and the liquidity risk.

The Asset Liability Management (ALM) staff division manages the ALCO and is responsible for ensuring implementation of the strategic measures passed by this committee. ALM also manages the market risks in the investment book and the liquidity risk.

Liquidity management was embedded in a new organisational structure in 2008. The ALM staff division is responsible for operative liquidity management, reporting and long-term, strategic liquidity management. The tasks of ALM in particular include liquidity pricing (transfer pricing), Group-wide, central management of securities eligible for refinancing with central banks and management of the available liquid assets. The ALM staff division is also responsible for determining and ensuring compliance with the refinancing strategy.

Refinancing

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.

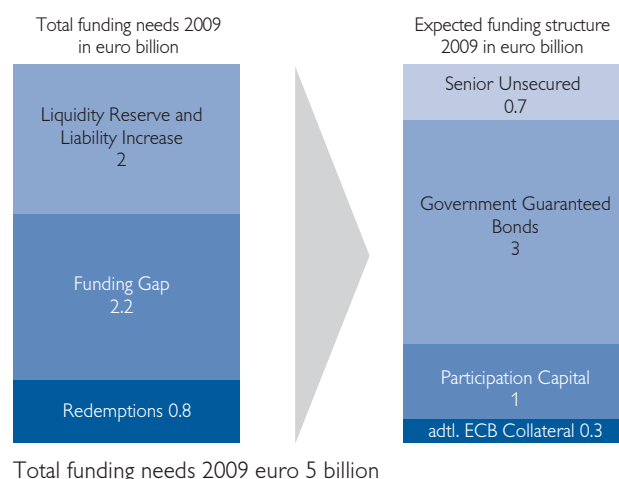
4. Service provider for the Group and the Volksbank-Sector:

VBAG is the Group's central refinancing unit and lender of last resort for the Volksbank-Sector and corporate units.

5. Expansion of the liquidity buffer:

The volume of the liquidity pool at VBAG Group amounts to around euro 2.8 billion. The pool consists of eligible securities and loans that can be deposited as collateral with the ECB at any time for the purpose of refinancing.

Ongoing liquidity-securing measures such as participation in the participation capital programme of the Republic of Austria and the placing of proprietary issues in the first few months of this year are ensuring a comfortable liquidity situation for VBAG at Group level.



Outlook for the segment Financial Markets

The global outlook for 2009 is anything but positive. The financial services industry is undergoing the greatest upheaval in its history. The uncertainty of customers and business partners is unfortunately continuing to increase.

We consider a core topic in 2009 to lie in the historically low interest rates across the world. As a result of this we anticipate a shift in the asset allocation from investment forms offering low interest rates such as savings accounts to higher yielding investment products. We expect this shift to take place among both private and institutional investors. Certificates as investment products will play an even greater role in future than to date.

Volksbank Investments plans to expand its market leadership further, above all in the CEE region where we expect an increasing demand for euro-denominated investment products due to the partially weakening domestic currencies.

Financial Markets is registering an increasing demand from our business partners for services as a financial intermediary and transaction bank. This shows that VBAG "is a name in demand". There is no doubt that consistent and quality-oriented service provision will enable further shares in the market to be won.

Financial Markets will make good use of the opportunities posed by the current crisis.

**WELL
POSITIONED
IS WELL
PREPARED.**

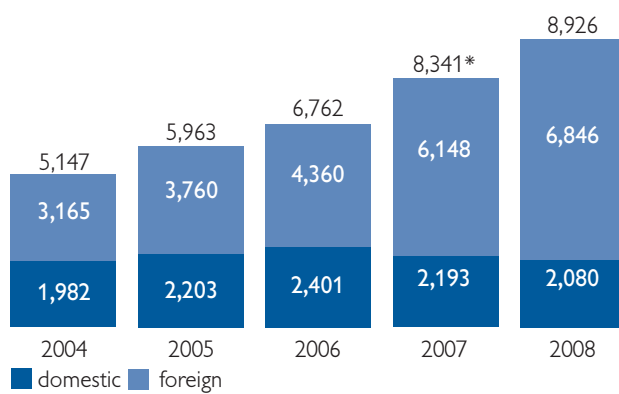
Services and Responsibility

- 46** Human Resources
- 48** Marketing
- 50** Sponsoring
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Internal Communications
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- 55** Risk Management
- 56** Compliance

HUMAN RESOURCES

VBAG Group continued its expansion strategy in the first two thirds of the year under review. As a result, the number of employees throughout the Group rose in 2008 as a whole by 585 from 8,341 (including Kommunalkredit staff) in 2007 to 8,926 full-time-employees in 2008.

Employees



* including employees of Kommunalkredit

Human resources strategy

New and replacement vacancies resulted in an increase in the number of jobs advertised internally. Altogether 705 vacancies were advertised internally and externally and filled with competent staff following a successful search. In December the new internal VBAG job exchange was put online. As a result all jobs advertised within VBAG and its subsidiaries can now also be viewed on the intranet. This represents a major step forward towards enhanced transparency in the internal application procedure.

The average age of employees in Austria was 37 years. The average length of service was 7.6 years. In 2008 there were 54 % female and 46 % male employees working for VBAG Group in Austria. The graduate quota came to 31.9 %.

On the wings of knowledge

Employees are the key to success in specialist organisations. This is particularly apparent in crisis situations. In order to ensure sustainable economic success, VBAG Group continues to pursue a policy of targeted and innovative training and further development in the spirit of co-operative values.

The development and qualification program for 2008 once more concentrated on the established co-operation with the Volksbank Academy. This resulted in 875 training programme bookings. Together with the Volksbank Academy, three new courses for junior managers have been developed in collaboration with top management and renowned training providers to supplement the range of courses on offer in 2009. The complete range of training programmes for 2009 was presented to all 140 managers at VBAG Group at two training cocktail events. In addition, systematic vendor

management comprising framework agreements with selected external training, coaching and HR development providers was established within the Group.

The number of training sessions held as part of the proven "Wissen Intern Nutzen (WIN)" initiative increased by 40 % in 2008. 1,219 bookings were made for 510 employees and management staff who took part in a total of 77 different training sessions on 113 dates.

In the area of languages and IT, training was primarily carried out in-house. Altogether 21 IT training sessions with 132 participants and 25 specialised English, German and Eastern European language training sessions took place in small groups.

Activities also focused on the topic of talent management. On the one hand a concept for a sustained HR procedure was drawn up. This aims to ensure the strategic further development of the potential and performance of management staff in future by means of a standard VBAG competence model. On top of this a new eleven-month trainee programme was launched in November 2008. A recruitment drive was carried out for committed and intelligent personalities wishing to complete an integrated training programme consisting of three modules within VBAG Group. Eight innovative lateral thinkers (four women and four men) from a diverse range of academic backgrounds were selected from 300 applicants. In addition to job rotation and specialist training in the operating divisions, the programme also includes personality development training, informal discussions with leading experts from the fields of art, business and science and a social week.

Reorganisation of human resources work

The "HRTransformation" process was launched in the human resources department at VBAG in 2007. This campaign aims to create new HR systems and projects and to carry out further development of the HR organisation.

The introduction of an HR business partner model enabled collaboration with the business units to be enhanced from a strategic and operational perspective. Seven HR business partners now act as initial point of contact for the VBAG business units to assist them with HR management issues and in developing the business by means of HR measures. To this end, the HR business partners co-operate intensively with experts from HR Development & Learning, HR Payroll & Service and the specialists at HR Group Management.

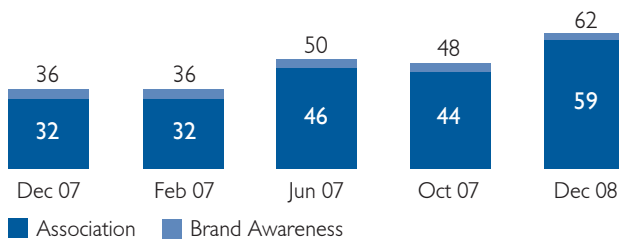
New challenges – new opportunities

The motto “Change” – changes, challenges and opportunities – has been chosen for 2009. In 2008 VBAG Group laid down a solid foundation for the challenges of tomorrow by drawing up a Group-wide strategic succession planning, performance and potential programme (“talent management”) for specific target groups. At the same time, work started on the development of an HR model (so-called job descriptions or job families) to present the career and mobility opportunities within the Group, for instance. Alongside the ongoing optimisation and launch of these programmes, Group HR will also actively support the change process launched within the Group at the end of 2008 and promote the Group's development by means of “state-of-the-art” Group HR work.

MARKETING

The marketing department is responsible for a broad spectrum of services: On the one hand, it handles strategic control and implementation of marketing communication for the association of Volksbanks, on the other hand it must service all of Volksbank's subsidiaries, units and departments. The change in the company's public appearance is proving to be a major opportunity for the entire Volksbank Group. The new corporate design is not only impressing employees and customers but also the general public. A survey from Karmasin Marketing Institute also confirms the success of the new design. In a very short time the ad campaign motto "Mit V wie Flügel" [With V like wings] has become the most well-known bank slogan in Austria. Meanwhile, the slogan's brand awareness score is at 62 %. The campaign also showed its success with the positive reception of Volksbank's new logo. More than two-thirds of the population are already familiar with the logo's new version and unambiguously associate it with Volksbank.

Campaign Motto "With V like wings"



Source: Karmasin Marketing Research

The advertising campaign at the new company headquarters construction site is getting a lot of attention. Banners have been in place since autumn, 2008 and feature VBAG employees with humorous themes and slogans.

Professional internal and external event management teams have created opportunities for customers to meet employees and that also has helped build the company's image. VBAG events are also organised to be in line with the principle of sustainability as much as possible. For example, in co-operation with Fairtrade, VBAG employees were introduced to fair trade food and drink products at their Christmas party.

Successful Campaigns

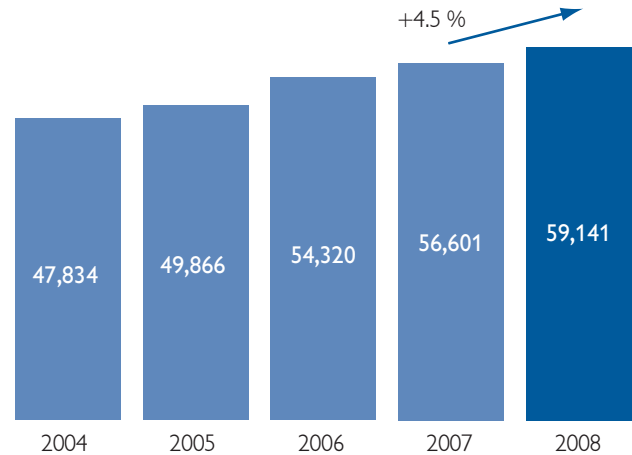
The theme Savings & Pensions was featured during the EM football 2008 tournament. Hans Krankl and Roland Linz could be seen in TV commercials, ads and on banners in all branches during the major sports event in June, 2008. The savings programme Goleador offered 100 % capital guarantee, 4 % interest with a potential increase to 7 % and became very popular during the ad campaign. The TV commercials which ran during the football tournament gained excellent acceptance and popularity ratings. In fact, the campaign played a significant role in increasing revenues in bank operations.

The theme Build & Live (new home construction) especially boosted online applications for "first-time loans". Between 14 January to 30 March 2008 the website volksbank.at received a total of 21,691 unique visitors.

Trend of youth accounts

Young Austrians celebrate successful completion of their secondary school exams with a collective group trip or "Maturareise". Sommer Splash, the largest "Maturareise" in Europe, saw its 9th year in 2008. 12,000 school leavers celebrated passing their exams with a trip to Turkey. Through targeted sponsoring and sales measures, Volksbank was able to win over 3,000 new customers from this group.

Trend of "Aktiv" accounts in the Volksbank-Sector



In 2008, Volksbank organised a band contest via the website www.kultband.at. A young group from Vienna won the competition, and their music clip was added to gotv's playlist. Almost 200 bands participated in this Volksbank raffle contest. 60,000 internet users visited www.kultband.at, which could boast 900,000 page impressions.

The strategy in youth marketing has been a success. Overall, there was an increase of 2,540 "Aktiv" accounts compared to 2007.

Fit for Business

The training campaign Fit for Business has increased the bank's popularity among decision makers from small and medium-sized businesses year after year. Overall, more than 4,000 companies and management-level employees from the medium-sized business sector have taken advantage of this initiative from Volksbank. Again in 2008 many employees from the most diverse industries attended the summer academy in Turkey. Besides the annual academy, there were 25 well-attended events held in regional Volksbank branches. These events offered a broad spectrum of information, from general info days to workshops on specialised topics.

Webmanagement

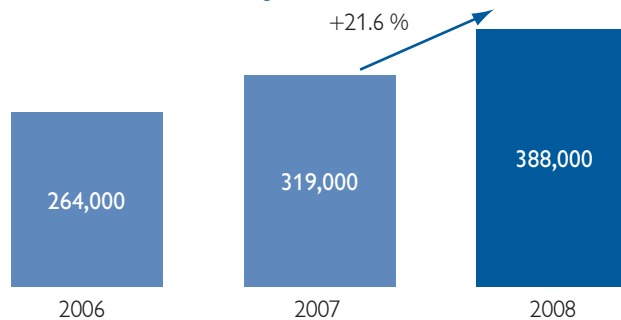
The Volksbank web management team oversees national campaigns and special online projects. For example, the "Dream Home Check List" helps online visitors to clarify how to attain and finance the home of their dreams. The new real estate platform offers customers an overview of over 3,000 Volksbank properties throughout Austria. The online application for the savings programme Goleador is done via an online football game with Hans Krankl. With more than 2 million visitors in only 3 months, the website tool became one of Austria's most popular online games. The Volksbank band competition was organised on kultband.at and received 124 million ad impressions in only six weeks by using innovative advertising tools such as Google Gadgets, Mobile Tagging and VideoStreaming.

The Online Circle oversees the development and optimisation of the bank's regional web presence. In 2008, this work group accomplished six successful group projects such as the creation of uniform web reporting. An especially strong effort was made for Volksbank's sponsoring of the Austrian National ski-jumping team. www.superadler.at became the major fan community for the national team. This platform offers the newest technological cutting-edge features to be found online right now. Fans and players are very enthusiastic, as the site's high-volume traffic and activity shows.

Success Story: card business

Business involving credit and ATM cards also increased last year. All totalled, the Volksbank-Sector had 895,000 cards in use with 127,000 credit cards and 590,000 Maestro ATM cards. Together with the bank subsidiary PayLife Bank GmbH, a number of successful sales-oriented marketing actions for electronic cash products such as Maestro, MasterCard and Visa were implemented. Additionally, together with MasterCard Europe numerous marketing actions were organised during EURO 2008. In the electronic banking sector, new product innovation was seen with rechargeable cards, saving agreements in internet banking and with the Volksbank online savings program.

Trend of electronic-banking-accounts in the Volksbank-Sector



The number of online banking accounts rose from to 319,000 to 388,000. Moreover, there were over 5 million transactions carried out online in 2008.

SPONSORING

VBAG is involved in social, cultural and sporting activities. Two sponsorship initiatives – Wiener Konzerthaus and the Austrian Skiing Association Ski Jumping Team – are worthy of particular mention.

Wiener Konzerthaus

Volksbank AG is committed to supporting and sponsoring art and culture. The partnership formed with the Wiener Konzerthaus in January 2008 turned this desire for targeted sponsorship into reality. The Konzerthaus has completely repositioned itself in the last few years. The self-conception of the Konzerthaus, with its deliberate non-elitist stance, suits Volksbank AG well.

With its distinct repertoire of austrian and international music, the Wiener Konzerthaus reflects Volksbank AG's strong regional ties. During the first year, the two companies have already lived by their mutual objective of growing towards and with one another through the partnership.

Volksbank AG officially sealed the partnership in April 2008 at a prestigious "Romeo and Juliet" concert starring Elina Garancia and Anna Netrebko. Numerous other events followed, such as Volksbanken networking and management events.

However, besides a commitment to culture, the added value for employees of the Volksbank Group was a decisive factor. For this reason, special offers were created for employees and customers. For example, the "Volksbank Concert Series", which is being staged for the second time now, offers employees and customers discounted tickets for selected concerts. Tickets for this concert series can be ordered in all Volksbank branches throughout Austria. Furthermore, employees can obtain Konzerthaus season tickets at reduced rates with the "Volksbank Special Cycle". Ticket raffles for employees also take place on an ongoing basis.

In November 2008, Volksbank AG was awarded the Maecenas-Recognition-Prize in the "Newcomer" category by the "Wirtschaft für Kunst" ("Business for Art") initiative thanks to the balanced approach of the partnership, which benefits management, employees and customers alike.

Following this first successful year, in future the partnership with the Wiener Konzerthaus is to be developed further as a long-lasting partnership that is really lived by.

ÖSV-Ski Jumping Team

Since the start of the 2008/09 season, Volksbank has been presenting Sponsor of the ÖSV (Austrian Skiing Association) Ski Jumping Team. Stars such as Gregor Schlierenzauer, Thomas Morgenstern and Wolfgang Loitzl and well-known coaches including racing director Toni Innauer and head coach Alexander Pointner now represent Volksbank. Ski jumping legend and ORF co-commentator Andi Goldberger is also on board as a congenial new representative.

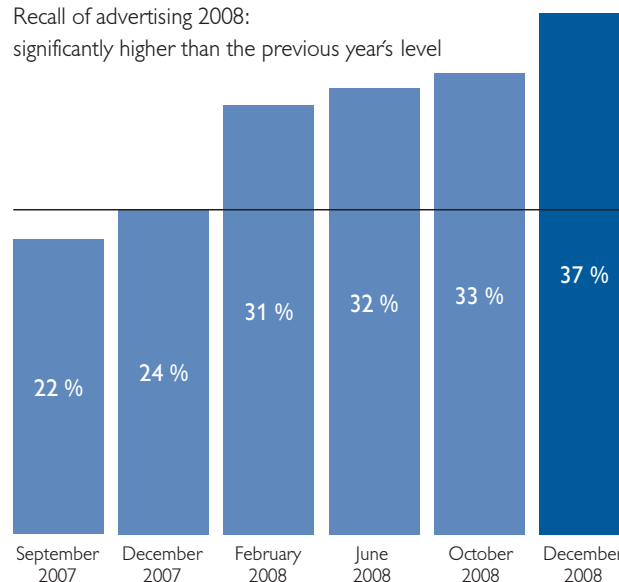
Sport sponsorship is an essential component of a successful marketing strategy. Ski jumping is an attractive, gripping sport, which plays a role in further enhancing the dynamism of the Volksbank brand. The compatibility of the slogan "Mit V wie Flügel" ("Take flight with V") as well as the brand values is clear to see. In line with the aim of presenting an integrated, strong image, the partnership with the ÖSV Team will rigorously be carried through on all levels, from team and event sponsorship and classic advertising through to Internet and POS. Over 3,000 enthusiastic Volksbank employees attended the prominent ski flying event on the Kulm hill sponsored by Volksbank. This partnership has deliberately been used as a tool for motivating employees, particularly in economically difficult times.

Ski jumping is currently one of the most popular sports among Austrians, as shown by top TV viewing figures and extensive reporting in the print media. The ÖSV stars enjoy high popularity ratings among the general public. This partnership is firmly anchored in the marketing and communications strategy, thus strengthening Volksbank's image.

Gregor Schlierenzauer's incredible series of victories and Wolfgang Loitzl's win in the Four Hill Tournament have further fuelled the euphoria surrounding ski jumping. In some cases, TV viewing figures of over 1 million viewers per jumping event were recorded. This level of popularity has also lifted the Volksbank brand to great heights.

Recall of the "Superadler" ("Super Eagles") advertisement

Recall of advertising 2008: significantly higher than the previous year's level



Source: Karmasin Marktforschung

PRESS RELATIONS & INTERNAL COMMUNICATIONS

Change = Opportunity: This motto does not just apply to our annual report this year. The title "Only those who adjust their perspective will see an opportunity in the crisis" is intended to show that Volksbank AG is already undergoing an extensive change process. In this way we have prepared and adjusted ourselves optimally to the current situation. The global crisis on the financial markets has prompted us to view both our own bank and the entire world of finance from a new perspective. Volksbank AG has started at an early stage to set the course for the changed environment.

The key topic for VBAG Group in the fourth quarter of 2008 was undoubtedly the transfer of Kommunkredit to the Republic of Austria. Direct and open communication with the media took place in all cases where the underlying legal conditions and verbal agreements with the government permitted this. For Volksbank AG Press Relations & Internal Communications, conducting a communication policy within these narrow constraints posed a major challenge.

Over 300 media contacts reflect the broad-based deployment of our PR activities and underline our style of communication. Active media relations enabled journalists to be informed about up-to-date issues, new products and forecasts in 91 press releases. The response from the media was excellent and underlined the professional expertise of Volksbank AG.

Communications database

Media relations achieved a quantum leap in terms of quality in 2008 with the development of a communications database by Press Relations & Internal Communications. This database enabled press relations to be significantly facilitated and organised more efficiently. In addition to the maintenance of contact data, the database allows statistical evaluations of press inquiries to be carried out. And the pleasing result is that media reporting about VBAG was very well-balanced despite the exceptional circumstances. This shows that relations between all Austrian media and VBAG are characterised by a high degree of fairness owing to a solid foundation.

Employee communications also improved significantly in 2008. Press Relations & Internal Communications now offers various clippings from the results of the above-mentioned statistics and those from the daily press review at various frequencies for employees. In addition, our employees are informed monthly about press inquiries via the intranet. The regular "MA-aktuell" newsletter that is dispatched weekly throughout the Group informs employees about all press releases, current news and articles from the electronic employee magazine.

Once a quarter, management employees receive a comprehensive media clipping consisting of results from the press review, statistical evaluations of press inquiries and a summary of online evaluations. In addition, internal communication at management level has been significantly enhanced. Current topics from business and

politics are discussed in two new forums. These information and discussion events facilitate not only the exchange of opinions and information but also the internal networking of all individual units.

As well as external and internal communication, the ongoing development and optimisation of communication with the regional Volksbanks and coordination with the Österreichischer Genossenschaftsverband (ÖGV) form one of the key pillars of communication.

The past months have shown that personal discussions based on trust provide the best protection against speculations and rumours. This was and remains a strength of Volksbank Group, a strength we intend to continue expanding in 2009.

Outlook

The goal that Press Relations & Internal Communications is setting for itself in 2009 is to strengthen the continuously expanding relationship of trust with the Austrian and international media. In addition, the services are to be further enhanced in line with media requirements.

Internal communication is also back in focus in 2009. Only if our employees are informed in a prompt and comprehensive manner can the basis be laid for trust and commitment.

Volksbank AG is having to reorient itself in view of the global financial crisis, as are all other banks as well. Now is the time to develop new perspectives and goals. Volksbank AG is accepting this opportunity and preparing itself for change.

SUSTAINABLE CORPORATE CULTURE

Social responsibility and environmental awareness are becoming key in the realignment of companies wishing to master the current economic challenges. Public sensitivity to these themes is high in spite of – or perhaps due to – the crisis. Volksbank AG is conscious of its social responsibility within the context of a responsible company philosophy. This responsibility extends to all stakeholders – owners, customers, business associates and employees – and is based on an attitude of trust. Commitment to the environment in which the Group operates is in harmony with the strategy and values of a modern co-operative bank in the 21st century.

Volksbank AG represents the principle that responsible action is associated with long-term commercial success. Social, ecological and cultural commitment can also be found all over the Group during the year under review. The multifaceted nature of the Group is also reflected in the projects implemented by the subsidiaries and by the central institution itself.

Social responsibility

It is important for us to adopt new social themes. The Group started a Corporate Social Responsibility (CSR) project this year which facilitates thematic leadership through business mediation – an alternative method of conflict resolution in companies. Socially, it involves a paradigm shift from a “legal culture of control” to a culture of trust. Investments in trust are important stimuli, particularly in the atmosphere of loss of trust in the financial sector.

Despite all their economic effects, conflicts are often taboo in companies. Although conflicts continually create expense and influence motivation, corporate culture and success, they are largely an unknown quantity. Due to the significance of the cost of conflict in companies, business mediation as a CSR topic is directly related to the business of the Group and the Volksbanks. In 2008, Volksbank AG commissioned the first scientific study on “The Cost of Conflict in Family Businesses” at the School of Interdisciplinary Research and Advanced Education (Fakultät für Interdisziplinäre Forschung und Fortbildung) at the University of Klagenfurt. The results will be available in 2009. In 2008, Volksbank AG also partnered with the prestigious International Summer School on Business Mediation. The Volksbank Academy is planning a course for 2010 entitled “Business Mediation – Competence in Alternative Conflict Resolution” to offer appropriate technical expertise to the Group and sector.

CSR and social sponsorship are inseparable in practice. In 2008, Volksbank Group sponsored a broad spectrum of social institutions – the support of social projects for children in 2008 forming a focal point. Since 2008, Volksbank Wien has sponsored the campaign “Alaska, the Therapy Pony and its Foster Children.” Ärztebank supported Sterntalerhof, a children’s hospice with horse therapy in Austria. SOS Children’s Villages found sponsors in Volksbank International and VB Leasing. Volksbank International is also committed to the Caritas Vienna Workshop “Am Himmel” and the

“StepStones” association which supports Eastern European children. The proceeds of a golf charity event which Volksbank Linz+Mühlviertel organised together with the Linz Lions Club similarly benefited needy children and their families. Volksbank Linz+Mühlviertel was represented for the eleventh time at the “Holiday Camp of the Regional Forum in St. Oswald.” This year, Volksbank AG sponsored the “Child Protection Centre,” Caritas and the Friedensflotte (“Peace Fleet”) created by the association Mirno More. Mirno More is a NGO which supports peace, social integration, tolerance and understanding among nations. Participating along with war orphans and children of refugees were groups of disabled individuals, juvenile offenders and other fringe groups.

Some projects have their basis at the interface of social and cultural responsibility. In 2008, Investkredit sponsored the House of Artists (Haus der Künstler) in Gugging where outsider art (Art Brut) is created by people with a very special approach to reality. Volksbank Wien supports the association “seedingart” which sponsors creative projects of children in collaboration with artists. In the fall, the “seedingart” child art auction took place at the ZOOM Children’s Museum in the Museum Quarter in Vienna. The proceeds benefited Austrian research on muscular disease at the Preyer Children’s Hospital. On World Savings Day 2008, Volksbank AG and Volksbank Wien showed selected “seedingart” artwork. The “seedingart” work of Gugging artist Arnold Schmidt depicted a passbook designed for World Savings Day. On the 2008 Investkredit Christmas card was a Christmas tree by Dieter Fercher of Art Workshop de La Tour, a facility for charitable services of the Diakonie Kärnten (social welfare organisation).

Also particularly noteworthy is “Social Week” which is integrated into the VBAG trainee programme. In keeping with the motto, “Live values – don’t just talk about them,” the trainees work actively and without payment in a social facility in the course of this Social Week.

At Treasury level, VBAG has been involved for years in the international trade organisation ACI – The Financial Markets Association. The goal of ACI is to set industry standards in the international financial markets for trading in interest products, bank notes and foreign exchange, derivatives and precious metals. In keeping with this goal, the members commit to the unwritten laws of the ethics and morals of free markets, the precepts of fairness and confidentiality and the maintenance and promotion of the reputation of the profession.

Environmental awareness

Ecological responsibility for banks means ensuring that bank operations conserve resources, in terms of both consumption and waste disposal. In comparison with producing enterprises, the direct environmental effects of a bank are significantly less with respect to sewage, exhaust and consumption of natural resources.

Environmental commitment is often of critical importance in connection with specific commercial operations in individual Group members. In order to be able to participate in the important trend towards "renewable energy" or in future energy supply in Europe, Investkredit is attempting to further expand its expertise in the area of energy investments. In particular, wind power and photovoltaic projects were financed and the use of alternative energy sources accelerated. Along with such energy sources which conserve natural resources, the installation of filtration equipment in coal power plants was also financed.

The climate protection competence of Investkredit is concentrated in its own "Kyoto Competence Centre (Kyo-Ko®)". With its investment in the registration service office ECRA Emission Certificate Registry Austria GmbH, which primarily operates a standardised and secure registration system for emissions certificates, the bank supports the implementation of the European Union Emission Trading Scheme and trading of emissions certificates in the context of the Kyoto Protocol. As trustee for prestigious Austrian companies, Investkredit has invested euro 7 million into the KfW Carbon Fund which is endowed with roughly euro 83 million. In the context of the fund, 94,654 emissions certificates were acquired for the Austrian participants from greenhouse gas reducing environmental protection projects by the end of 2008.

The "River Gardens" office project was acquired in 2008 in Prague as the first "green building" of Premiumred Real Estate Development GmbH. This accommodates the increasing demand by tenants and real estate funds for energy-efficient and sustainable office buildings.

Cultural responsibility

The new office building of Volksbank AG is located at the edge of the UNESCO World Heritage Centre in the 9th district of Vienna. Architecturally embedded in the neighbourhood just outside the Ringstraße, the union of old and new is a central theme of the building project. Investkredit began to integrate its collection of contemporary art into the new building this year.

The "Art Premiere" exhibition series with Gunter Damisch and Brigitte Kowanz was continued. The art university professor and his Next Generation stand at the centre of this initiative. "Next Generation" signifies students and graduates of the master class. In 2008, Volksbank AG supported the "Theater im Thalhof" in Reichenau and invited customers to a premiere event. The atmosphere of Thalhof is appropriate to the regional anchoring of the Group and supports the revival of qualitatively high-end cultural initiatives outside the big cities.

Commitment to women

Starting with the Volksbank initiative "Woman and Money" in 2002, VBAG was the first Austrian banking group to address women. Since then, there have been a corresponding series of events which support women in shaping their financial future. Numerous "Woman and Money" events sector-wide bear witness to the level of interest in financial knowledge, especially in times of crisis.

The "Roundtable of Exceptional Women" meets twice a year. Around 30 female entrepreneurs, politicians, artists, scientists, consultants and bankers networked in 2008 at readings with Catherine Aigner and Lilian Faschinger.

ORGANISATION AND IT

The Organisation/IT department services organisational units at Volksbank Group and the Austrian association of Volksbanks. Topics of an organisational and technical nature pertaining to these units are hereby formulated and implemented.

In 2008, the organisation department also assumed responsibility for operational and organisational structure, as well as for serving internal clients, managing organisation and IT projects and acting as an interface to the data centre.

In particular, a range of projects were completed during the reporting year under the direction of the organisation department. As a result, the entire Group was well prepared by the Organisation/IT initiative for the new challenges and limiting factors now facing the financial world. An important focus of efforts in 2008 was the integration of Investkredit IT into the ARZ Volksbank data centre. In addition, achieving compliance with such regulatory requirements as the implementation of Basel II and the Markets in Financial Instruments Directive of 2007 required intensive consulting for both the association of Volksbanks and Volksbank AG.

Basel II

As part of the Basel II program, the Organisation/IT department assumed responsibility for core activities for Volksbank AG and the association of Volksbanks. Critical projects included data quality management and the set-up and control process for data supply to ensure a standardised Group-wide data pool for Basel II.

The Organisation department also acted as project managers in the consolidation of the Volksbank AG Treasury and Investkredit Corporate and Real Estate Treasury Sales units. This project played an important role in the coordinated roll-out of all treasury activities in VBAG Group.

In addition, a range of initiatives were completed which primarily have to do with the set-up and ongoing optimisation of application interfaces in the treasury area.

A special feature in the banking industry in Austria is that the Organisation department also simultaneously fills the role of the association organisation (performs organisational services for all Austrian Volksbanks). Its responsibilities in 2008 included the selection of a new credit software for the entire association of Volksbanks and the related task of establishing an implementation project in conjunction with the Volksbank data centre. One basic project for Volksbanks under the auspices of the association organisation entailed finalising the instruments for the bank's entire control process. The process of rolling out these instruments in the individual Volksbanks had already been started.

Finally, the organisation department plays an essential role in leading the joint SEPA project (Single European Payment Area) of the Austrian association of Volksbanks and thus helps maintain

competitiveness in the new European payment transaction market. The IT department administers all the central servers and computer terminals for all units in the Group within the scope of VBAG.

The firm's IT department is the on-site addition to the Volksbank data centre ARZ in which all of Volksbank's critical applications are run. It ensures real-time, high-quality IT services for all employees.

At the current Group headquarters in Vienna, the IT department was focused on planning and equipping the new Group's headquarters building. An additional system room was built a few kilometres away to help lower the operational failure risk of having one local system room. The data connections to the data centre were reinforced and the internal firewall infrastructure was made state-of-the-art.

Communication systems with higher stability

The e-mail server infrastructure has been expanded to further improve the stability of the communication systems. In the area of telephony, there was a transition in some areas to a voice over IP infrastructure. This ensured that the preconditions were met for the implementation of new software to support sales.

With each of the modifications to the IT infrastructure made in the previous financial year, a special emphasis was placed on improving the stability and availability of the systems. Much like the structures in place at the Group's headquarters, all the retail banks in Central and Eastern Europe have separate IT departments which service IT end users and operate the central components of the infrastructure for their firm.

RISK MANAGEMENT

Overall responsibility for risk management lies with the Managing Board of VBAG Group, which makes decisions about what basic risk management processes are to be implemented. The Managing Board also defines the basic position of VBAG Group with regard to risk policy, which in turn is used as a basis for all decisions relating to banking transactions.

This basic position with respect to risk policy is specified on the basis of codes of conduct for dealing with risks within VBAG Group and is documented in the risk strategy formulated by the Managing Board. A broadly shared understanding of the basic principles of risk policy throughout the Group is the foundation for establishing a coherent risk awareness and a common risk culture. The management and all employees of VBAG Group are therefore obligated to comply with the basic principles of risk policy and to make their decisions in accordance with the specified guidelines.

Chief Risk Officer

The Chief Risk Officer (CRO) is a member of the Managing Board. The CRO is responsible on both an organisational and a specialist basis for strategic risk management, operational risk and risk analysis for capital markets, corporates and banks/financial institutions, as well as for balance sheet analysis. In this function, the CRO regularly informs the entire Managing Board and the Supervisory Board concerning the risk position of the VBAG Group.

The duties, competencies and responsibilities that make up the risk management process are clearly defined and specified. This ensures that risk-bearing organisational units (front office) are kept functionally separate from those organisational units that support monitoring and communication of risks (back office). In this way, the organisational structure also enables the separation of the front office and back office functions required by the regulatory authorities.

The quantification of risks and risk-covering equity, along with the management of risks is performed by the central strategic risk management organisational unit and its organisational sub-units, which are independent of the front office. The strategic risk management unit is responsible for developing and implementing risk management processes for all risk types across the Group.

The subsidiaries of Volksbank AG are actively engaged in the ongoing development of methods and processes in the risk management system. In this way, it is possible to foster a shared understanding of risk and efficiently utilise existing expertise within the Group early in the process. At the same time, this provides a foundation for consistent measurement and management within VBAG Group.

IRB approach

2008 was largely marked by Basel II. When the decision from the Austrian Financial Market Supervisory Authority (FMA) was received on 31 March 2008, the internal rating based approach (IRB approach) was approved for application within VBAG Group (Group members within Austria). This method of measurement has been in use in credit risk management since 1 April 2008 and the minimum capital requirement for credit risks has been determined based on the Foundation IRB/Retail IRB approach.

The modern risk management system landscape developed for this purpose includes credit risk-relevant data from over 15 countries. Complex instruments are used for monitoring and managing risks. The suitability and reliability of the quantitative measurement parameters and instruments are monitored on an ongoing basis. Our basic principles call for the entire Managing Board to be informed by means of quarterly Group risk reports.

Other international subsidiaries are being integrated into the IRB approach in three roll-out phases. The F-IRB will be implemented in Slovakia, Hungary and Romania by 2011 and then in Croatia, the Czech Republic and Slovenia in 2012. In 2013, the IRB approach will also be introduced in Bosnia, Serbia and the Ukraine in a third phase.

Once the regulatory requirements have been satisfied, the economic risk assessment, including implementation of internal risk measurement processes, will become the primary focus and is to be integrated more rigorously into the bank's management system. Currently, risk income management at VBAG remains geared primarily towards the regulatory equity requirements. In order to structure the capital management system even more efficiently, the risk/opportunity ratios are also being evaluated based on economic capital.

COMPLIANCE

In the world of finance, "compliance" is loosely defined as "following rules". The rules run the gamut: laws, regulations, national and international codes of conduct and standards, along with conventions established by the Bank itself (particularly in securities trading and investment advice, as well as prevention of money laundering). Banks protect themselves from risk by following these rules to the letter. Compliance is therefore a key component of the risk policy of our bank.

Compliance at Volksbank AG

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 under the direction of a Compliance Officer. 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. In addition to the responsibilities mentioned above, the Compliance-Office has increasingly acted as the point of contact within Volksbank Group for questions regarding the prevention of white-collar crime, which is detrimental to the bank and its customers.

The primary purpose of compliance is to protect customers. However, the self-imposed rules also minimise reputational risks for the bank. For this reason, the Compliance-Office was expanded as an independent entity and as part of a comprehensive risk management approach during the year under review.

The internal regulations on securities compliance, guiding principles for employee transactions and management of conflicts of interest focus on prevention. Toward 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 in day-to-day contact with customers while upholding the principles of compliance in a correct and easily understood manner. 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 exclusively in the interest of its customers.

2008 was characterised by efforts to implement the requirements of the EU Market in the Financial Instruments Directive (MiFID) and the Wertpapieraufsichtsgesetz [WAG - Securities Supervision Act] of 2007.

Money laundering prevention

In 2006, Volksbank Group expanded the bank's internal array of instruments for combating money laundering throughout the Group. Additional IT programs help to detect prohibited or undesirable transactions and stop them immediately. This significantly reinforced the collaboration of the compliance and money laundering officers of the subsidiary banks of Volksbank AG Group overall. One result of this reinforced collaboration was the co-ordination and standardisation of working methods and procedures to ensure a uniform security level throughout the Group. The technical infrastructure was adapted in 2008 to meet consistently more sophisticated monitoring requirements and is subject to ongoing optimisation.

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. They are also informed regularly via a proprietary compliance database about current issues involving the fight against money laundering and fraud. This ensures that Volksbank AG Group complies fully with the regulatory requirements in this area.

Combating fraud effectively

In 2004, combating fraud became an area of responsibility for the Compliance-Office, making it responsible for combating white-collar crime throughout the Group. It is also the central point of contact for authorities, customers and employees. A concerted effort was made to raise awareness among employees and customers by means of information on the prevention of internet, wire or document fraud.

Outlook

The implementation of MiFID in the EU and the third Directive on Money Laundering under Austrian law added to regulatory depth. This significantly improved security standards in the areas of compliance, anti-money laundering and combating of fraud. For 2009, the Compliance-Office expects an increasing number of attempts at fraud in continuation of a trend that had already become widespread in 2008. Moreover, the global collaboration between the subsidiaries will gain even more momentum, given its expanded technical and organisational infrastructure.

**YOU CAN'T
PREDICT
THE FUTURE
BUT YOU CAN
MAKE IT HAPPEN.**

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Income statement

		1-12/2008	1-12/2007	Changes		1-12/2007
	Notes	in euro thousand	restated in euro thousand	in euro thousand	%	published in euro thousand
Interest and similar income and expenses		1,232,554	741,283	491,271	66.27 %	804,339
Income from companies measured at equity		2,751	19,345	-16,593	-85.78 %	26,389
Net interest income	4	1,235,306	760,628	474,678	62.41 %	830,728
Risk provisions	5	-154,952	-96,400	-58,553	60.74 %	-89,915
Net fee and commission income	6	202,698	175,860	26,837	15.26 %	191,603
Net trading income	7	41,359	55,882	-14,523	-25.99 %	57,489
General administrative expenses	8	-682,809	-581,974	-100,835	17.33 %	-622,313
Other operating result	9	-165,465	-3,768	-161,698	>200.00 %	762
Income from financial investments	10	-293,625	-2,161	-291,464	>200.00 %	234
Income from the disposal group	2	-584,360	80,053	-664,413	<-200.00 %	19,533
Annual result before taxes		-401,849	388,121	-789,969	<-200.00 %	388,121
Income taxes	11	156,023	-36,639	192,662	<-200.00 %	-41,085
Income taxes of the disposal group	11	34,957	-5,572	40,529	<-200.00 %	-1,126
Annual result after taxes		-210,869	345,910	-556,778	-160.96 %	345,910
Profit/loss attributable to shareholders of the parent company (Consolidated net income/loss)		-152,012	219,682	-371,694	-169.20 %	219,682
Profit/loss attributable to minority interest (Minority interest)		-58,856	126,228	-185,084	-146.63 %	126,228

Balance Sheet as at 31 December 2008

		31 Dec 2008	31 Dec 2007		Changes	31 Dec 2007
	Notes	in euro thousand	restated in euro thousand	in euro thousand	%	published in euro thousand
Assets						
Liquid funds	13	3,897,897	3,172,239	725,657	22.88 %	3,200,392
Loans and advances to credit institutions (gross)	14	5,574,957	4,628,380	946,577	20.45 %	11,367,838
Loans and advances to customers (gross)	15	28,818,341	24,764,279	4,054,062	16.37 %	39,047,815
Risk provisions (-)	16	-606,297	-500,761	-105,536	21.08 %	-502,414
Trading assets	17	1,085,598	981,047	104,551	10.66 %	1,008,738
Financial investments	18	8,961,634	8,491,050	470,584	5.54 %	18,195,539
Assets for operating lease	19	1,852,592	1,411,742	440,850	31.23 %	1,417,796
Companies measured at equity	20	126,306	30,306	96,000	>200.00 %	103,091
Participations	21	769,814	248,048	521,766	>200.00 %	249,417
Intangible assets	22	129,822	305,535	-175,713	-57.51 %	455,087
Tangible fixed assets	23	290,070	270,020	20,050	7.43 %	308,409
Tax assets	24	418,341	137,557	280,784	>200.00 %	141,291
Other assets	25	1,604,690	1,760,603	-155,913	-8.86 %	3,647,829
Assets of the disposal group	2	0	32,940,784	-32,940,784	-100.00 %	0
TOTAL ASSETS		52,923,765	78,640,829	-25,717,064	-32.70 %	78,640,829
Liabilities and equity						
Amounts owed to credit institutions	26	18,686,846	15,573,105	3,113,741	19.99 %	24,200,454
Amounts owed to customers	27	11,829,455	10,191,237	1,638,219	16.07 %	10,850,921
Debts evidenced by certificates	28	15,212,758	13,435,906	1,776,852	13.22 %	33,108,714
Trading liabilities	29	787,618	319,393	468,226	146.60 %	329,024
Provisions	30, 31	181,535	187,580	-6,044	-3.22 %	203,763
Tax liabilities	32	173,142	153,454	19,688	12.83 %	160,770
Other liabilities	33	1,814,264	2,179,876	-365,612	-16.77 %	4,873,324
Liabilities of the disposal group	2	0	32,195,881	-32,195,881	-100.00 %	0
Subordinated liabilities	34	2,014,314	1,457,018	557,296	38.25 %	1,966,480
Equity	35	2,223,833	2,947,380	-723,547	-24.55 %	2,947,380
Shareholders' equity		1,230,604	1,600,384	-369,780	-23.11 %	1,600,384
Minority interest		993,229	1,346,996	-353,767	-26.26 %	1,346,996
TOTAL LIABILITIES AND EQUITY		52,923,765	78,640,829	-25,717,064	-32.70 %	78,640,829

Changes in the group's equity

Euro thousand	Subscribed capital*	Capital reserves	Retaining earnings	Currency reserve	IAS 39 valuation reserves ³⁾		Shareholders' equity	Minority interest	Equity
					Available for sale reserve	Hedging reserve			
As at 1 January 2007	340,118	494,096	614,587	27,901	34,540	5,547	1,516,790	1,329,039	2,845,829
Consolidated net income ¹⁾			219,682				219,682	126,228	345,910
Dividends paid			-36,081				-36,081	-86,978	-123,059
Change in currency reserve			-1,313	-8,324			-9,637	-7,839	-17,476
IAS 39 valuation ²⁾					-94,438	783	-93,655	-37,094	-130,749
Change in treasury stocks	-158	-387					-546		-546
Change in deferred taxes arising from untaxed reserves			1,014				1,014	3,018	4,032
Change due to reclassifications shown under minority interest and capital increases			2,816				2,816	20,623	23,439
As at 31 December 2007 ⁴⁾	339,960	493,709	800,705	19,577	-59,898	6,330	1,600,384	1,346,996	2,947,380
Consolidated net income ¹⁾			-152,012				-152,012	-58,856	-210,869
Dividends paid			-37,688				-37,688	-43,946	-81,634
Change in currency reserve ⁵⁾				-40,808			-40,808	-19,486	-60,294
IAS 39 valuation ²⁾					-144,303	3,832	-140,471	23,399	-117,072
Change in treasury stocks	-436	-366					-802		-802
Change in deferred taxes arising from untaxed reserves			1				1	0	1
Change due to reclassification shown under minority interest and capital increases			2,001				2,001	-254,878	-252,877
As at 31 December 2008	339,524	493,343	613,006	-21,230	-204,200	10,162	1,230,604	993,229	2,223,833

* Subscribed capital corresponds to the figures reported in the financial statements of Österreichische Volksbanken-AG

¹⁾ Currency translation differences amounting to euro -3,282 thousand (2007: euro 278 thousand) for shareholders' equity and euro -3,246 thousand (2007: euro 280 thousand) for minority interest resulted from the application of average rates of exchange in the income statement.

²⁾ In 2008, an amount of euro 6,514 thousand (2007: euro 24,728 thousand) previously recognised in the available for sale reserve was reclassified and shown in the income statement.

Changes in value in the hedging reserve in the amount of euro 186 thousand (2007: euro -1,105 thousand) were recognised in income during the reporting period.

³⁾ As at 31 December 2008 the available for sale reserve included deferred taxes of euro 65,425 thousand (31 December 2007: euro 15,718 thousand). The hedging reserve contains deferred taxes in the amount of euro -3,850 thousand at the balance sheet date (31 December 2007: euro -2,022 thousand).

⁴⁾ In the figures as at 31 December 2007, the Kommunalkredit disposal group accounted for an amount of euro 2,381 thousand in the currency reserve, euro -30,488 thousand in the available for sale reserve and euro -33 thousand in the hedging reserve.

⁵⁾ In 2008, the currency reserve included an amount of euro 11,117 thousand recognised in shareholders' equity and an amount of euro 10,681 thousand in minority interest due to the hedge of a net investment.

Cash flow statement

in euro thousand	2008	2007
Annual result (before minority interest) from continued operations	338,535	271,428
Non-cash position in annual result		
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	335,013	-31,284
Allocation to and release of provisions, including risk provisions	180,539	150,500
Gains from the sale of financial investments and fixed assets	-9,957	-29,548
Non-cash changes in taxes	-192,089	-4,238
Changes in assets and liabilities from operating activities after adjustments for non-cash positions		
Loans and advances to credit institutions	-945,036	-912,773
Loans and advances to customers	-4,028,680	-6,242,609
Trading assets	205,295	158,197
Financial investments	-1,073,735	-653,004
Assets for operating lease	-478,628	-361,428
Other assets from operating activities	927,024	62,239
Amounts owed to credit institutions	3,059,739	4,956,551
Amounts owed to customers	1,572,983	2,664,129
Debts evidenced by certificates	1,674,500	2,635,438
Other liabilities	-1,001,462	366,759
Other changes	233,458	-24,309
Cash flow from operating activities	797,497	3,006,048
Proceeds from the sale or redemption of		
Securities held to maturity	730,351	266,006
Participations	147,029	204,920
Fixed assets	16,040	5,443
Payments for the acquisition of		
Securities held to maturity	-588,899	-820,903
Participations	-856,336	-308,508
Fixed assets	-88,180	-114,022
Acquisition of subsidiaries (less acquired liquid funds)	0	-147,783
Cash flow from investing activities	-639,994	-914,848
Change in treasury stocks	-802	-546
Dividends paid	-37,688	-36,081
Changes in subordinated liabilities	555,425	77,759
Other changes	51,220	-108,860
Cash flow from financing activities	568,154	-67,727
Cash and cash equivalents at the end of previous period (= liquid funds)	3,172,239	1,148,766
Cash flow from operating activities	797,497	3,006,048
Cash flow from investing activities	-639,994	-914,848
Cash flow from financing activities	568,154	-67,727
Cash and cash equivalents at the end of period (= liquid funds)	3,897,897	3,172,239
Payments of taxes, interest and dividends		
Income taxes paid	-43,421	-58,158
Interest received	2,673,841	2,141,449
Interest paid	-1,917,499	-1,346,665
Dividends received	521,111	16,504
Acquisition of subsidiaries		
Acquisition cost	0	192,604
Acquired liquid funds	0	-44,821
Cash flow of the business combination less acquired liquid funds	0	147,783

NOTES

to the consolidated financial statements of the Österreichische Volksbanken-Aktiengesellschaft

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.

VBAG's consolidated financial statements have been prepared 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 2008, capital increases were completed at seven VBI banking subsidiaries, in the course of which VBI partially took over the shares of third-party shareholders. The resulting goodwill amounting to euro 241 thousand was recognised under assets.

In 2008, 18 subsidiaries in the corporates and real estate segments 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 in other operating result in the amount of euro -4 thousand.

An agreement was signed on 3 November 2008 between VBAG, Dexia Crédit Local (Dexia) and the Republic of Austria concerning the sale of Kommunalkredit Austria AG (Kommunalkredit). Accordingly, the date of deconsolidation is 3 November 2008. Since the beginning of the negotiations on the sale in October 2008, Kommunalkredit has been presented as a disposal group in accordance with IFRS 5. The comparative figures in the income statement were restated accordingly. The balance sheet figures as of 31 December 2007 were also restated in order to ensure improved comparability. Both the restated and published amounts are disclosed in the notes. In the various tables in the notes showing changes during the periods under review, the disposal of Kommunalkredit as at 3 November 2008 is recognised in the line changes in the scope of consolidation. The income statement items contained in these tables include the figures for Kommunalkredit for the period 1 January to 3 November 2008.

Calculation of deconsolidation result of Kommunalkredit

Euro thousand	3 Nov 2008
Assets proportional	17,598,237
Liabilities proportional	17,800,827
Currency reserve proportional	4,350
Disposal of net assets proportional	-198,240
Revenues	0
Deconsolidation result	-198,240

The deconsolidation result of Kommunalkredit is shown in income from the disposal group.

Income statement of the Kommunalkredit disposal group

Euro thousand	1 Jan -3 Nov 2008	2007
Net interest income	34,350	70,100
Risk provisions	-73,956	6,485
Net fee and commission income	30,886	15,743
Net trading income	522	1,607
General administrative expenses	-37,668	-40,339
Other operating result	-1,217	4,529
of which impairment of goodwill	-799	0
Income from financial investments	-214,338	2,395
Annual result before taxes	-261,421	60,520
Income taxes	34,957	-4,446
Annual result after taxes	-226,464	56,074
Profit attributable to shareholders of the parent company	-119,618	21,544
Profit attributable to minority interest	-106,847	34,531

In 2008, impairment of the goodwill of Kommunalkredit in the amount of euro 124,699 thousand was also recognised in income from the disposal group. In 2007, income from the disposal group included euro 19,533 thousand from Niederösterreichische Landesbank-Hypothekenbank (NÖ Hypo), which was deconsolidated as at 2 July 2007. In the income taxes of the disposal group, the comparative figures for 2007 contain an amount of euro -1,126 thousand for NÖ Hypo.

Assets of the Kommunalkredit disposal group

Euro thousand	3 Nov 2008	31 Dec 2007
Liquid funds	176,584	28,153
Loans and advances to credit institutions (gross)	7,268,463	6,701,243
Loans and advances to customers (gross)	16,888,208	13,518,040
Risk provisions (-)	-72,759	-1,652
Trading assets	15,483	27,691
Financial investments	8,894,341	10,508,201
Assets for operating lease	6,233	6,055
Companies measured at equity	135,509	72,784
Participations	1,370	1,370
Intangible assets	23,958	149,552
Tangible fixed assets	33,389	38,389
Tax assets	10,524	3,733
Other assets	2,870,055	1,887,226
Total assets	36,251,357	32,940,784
of which consolidation	0	8,240

Liabilities of the Kommunalkredit disposal group

Euro thousand	3 Nov 2008	31 Dec 2007
Amounts owed to credit institutions	11,476,686	8,627,348
Amounts owed to customers	1,120,467	659,684
Debts evidenced by certificates	19,033,304	19,672,807
Trading liabilities	13,900	9,631
Provisions	15,468	16,184
Tax liabilities	6,355	7,316
Other liabilities	3,923,744	2,693,448
Subordinated liabilities	538,689	509,462
Liabilities	36,128,615	32,195,881
of which consolidation	0	12,396

Number of staff in the Kommunalkredit disposal group

	Average number of staff		Number of staff at reporting date	
	2008	2007	3 Nov 2008	31 Dec 2007
Domestic	223	243	279	255
Foreign	29	44	34	31
Total number of staff	252	287	313	286

All other changes in the consolidated group had no significant effect on the consolidated financial statements.

Number of consolidated companies

	31 Dec 2008			31 Dec 2007		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	10	12	22	11	13	24
Financial institutions	23	18	41	22	23	45
Other enterprises	47	80	127	43	73	116
Total	80	110	190	76	109	185
Companies consolidated at equity						
Credit institutions	0	0	0	1	0	1
Financial institutions	0	0	0	1	0	1
Other enterprises	3	1	4	3	1	4
Total	3	1	4	5	1	6

As a result of the deconsolidation of Kommunalkredit, the Group disposed of 3 fully consolidated credit institutions, one fully consolidated financial institution and 4 fully consolidated other enterprises. One credit institution and one financial institution measured at equity were also deconsolidated.

Number of unconsolidated companies

	31 Dec 2008			31 Dec 2007		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	74	121	195	80	111	191
Associated companies	51	93	144	52	78	130
Companies total	125	214	339	132	189	321

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 1.4 % (2007: 1.4 %) of consolidated total assets, while the annual result after taxes corresponds to 2.0 % (2007: 0.8 %) 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 2008.

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 2008 and the comparative figures for 2007 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 on the basis of 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.

In October 2008, the IASB published amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. These amendments were also endorsed by the European Union in October. The amendments allow financial instruments in the held for trading or available for sale categories to be reclassified to the loans & receivables category in certain cases. VBAG has made use of this option in these consolidated financial statements. As a result, securities with no active market have been reclassified from the available for sale category to the loans & receivables category with retrospective effect from 1 July 2008.

IFRS 8 Operating Segments is required to be applied for fiscal years beginning on or after 1 January 2009. The standard was not adopted prematurely in 2008. The application of IFRS 8 will result in changes in segment reporting.

In the consolidated financial statements, estimates and assumptions are required to be made to a certain extent. These have an influence on the amounts shown for assets and liabilities in the balance sheet and income and expenses in the income statement. The actual figures subsequently reported may differ from these estimates. The estimates and underlying assumptions are reviewed and adjusted on an ongoing basis. Adjustments to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Assumptions and estimates which have a material effect on the figures reported in the consolidated financial statements are described in the following notes as well as in the risk report.

a) 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 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 2008.

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. 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.

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

b) 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.

c) 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.

Net interest income consists of:

- Interest and similar income from credit and money market transactions
- 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: 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.

d) 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.

e) 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.

f) Net trading income

All realised and unrealised results from securities, foreign currency and derivatives allocated to the trading book 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.

g) 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.

h) 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.

i) 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 are reversals of write-downs of debt instruments up to a maximum of amortised cost.

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

j) 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.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. 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.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting prices, and is 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. 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 (watchlist 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 (90 – 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.

In note 36) 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 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.

k) 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.

If the Group 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.

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 a Group company has designated the receivable at fair value through profit or loss.

l) 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 j) Financial assets and liabilities.

m) 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.

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.

n) Financial investment

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 costs. 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 j) 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 costs 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 2008 and 2007, no such reallocations took place.

o) 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.

Since 1 January 2005, 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 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.

p) 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 permanent impairment.

q) 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 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.

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 the sale of Kommunalkredit, an impairment test was performed in the third quarter 2008 on the goodwill of Kommunalkredit, resulting in an impairment of the goodwill in full. Furthermore, the goodwill of the Europolis sub-group was also impaired in full due to developments in the real estate business. None of the other impairment tests performed at the balance sheet date identified any significant impairment.

In the course of the acquisition of Investkredit Bank AG in 2005, the Investkredit and Kommunalkredit brands were recognised as intangible assets. 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 and Kommunalkredit brands primarily include the probable use of these assets by the VBAG Group, changes in the overall demand for services which can be produced using these assets, 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.

The Kommunalkredit brand was disposed of in the reporting period due to the sale of Kommunalkredit and is included in the deconsolidation result of Kommunalkredit.

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 2008 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

r) 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 reversed in the amount of the tax-deductible amortisation. In a position paper, the Austrian Financial Reporting and Auditing Committee (AFRAC) came to a different assessment of this transaction. Despite this, the Group is retaining the approach adopted in 2005.

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. 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.

s) 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.

t) Liabilities

The initial recognition of amounts owed to credit institutions and customers as well as debts evidenced by certificates and subordinated liabilities is performed at fair value plus directly attributable transaction costs. Subsequent measurement is performed at amortised cost in accordance with the effective interest method, unless a Group company has designated such a liability at fair value through profit or loss.

u) Employee benefits

Payments to defined contribution plans are expensed as incurred. Irregular payments are allocated to the respective reporting period.

The 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, liabilities 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 2008, actuarial gains and losses exceeding the corridor were recognised in income in full.

Principal actuarial assumptions

	2008	2007	2006	2005
Discount rate	5.75 %	5.00 %	4.50 %	4.50 %
Future salary increase	3.50 %	3.50 %	3.50 %	3.50 %
Future pension increase	2.00 %	2.00 %	2.00 %	2.00 %
Fluctuation rate	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.

v) 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. Other provisions correspond to the most probable future claims and also take into account all identifiable risks arising from contingent liabilities, which are reported in provisions for risks. 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.

w) 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.

x) 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.

The Group is subject to external provisions governing its equity requirements. The relevant capital adequacy provisions imposed by the Austrian Banking Supervisory Authority are based on the recommendations of the Basel Committee for Banking Supervision,

the secretariat of which is provided by the Bank for International Settlements (BIS), as well as on the guidelines of the European Council that have been implemented in national law.

The capital ratio defined by the BIS constitutes the central parameter for assessing the capital adequacy of international banks. This ratio reflects the relationship between a bank's regulatory own funds and counterparty, market and operational risk. Counterparty risk is determined by grouping together on-balance sheet and off-balance sheet exposures on the basis of their relative risks and allocating them to separate categories to which the corresponding risk weightings are assigned. 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. These models for calculating the market risk components of the Group's overall risk exposure have been approved by the Austrian Banking Supervisory Authority. The capital requirements for operational risk are calculated by multiplying the revenues by the respective percentages for the divisions.

A bank's 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 long-term subordinated liabilities, unrealised profits from listed securities and provisions for risks inherent in lending operations.

Tier III capital consists of short-term subordinated liabilities and may only be used to cover market risks.

Banks may also use tier I and tier II capital exceeding the minimum requirements for covering counterparty risks (surplus tier I and tier II capital) to cover market risks. The minimum equity ratio as stipulated by the BIS (based on the total of tier I, tier II and tier III capital) corresponds to 8 % of total risk exposure. The minimum core capital ratio (tier I capital) in accordance with the BIS definition corresponds to 4 % of a bank's risk-weighted positions. The minimum core capital ratio for the entire risk exposure therefore depends on the weighted average of risk-weighted positions and the market risk equivalent.

In accordance with the guidelines of the BIS, subordinated liabilities may be counted towards tier II capital only up to a maximum of 50 % of tier I capital. The total tier II capital is limited to 100 % of tier I capital, while tier III capital is limited to 250 % of tier I capital not required for covering counterparty risk.

The VBAG Group's own funds are described in note 35) Equity. The Group complied with the relevant supervisory requirements in the reporting period, with its own funds significantly exceeding the minimum requirements.

y) Capital reserves

In accordance with IAS 32, the transaction costs 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.

z) 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.

aa) 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.

bb) 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.

cc) Financial guarantees

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. A check is performed at subsequent measurement dates in order to determine whether risk provisioning is necessary.

4) Net interest income

Euro thousand	2008	2007
Interest and similar income	3,546,200	2,342,936
Interest and similar income from	2,929,994	2,134,054
liquid funds	62,651	38,431
credit and money market transactions with credit institutions	291,521	158,803
credit and money market transactions with customers	1,870,628	1,391,675
debt securities	470,760	388,668
derivatives in the investment book	234,434	156,478
Current income from	531,574	45,243
equities and other variable-yield securities	13,320	9,253
other affiliates	504,184	10,653
companies measured at equity	2,751	19,345
investments in other companies	11,318	5,993
Operating lease operations (including investment property)	84,632	163,638
rental income	132,797	70,640
unrealised income/expenses from investment property	16,601	97,311
depreciation of operating lease assets	-64,766	-4,314
Interest and similar expenses of	-2,310,894	-1,582,308
deposits from credit institutions (including central banks)	-819,923	-573,063
deposits from customers	-451,648	-316,791
debts evidenced by certificates	-652,940	-481,083
subordinated liabilities	-153,472	-74,518
derivatives in the investment book	-232,910	-136,852
Net interest income	1,235,306	760,628

Interest and similar income from debt securities includes interest income from held to maturity securities totalling euro 138,602 thousand (2007: euro 92,387 thousand). Interest from financial investments not designated at fair value through profit or loss is included in interest and similar income in the amount of euro 3,476,335 thousand (2007: euro 2,249,799 thousand) and interest and similar expenses in the amount of euro 2,310,577 thousand (2007: euro 1,582,204 thousand). In 2008, current income from other affiliates includes special dividends amounting to euro 491,000 thousand.

Net interest income contains income from finance leases amounting to euro 263,429 thousand (2007: euro 203,139 thousand).

5) Risk provisions

Euro thousand	2008	2007
Allocation to risk provisions	-365,835	-213,157
Release of risk provisions	211,070	120,313
Allocation to provisions for risks	-12,252	-11,328
Release of provisions for risks	11,006	6,291
Direct write-offs of loans and advances	-3,920	-2,961
Income from loans and advances previously written off	4,979	4,443
Risk provisions	-154,952	-96,400

6) Net fee and commission income

Euro thousand	2008	2007
Fee and commission income from	285,210	240,237
lending operations	68,843	32,587
securities businesses	48,137	63,929
payment transactions	66,339	81,849
foreign exchange, foreign notes and coins transactions	65,093	33,426
other banking services	36,798	28,446
Fee and commission expenses from	-82,512	-64,377
lending operations	-24,848	-9,793
securities businesses	-14,227	-20,078
payment transactions	-6,289	-11,947
foreign exchange, foreign notes and coins transactions	-30,469	-17,393
other banking services	-6,679	-5,166
Net fee and commission income	202,698	175,860

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 net fee and commission income in the amount of euro 551 thousand (2007: euro 1,057 thousand).

7) Net trading income

Euro thousand	2008	2007
Equity related transactions	21,971	13,702
Exchange rate related transactions	13,949	23,827
Interest rate related transactions	5,133	18,262
Credit related transactions	306	91
Net trading income	41,359	55,882

8) General administrative expenses

Euro thousand	2008	2007
Staff expenses	-345,141	-299,594
Wages and salaries	-252,191	-223,389
Expenses for statutory social security	-65,095	-56,276
Fringe benefits	-7,525	-5,860
Expenses for retirement benefits	-13,137	-4,366
Allocation to provision for severance payments and pensions	-7,192	-9,703
Other administrative expenses	-293,135	-242,104
Depreciation of fixed tangible and intangible assets	-44,534	-40,276
Scheduled depreciation	-43,985	-39,184
Impairment	-549	-1,092
General administrative expenses	-682,809	-581,974

Staff expenses include payments for defined contribution plans totalling euro 11,337 thousand (2007: euro 3,275 thousand). General administrative expenses contain euro 29,020 thousand (2007: euro 21,464 thousand) for the management of operating lease/investment property agreements.

Information on compensation for and loans granted to board members

Euro thousand	2008	2007
Total compensation		
Supervisory Board	91	97
Managing Board	2,463	1,979
Former board members and their surviving dependents	816	763
Expenses for severance payments and pensions		
Managing Board	548	121
Loans and advances granted to members of the Managing Board and the Supervisory Board		
Outstanding loans and advances	174	197
Redemptions	39	34
Interest payments	8	7

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.

Expenses for severance payments and pensions for the senior management of the parent company amounted to euro 141 thousand (2007: euro 1,504 thousand).

Number of staff employed during 2008, including disposal groups

	Average number of staff		Number of staff at year-end	
	2008	2007	2008	2007
Domestic	2,258	2,294	2,080	2,193
Foreign	6,581	5,411	6,846	6,148
Total	8,839	7,705	8,926	8,341

The number of staff employed in disposal groups is as follows

	Average number of staff		Number of staff at year-end	
	2008	2007	2008	2007
Kommunalkredit disposal group				
Domestic	223	243	0	255
Foreign	29	44	0	31
Total	252	287	0	286
NÖ Hypo disposal group				
Domestic	0	214	0	0
Total number of staff	252	501	0	286

Kommunalkredit was deconsolidated with effect from 3 November 2008. NÖ Hypo was deconsolidated as at 2 July 2007.

9) Other operating result

Euro thousand	2008	2007
Other operating income	178,931	211,247
Other operating expenses	-172,486	-213,343
Proceeds from deconsolidation of subsidiaries	4,422	-438
Impairment of goodwill	-176,332	-1,234
Other operating result	-165,465	-3,768

Since 2007, 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 in the amount of euro 238,506 thousand (2007: euro 221,281 thousand), as this procedure presents a fairer view of the economic nature of these transactions. Details of impairment of goodwill can be found under note 22) Intangible assets.

10) Income from financial investments

Euro thousand	2008	2007
Result from financial investments at fair value through profit or loss/macro hedges	-103,972	6,180
Result from financial investments at fair value through profit or loss and from underlying instruments for macro hedges	-76,059	6,202
Loans and advances to credit institutions and customers	-332	-1,287
Debt securities	-61,914	-9,761
Equities and other variable-yield securities	-13,744	17,154
Amounts owed to credit institutions and customers	-69	64
Debt evidenced by certificates	0	33
Result from revaluation of derivatives	-27,913	-23
Result from fair value hedges	-47	764
Result from revaluation of underlying instruments	-53,966	172,430
Loans and advances to credit institutions and customers	26,922	-4,046
Debt securities	142,572	-17,774
Amounts owed to credit institutions and customers	-119,238	30,196
Debts evidenced by certificates	-102,352	164,054
Subordinated liabilities	-1,870	0
Result from revaluation of derivatives	53,919	-171,666
Result from valuation of other derivatives in the investment book	12,561	361
Equity related transactions	-262	67
Exchange rate related transactions	-4,138	-3,706
Interest rate related transactions	14,302	9,304
Credit related transactions	2,691	-5,185
Other transactions	-31	-119
Result from available for sale financial investments	-116,435	-18,732
Result from loans & receivables financial investments	-27,445	-12
Result from held to maturity financial investments	-61,146	-20,046
Result from participations, assets for operating lease and other financial investments	2,860	29,324
Income from financial investments	-293,625	-2,161

11) Income taxes

Euro thousand	2008	2007
Current income taxes	-32,227	-42,696
Deferred income taxes	192,089	4,238
Income taxes of disposal groups	34,957	-4,900
Income taxes for the current fiscal year	194,819	-43,358
Income taxes from previous periods continued operations	-3,839	1,819
Income taxes from previous periods disposal group	0	-672
Income taxes from previous periods	-3,839	1,147
Income taxes	190,980	-42,211

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

Euro thousand	2008	2007
Annual result before taxes – continued operations	182,511	308,067
Annual result before taxes – disposal group	-584,360	80,053
Annual result before taxes – total	-401,849	388,121
Imputed income tax 25 %	-100,462	97,030
Tax relief resulting from		
tax-exempt investment income	-187,165	-29,647
investment allowances	-2,524	-1,174
other tax-exempt earnings	-3,656	-17,555
release of tax assets section 9 (7) Austrian Corporation Tax Act	3,971	3,971
non-tax deductible impairment of goodwill	75,457	308
changes in tax rates	-3,961	-1,100
different foreign tax rates	10,634	-16,465
other differences	12,886	7,991
Reported income taxes	-194,819	43,358
of which disposal group	-34,957	4,900
Effective tax rate – continued operations	-87.59 %	12.48 %
Effective tax rate – including disposal group	48.48 %	11.17 %

The informative value of the effective tax rate of 2008 is restricted by the high level of tax-exempt investment income, the sharp increase in tax loss carryforwards and the presentation of the disposal group.

Deferred taxes totalling euro -42,693 thousand (2007: euro 1,757 thousand) were taken directly to equity. No deferred taxes were recognised for tax loss carryforwards in the amount of euro 7,123 thousand (2007: euro 9,535 thousand). In 2007, the deconsolidation of NÖ Hypo resulted in the derecognition of tax loss carryforwards amounting to euro 21,288 thousand for which no deferred taxes were recognised. In 2008, no value adjustments were recognised for tax loss carryforwards as, in the opinion of the management, it appears probable that these tax loss carryforwards will be realised.

12) Earnings per share (excluding treasury stocks)

Continued operations

In euro or units	2008	2007
Consolidated net income – continued operations	290,544,213	185,777,882
less preferential dividends ^{*)}	-5,265,272	-11,774,227
Retained income for the year	285,278,941	174,003,656
of which pertaining to shares	275,167,850	167,683,776
of which pertaining to participation capital	10,111,091	6,319,880
Average number of shares outstanding	42,101,228	42,102,379
Average number of participation certificates outstanding	154,766	158,746
Earnings per share	6.54	3.98
Earnings per participation certificates outstanding	65.33	39.81

^{*)} for preferred shares and participation capital

Including the disposal group

In euro or units	2008	2007
Consolidated net income – including disposal group	-152,012,237	219,682,129
less preferential dividends ^{*)}	-5,265,272	-11,774,227
Retained income for the year	-157,277,509	207,907,903
of which pertaining to shares	-151,703,151	200,356,608
of which pertaining to participation capital	-5,574,359	7,551,295
Average number of shares outstanding	42,101,228	42,102,379
Average number of participation certificates outstanding	154,766	158,746
Earnings per share	-3.60	4.76
Earnings per participation certificate	-36.02	47.57

^{*)} for preferred shares and participation capital

As no contingent rights to convertible bonds or warrants were outstanding at the 2007 and 2008 reporting dates, there was no need to calculate diluted earnings per share.

Dividend payment including participation capital

Euro thousand	2008	2007
Dividend voting capital	23,092	23,092
Dividend non-voting capital	14,596	12,989
Total	37,688	36,081

At the general meeting to be held on 28 May 2009, the Managing Board of VBAG will propose the payment of euro 0.4361 per share entitled to receive dividends plus a preferred dividend of euro 5.853 per preferred share, depending on the respective tranche. The Managing Board of VBAG will propose the payment of a dividend of euro 6.00 per participation certificate entitled to receive dividends under tranches until 1988 and a dividend of euro 3,913.0265 per participation certificate entitled to receive dividends under the 2006 issue.

Notes to the consolidated balance sheet

13) Liquid funds

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Cash in hand	150,364	135,771	135,777
Balances with central banks	3,747,532	3,036,469	3,064,615
Liquid funds	3,897,897	3,172,239	3,200,392

14) Loans and advances to credit institutions

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Measured at fair value through profit or loss	0	0	213,067
Measured available for sale	0	0	412,304
Measured at amortised cost	5,574,957	4,628,380	10,742,467
Loans and advances to credit institutions	5,574,957	4,628,380	11,367,838

Breakdown by residual term

Euro thousand	31 Dec 2008	31 Dec 2007
on demand	322,164	813,150
up to 3 months	3,416,192	5,530,520
up to 1 year	219,803	683,272
up to 5 years	1,403,032	2,168,186
more than 5 years	213,765	2,172,710
Loans and advances to credit institutions	5,574,957	11,367,838

15) Loans and advances to customers

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Measured at fair value through profit or loss	0	0	3,532,287
Measured available for sale	0	0	1,487,605
Measured at amortised cost	28,818,341	24,764,279	34,027,923
Loans and advances to customers	28,818,341	24,764,279	39,047,815

Breakdown by residual term

Euro thousand	31 Dec 2008	31 Dec 2007
on demand	1,768,312	1,857,124
up to 3 months	2,476,806	1,851,520
up to 1 year	3,277,451	2,972,824
up to 5 years	8,820,733	9,914,595
more than 5 years	12,475,039	22,451,752
Loans and advances to customers	28,818,341	39,047,815

Finance lease disclosures

Euro thousand	up to 1 year	up to 5 years	more than 5 years	Total
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
2007				
Total gross investment	1,203,017	2,070,891	561,320	3,835,228
Less paid non-interest-bearing deposits	-970	-7,164	-5,136	-13,270
Less unearned financial income	-162,495	-247,684	-186,844	-597,023
Present value of minimum lease payments	1,039,552	1,816,043	369,340	3,224,935
Total unguaranteed residual value				57,111

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.

Loans and advances to credit institutions and customers measured at fair value through profit or loss

Following the deconsolidation of Kommunalkredit, the Group does not have any loans and advances to credit institutions and customers designated at fair value through profit or loss.

On 31 December 2007, the credit risk for loans and advances measured at fair value through profit or loss, including Kommunalkredit, amounted to euro 3,745,354 thousand.

In 2007, there were no credit risk changes in the fair value of loans and advances to credit institutions and customers measured at fair value through profit or loss.

16) Risk provisions

Euro thousand	Individual impairment credit institutions	Individual impairment customers	Portfolio-based allowance	Total	of which disposal group
As at 1 Jan 2007	3,838	419,887	19,033	442,758	10,567
Changes in the scope of consolidation	0	1,658	1,690	3,348	-2,415
Currency translation	-69	443	442	816	0
Reclassification	31	1,153	-1,029	154	0
Utilisation	0	-31,007	-1	-31,007	0
Release	-3,049	-105,416	-18,368	-126,833	-6,521
Addition	16	148,066	65,096	213,178	21
As at 31 Dec 2007	766	434,785	66,863	502,414	1,652
Changes in the scope of consolidation	-69,048	-13,318	-493	-82,859	-72,759
Currency translation	-2	-6,254	-2,147	-8,404	0
Reclassification	0	-160	142	-19	0
Utilisation	-585	-30,121	0	-30,707	0
Release	-20	-145,925	-65,770	-211,716	-646
Addition	69,381	332,838	35,369	437,588	71,752
As at 31 Dec 2008	491	571,843	33,963	606,297	0

The amount of utilised risk provisions also includes the unwinding effect of euro –5,329 thousand (2007: euro –2,603 thousand) which is reported in net interest income. Loans and advances to customers include non-interest-bearing receivables amounting to euro 244,452 thousand (2007 restated and published: euro 204,492 thousand). The reclassification item reflects the regrouping of provisions for risks.

17) Trading assets

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Debt securities	243,998	416,100	434,262
Equity and other variable-yield securities	18,541	29,764	29,767
Positive fair value from derivatives	823,058	535,183	544,710
foreign exchange transactions	30,461	46,378	46,378
interest related transactions	766,900	395,635	405,161
credit related transactions	0	12,969	12,969
other transactions	25,697	80,201	80,201
Trading assets	1,085,598	981,047	1,008,738

Breakdown by residual term

Euro thousand	31 Dec 2008	31 Dec 2007
up to 3 months	2,950	7,037
up to 1 year	31,642	21,080
up to 5 years	91,407	151,413
more than 5 years	117,999	254,732
Debt securities	243,998	434,262

18) Financial investments

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Financial investments at fair value through profit or loss	1,357,211	1,606,530	6,695,786
Debt securities	1,251,044	1,432,193	6,438,079
Equity and other variable-yield securities	106,166	174,337	257,707
Financial investments available for sale	3,087,528	3,655,037	7,463,369
Debt securities	2,917,185	3,613,822	7,422,153
Equity and other variable-yield securities	170,344	41,215	41,215
Financial investments loans & receivables	2,137,667	561,076	0
Financial investments held to maturity	2,379,228	2,668,407	4,036,384
Financial investments	8,961,634	8,491,050	18,195,539

Financial investments held to maturity also include deferred interest of euro 52,016 thousand (2007 restated: euro 63,029 thousand; published: euro 93,343 thousand).

In 2008, securitised financial assets that were previously reported in loans and advances to credit institutions in the amount of euro 38,216 thousand and loans and advances to customers in the amount of euro 765,496 thousand were reclassified to financial investments. The previous year figures were restated accordingly.

Breakdown by residual term

Euro thousand	31 Dec 2008	31 Dec 2007
up to 3 months	600,927	759,030
up to 1 year	584,877	1,169,067
up to 5 years	2,887,138	6,045,935
more than 5 years	4,612,182	9,922,585
Debt securities	8,685,124	17,896,617

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

Euro thousand	31 Dec 2008	31 Dec 2007
Listed securities	7,652,385	16,177,013
Securities allocated to fixed assets	7,500,920	9,689,776
Securities eligible for rediscounting	4,747,831	8,255,840

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	1 Jul 2008		31 Dec 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Reclassified debt securities	1,140,363	1,140,363	1,073,806	851,641

Available for sale reserve (taking into account deferred taxes)

Euro thousand	1 Jul 2008	31 Dec 2008
Available for sale reserve with reclassification	-79,177	-71,816
Available for sale reserve without reclassification	-79,177	-248,245

The reclassification did not have any effect on the income statement.

19) Assets for operating lease

Euro thousand	Investment properties	Other operating lease assets	Total	of which disposal group
Cost as at 1 Jan 2007	805,196	27,098	832,293	5,814
Changes in the scope of consolidation	0	-5,833	-5,833	-5,814
Currency translation	-26,023	24	-25,999	0
Additions, including transfers	376,598	26,855	403,453	6,055
Disposals, including transfers	-46,278	-4,296	-50,573	0
Cost as at 31 Dec 2007	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	411,238	189,679	600,917	178
Disposals, including transfers	-85,303	-43,838	-129,141	0
Cost as at 31 Dec 2008	1,447,178	189,632	1,636,809	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
Write-downs in fiscal year	-103,705	-64,766	-168,471	0
Write-ups in fiscal year	120,306	0	120,306	0
2007				
Cost as at 31 Dec 2007	1,109,493	43,848	1,153,341	6,055
Cumulative write-downs and write-ups	273,557	-9,101	264,456	0
Carrying amount as at 31 Dec 2007	1,383,050	37,747	1,417,796	6,055
Write-downs in fiscal year	0	-4,314	-4,314	0
Write-ups in fiscal year	97,311	0	97,311	0
Carrying amount as at 1 Jan 2007	950,180	21,312	971,493	5,537

Investment properties contain 28 completed properties (2007: 27 properties) as well as 20 properties under construction with a carrying amount of euro 337,154 thousand (2007: 17 properties under construction with a carrying amount of euro 164,648 thousand). These properties are primarily located in the countries of Central and Eastern Europe.

20) Companies measured at equity

Additional information on companies measured at equity:

Euro thousand	2008	2007 restated	2007 published
Cumulative total assets as at 31 Dec	395,674	65,999	8,284,107
Cumulative equity as at 31 Dec	374,718	53,464	312,189
Cumulative net income	41,989	9,112	26,217

21) Participations

Euro thousand	2008	2007 restated	2007 published
Investments in unconsolidated affiliates	602,057	142,194	143,252
Participating interests	99,298	81,609	81,922
Investments in other companies	68,460	24,244	24,244
Participations	769,814	248,048	249,417

In 2008, companies measured at equity and participations with a carrying amount of euro 1,602 thousand were disposed of (2007: euro 74,086 thousand). The proceeds from these divestments amounted to euro 11,397 thousand (2007: euro 27,853 thousand) and are reported in income from financial investments.

All participations are measured at amortised cost. None of the Group's participations are listed on a stock exchange.

22) Intangible assets

Euro thousand	Software	Goodwill	Other	Total	of which disposal group
Cost as at 1 Jan 2007	64,798	349,164	52,103	466,064	154,337
Changes in the scope of consolidation	829	0	0	829	-297
Currency translation	426	-2,034	6	-1,603	0
Additions, including transfers	14,795	42,373	1,031	58,199	336
Disposals, including transfers	-1,416	-1,760	-262	-3,438	-540
Cost as at 31 Dec 2007	79,431	387,743	52,877	520,051	153,836
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	0
Disposals, including transfers	-1,741	-5,883	-995	-8,619	0
Cost as at 31 Dec 2008	91,087	250,290	29,028	370,405	0

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	0
Cumulative write-downs and reversals	-59,699	-178,324	-2,560	-240,583	0
Carrying amount as at 31 Dec 2008	31,388	71,967	26,468	129,822	0
Amortisation in fiscal year	-9,429	0	-882	-10,310	-96
Impairment in fiscal year	-13	-301,829	0	-301,842	-125,497
2007					
Cost as at 31 Dec 2007	79,431	387,743	52,877	520,051	153,836
Cumulative write-downs and reversals	-55,146	-7,540	-2,279	-64,964	-4,284
Carrying amount as at 31 Dec 2007	24,285	380,203	50,599	455,087	149,552
Amortisation in fiscal year	-8,303	0	-697	-9,001	-337
Impairment in fiscal year	-579	-1,234	0	-1,813	0
Carrying amount as at 1 Jan 2007	18,529	341,323	50,514	410,367	149,812

Composition of goodwill:

Euro thousand	Carrying amount 31 Dec 2008	Impairment 2008	Carrying amount 31 Dec 2007	Impairment 2007
Kommunalkredit sub-group				
Public Finance segment	0	125,497	125,497	0
Investkredit sub-group				
Corporates segment	31,563	0	31,563	457
VBI sub-group				
Retail segment	40,404	0	45,833	0
Europolis sub-group				
Real Estate segment	0	176,332	177,310	776
Total	71,967	301,829	380,203	1,234

23) Tangible fixed assets

Euro thousand	Land and buildings	EDP equipment	Office	Other	Total	of which
			furniture and equipment			disposal group
Cost as at 1 Jan 2007	224,742	51,595	135,079	26,304	437,720	44,526
Changes in the scope of consolidation	24,177	436	1,445	3,656	29,715	1,876
Currency translation	1,115	497	696	156	2,464	-63
Additions, including transfers	21,201	14,651	19,184	11,234	66,270	8,482
Disposals, including transfers	-7,266	-3,561	-11,792	-5,394	-28,014	-7,630
Cost as at 31 Dec 2007	263,969	63,618	144,611	35,956	508,154	47,190
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	0
Disposals, including transfers	-1,880	-6,543	-16,378	-7,471	-32,272	-2,830
Cost as at 31 Dec 2008	254,517	63,657	142,262	35,058	495,494	0

Euro thousand	Land and buildings	EDP equipment	Office	Other	Total	of which
			furniture and equipment			disposal group
2008						
Cost as at 31 Dec 2008	254,517	63,657	142,262	35,058	495,494	0
Cumulate write-downs and reversals	-55,726	-44,634	-91,663	-13,400	-205,423	0
Carrying amount as at 31 Dec 2008	198,790	19,023	50,599	21,658	290,070	0
Depreciation in fiscal year	-9,699	-8,528	-13,170	-4,544	-35,941	-2,170
Impairment in fiscal year	0	-495	-12	-29	-536	0
2007						
Cost as at 31 Dec 2007	263,969	63,618	144,611	35,956	508,154	47,190
Cumulative write-downs and reversals	-53,713	-39,848	-91,893	-14,291	-199,745	-8,801
Carrying amount as at 31 Dec 2007	210,256	23,771	52,718	21,665	308,409	38,389
Depreciation in fiscal year	-8,070	-7,756	-13,103	-3,830	-32,758	-2,238
Impairment in fiscal year	-242	-159	-108	-4	-513	0
Carrying amount as at 1 Jan 2007	179,999	19,117	48,259	14,777	262,152	36,218

24) Tax assets

Euro thousand	31 Dec 2008	31 Dec 2007	31 Dec 2007
		restated	published
Current tax assets	52,405	38,768	39,674
Deferred tax assets	365,936	98,789	101,616
Tax assets	418,341	137,557	141,291

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 2008	31 Dec 2007 restated	31 Dec 2007 published
Loans and advances to credit institutions	13,480	17,042	28,200
Loans and advances to customers, including risk provisions	20,354	40,962	40,962
Trading assets	492	84	84
Financial investments	20,015	5,987	12,507
Assets for operating lease	59	0	0
Participations	86,947	1,271	1,271
Intangible and tangible fixed assets	44,257	48,079	48,079
Amounts owed to credit institutions	12,873	0	0
Amounts owed to customers	14,789	0	0
Debts evidenced by certificates	13,520	10,880	10,880
Trading liabilities	2,605	3,319	3,319
Provisions for pensions, severance payments and other provisions	13,092	12,697	13,626
Other assets and liabilities	323,153	85,755	484,857
Tax loss carryforwards	165,045	28,103	28,103
Deferred taxes before netting	730,682	254,180	671,889
Offset against liabilities-side deferred taxes	-364,746	-155,391	-570,273
Reported deferred tax assets	365,936	98,789	101,616

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

The increase in deferred tax assets is due to the higher level of tax loss carryforwards. As the utilisation of tax loss carryforwards will take place in the next 3 to 8 years in line with the Group's tax planning, they were capitalised in full.

25) Other assets

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Deferred items	32,569	32,507	34,793
Other receivables and assets	180,410	1,121,134	1,218,483
Positive fair value from derivatives in the investment book	1,391,710	606,962	2,394,553
Other assets	1,604,690	1,760,603	3,647,829

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

Euro thousand	31 Dec 2008		31 Dec 2007 restated		31 Dec 2007 published	
	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Exchange rate related transactions	45,781	24	17,986	0	86,319	0
Interest rate related transactions	717,786	10,794	256,831	1,730	1,036,976	2,987
Other transactions	58,090	0	165,381	0	249,936	0
Positive fair value from derivatives	821,656	10,818	440,198	1,730	1,373,231	2,987

26) Amounts owed to credit institutions

Amounts owed to credit institutions amounting to euro 18,686,846 thousand (2007 restated: euro 15,573,105 thousand, published: euro 24,200,454 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2008	31 Dec 2007
on demand	3,019,744	3,189,598
up to 3 months	5,231,310	11,950,990
up to 1 year	3,139,519	2,821,821
up to 5 years	4,551,061	2,317,936
more than 5 years	2,745,212	3,920,109
Amounts owed to credit institutions	18,686,846	24,200,454

27) Amounts owed to customers

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Measured at fair value through profit or loss	7,453	10,253	10,253
Measured at amortised cost	11,822,002	10,180,984	10,840,668
Savings deposits	1,676,756	1,468,830	1,468,830
Other deposits	10,145,246	8,712,154	9,371,838
Amounts owed to customers	11,829,455	10,191,237	10,850,921

Amounts owed to customers have been designated at fair value through profit or loss as the Group manages these financial liabilities on a fair value basis in accordance with its investment strategy. Internal reporting and performance measurement for these liabilities are conducted on a fair value basis.

The carrying amount of the amounts owed to customers designated at fair value through profit or loss exceeded the redemption amount at maturity by euro 228 thousand (2007 restated and published: euro 44 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2008	31 Dec 2007
on demand	3,997,465	4,578,316
up to 3 months	3,319,810	3,121,347
up to 1 year	2,208,354	1,372,650
up to 5 years	886,546	450,657
more than 5 years	1,417,280	1,327,950
Amounts owed to customers	11,829,455	10,850,921

28) Debts evidenced by certificates

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Measured at fair value through profit or loss	0	2,478	161,310
Measured at amortised cost	15,212,758	13,433,428	32,947,403
Debts evidenced by certificates	15,212,758	13,435,906	33,108,714

As from 2008, the Group does not allocate debts evidenced by certificates to the at fair value through profit or loss category. In 2007, the Kommunalkredit sub-group and an affiliate in Luxembourg, which was also deconsolidated in 2008, allocated debts evidenced by certificates to the at fair value through profit or loss category as these financial liabilities were measured on a fair value basis in accordance with their investment strategy or because they contained embedded derivatives. Internal reporting and performance measurement for these liabilities were conducted on a fair value basis.

In 2007, the carrying amount of debts evidenced by certificates measured at fair value through profit or loss from the Kommunalkredit sub-group exceeded the redemption amount at maturity by euro 8,838 thousand. The carrying amount of the debts evidenced by certificates at the affiliate in Luxembourg was similar to the redemption amount.

In 2007, the fair value measurement of liabilities, which was recognised in income, included a change in fair value amounting to euro 2,480 thousand that was attributable to a change in credit risk.

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Mortgage and local authority bonds	219,647	168,634	168,634
Bonds	14,971,210	13,208,305	32,881,112
Medium-term notes	21,900	58,967	58,967
Debts evidenced by certificates	15,212,758	13,435,906	33,108,714

Breakdown by residual term

Euro thousand	31 Dec 2008	31 Dec 2007
up to 3 months	1,005,960	5,302,494
up to 1 year	1,460,646	5,474,655
up to 5 years	8,420,971	11,586,412
more than 5 years	4,325,180	10,745,151
Debts evidenced by certificates	15,212,758	33,108,714

29) Trading liabilities

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Negative fair value from derivatives			
Exchange rate related transactions	54,994	47,656	47,656
Interest rate related transactions	711,261	190,926	200,557
Credit related transactions	0	13,276	13,276
Other transactions	21,364	67,535	67,535
Trading liabilities	787,618	319,393	329,024

30) Provisions

Euro thousand	Provisions for risks	Other provisions	Total	of which disposal group
As at 1 Jan 2007	33,939	46,873	80,812	830
Changes in the scope of consolidation	59	-21	39	-21
Currency translation	11	242	254	0
Reclassification	-150	0	-150	0
Utilisation	-1,132	-19,997	-21,129	-791
Release	-6,291	-1,952	-8,243	-4
Addition	11,328	51,716	63,044	6,892
As at 31 Dec 2007	37,764	76,863	114,627	6,906
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	-787
Release	-11,006	-14,965	-25,970	-2,822
Addition	14,761	30,266	45,028	3,028
As at 31 Dec 2008	38,759	59,767	98,527	0

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 for projects on the basis of regulatory obligations and for pending legal proceedings.

31) 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 2007	113,661	41,708	5,309	160,678	48,572
Changes in the scope of consolidation	-23,829	-7,501	-877	-32,207	-32,225
Current service costs	974	2,825	391	4,191	673
Interest costs	4,534	1,744	214	6,492	814
Payments	-5,253	-2,552	-216	-8,021	-840
Actuarial gains or losses	12,312	-700	-220	11,392	-411
Net present value as at 31 Dec 2007	102,399	35,524	4,602	142,524	16,583
Unrecognised actuarial gains or losses	-10,240	700	0	-9,540	406
Long-term employee provisions as at 31 Dec 2007	92,159	36,224	4,602	132,985	16,989
Changes in the scope of consolidation	-14,363	-2,741	-314	-17,418	-17,432
Current service costs	924	2,825	414	4,163	446
Interest costs	4,940	1,838	246	7,024	590
Payments	-3,073	-2,838	-175	-6,086	-565
Actuarial gains or losses	-4,165	-3,575	-5	-7,745	-28
Net present value as at 31 Dec 2008	76,422	31,733	4,768	112,923	0
Unrecognised actuarial gains or losses	-46	3,173	0	3,127	0
Long-term employee provisions as at 31 Dec 2008	76,376	34,907	4,768	116,050	0

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 2007	43,341	6,834
Return on plan assets	1,203	347
Contributions	2,159	570
Payments	-1,615	-39
Actuarial gains or losses	-1,239	0
Net present value of plan assets as at 31 Dec 2007	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

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
31 Dec 2007				
Long-term employee provisions	92,159	36,224	4,602	132,985
Net present value of plan assets	-43,848	0	0	-43,848
Net liability recognised in balance sheet	48,311	36,224	4,602	89,136
of which disposal group	6,328	2,636	314	9,277

Historical information

Euro thousand	2008	2007	2006	2005	2004
Net present value of obligation	112,923	142,524	177,291	175,025	83,884
Net present value of plan assets	33,042	43,848	43,341	42,314	0

32) Tax liabilities

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Current tax liabilities	30,542	29,868	30,996
Deferred tax liabilities	142,599	123,586	129,774
Tax liabilities	173,142	153,454	160,770

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.

	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Euro thousand			
Loans and advances to credit institutions	657	69	69
Loans and advances to customers, including risk provisions	24,206	7,166	29,647
Trading assets	341	6,737	6,737
Financial investments	5,141	5,683	5,683
Assets for operating lease	107,546	82,044	82,044
Participations	3,002	9,268	9,268
Intangible and tangible fixed assets	13,083	15,931	21,866
Amounts owed to credit institutions	11,769	28,744	28,987
Amounts owed to customers	522	5,954	27,197
Debts evidenced by certificates	1,830	5,722	146,092
Provisions for pensions, severance payments and other provisions	540	2,356	2,608
Other assets and liabilities	316,846	88,225	315,350
Other balance sheet items	21,863	21,079	24,498
Deferred taxes before netting	507,345	278,977	700,047
Offset against asset-side deferred taxes	-364,746	-155,391	-570,273
Reported deferred tax liabilities	142,599	123,586	129,774

33) Other liabilities

	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Euro thousand			
Deferred items	56,241	50,283	57,743
Other liabilities	410,084	1,360,589	1,450,944
Negative fair value from derivatives in the investment book	1,347,940	769,004	3,364,637
Other liabilities	1,814,264	2,179,876	4,873,324

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

	31 Dec 2008		31 Dec 2007 restated		31 Dec 2007 published	
	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge	Cash flow hedge
Euro thousand						
Exchange rate related transactions	79,235	6,076	100,139	13,792	197,573	13,792
Interest rate related transactions	640,770	11,187	390,673	550	1,627,476	1,135
Other transactions	149,794	0	56,521	0	281,468	0
Negative fair value from derivatives	869,799	17,263	547,333	14,341	2,106,517	14,927

34) Subordinated liabilities

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Measured at fair value through profit or loss	0	0	57,511
Measured at amortised cost	2,014,314	1,457,018	1,908,969
Subordinated liabilities	2,014,314	1,457,018	1,966,480

As from 2008, no subordinated liabilities were allocated to the at fair value through profit or loss category. In 2007, the Kommunalkredit sub-group allocated subordinated liabilities to the at fair value through profit or loss category as these financial liabilities were managed on a fair value basis in accordance with the investment strategy or because they contained embedded derivatives. Internal reporting and performance measurement for these liabilities were conducted on a fair value basis.

In 2007, the carrying amount of subordinated liabilities measured at fair value through profit or loss was in the amount of euro 6,989 thousand below the redemption amount at maturity.

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Subordinated liabilities	1,098,928	1,033,902	1,338,282
Supplementary capital	915,386	423,117	628,198
Subordinated liabilities	2,014,314	1,457,018	1,966,480

Subordinated liabilities comprises hybrid tier I capital in the amount of euro 355,494 thousand (2007 restated: EUR 342,442 thousand, published: euro 422,442 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2008	31 Dec 2007
up to 3 months	23,016	9,320
up to 1 year	31,365	50,675
up to 5 years	922,087	787,562
more than 5 years	1,037,845	1,118,923
Subordinated liabilities	2,014,314	1,966,480

35) Equity

As at 31 December 2008, 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
	<u>311,095</u>

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.

In addition to its equity, VBAG reported participation capital with a nominal value of euro 34,078 thousand at 31 December 2008 (2007: 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

Number of units	31 Dec 2008		31 Dec 2007	
	Shares	Participation certificates	Shares	Participation certificates
Shares and participation certificates outstanding as at 1 Jan	42,102,065	157,698	42,102,698	159,812
Disposal of treasury stocks and participation certificates	0	2,850	0	3,195
Addition of treasury stocks and participation certificates	-1,664	-8,683	-633	-5,309
Shares and participation certificates outstanding as at 31 Dec	42,100,401	151,865	42,102,065	157,698
Treasury stocks and participation certificates	691,265	8,584	689,601	2,751
Shares and participation certificates as at 31 Dec	42,791,666	160,449	42,791,666	160,449

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. At the same general meeting, the Managing Board was authorised to issue participation capital in accordance with section 23 (4) of the Austrian Banking Act with a nominal value of euro 1,000 million through the issue of participation certificates with the subscription rights of the shareholders and bearers of participation capital excluded, subject to the consent of the Supervisory Board.

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 figures as at 31 December 2007 include Kommunalkredit).

Euro thousand	31 Dec 2008	31 Dec 2007
Subscribed capital (less treasury stocks)	837,902	330,853
Open reserves (including differential amounts and minority interest)	1,957,632	2,447,604
Funds for general banking risks	18,028	21,730
Intangible assets	-32,574	-25,251
Net loss	-125,647	-8,171
Core capital (tier I capital) before deductions	2,655,341	2,766,765
Deductions from core capital (50 % deduction pursuant to section 23 (13), and section 29 (1) and (2) Austrian Banking Act)	-140,667	0
Core capital (tier I capital) after deductions	2,514,674	2,766,765
Supplementary capital	409,845	540,056
Eligible subordinated liabilities	622,127	910,464
Hidden reserves pursuant to section 57 (1) Austrian Banking Act	3,382	115,702
Revaluation reserves	0	1,612
Supplementary capital (tier II capital) before deductions	1,035,354	1,567,834
Deductions from supplementary capital (50 % deduction pursuant to section 23 (13) and section 29 (1) und (2) Austrian Banking Act)	-140,667	-83,540
Supplementary capital (tier II capital) after deductions	894,688	1,484,294
Short-term subordinated liabilities (tier III capital)	14,284	6,772
Eligible qualifying capital	3,423,646	4,257,831
Capital requirements	2,817,183	3,138,259
Surplus capital	606,463	1,119,572

Core capital ration (tier I) (in relation to the assessment base pursuant to section 22 Austrian Banking Act – credit risk)	7.56 %	7.19 %
Equity ratio (solvency ratio) (in relation to credit risk after deduction of capital requirements for market and operational risk)	9.82 %	10.91 %
Core capital ratio (in relation to the risks pursuant to section 22 (1) no. 1-5 Austrian Banking Act)	7.14 %	7.05 %
Equity ratio (in relation to the risks pursuant to section 22 (1) no. 1-5 Austrian Banking Act)	9.72 %	10.85 %

Open reserves include hybrid tier I capital totalling euro 355,494 thousand (2007: euro 422,442 thousand).

The risk-weighted assessment base as defined by the Austrian Banking Act and the ensuing capital requirements changed as follows:

Euro thousand	31 Dec 2008	31 Dec 2007
Risk-weighted assessment base pursuant to section 22 Austrian Banking Act – credit risk	33,262,990	38,502,339
Of which 8 % minimum capital requirements for credit risk	2,661,039	3,080,187
Capital requirements for position risk in debt instruments, equities, foreign exchange and commodities – market risk	42,140	58,072
Capital requirements for operational risk	114,004	0
Total capital requirements	2,817,183	3,138,259

The risk-weighted assessment base for the first quarter of 2008 was calculated for all companies according to the standard approach. From 1 April 2008 onwards, some companies calculated their credit risk using the IRB approach.

Since 2008, the counterparty risk in the trading book has been included in the capital requirements for credit risk; in previous periods, it was allocated to the capital requirements for exposure risk in debt instruments, equities, foreign exchange and commodities.

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.

In 2008, 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.

36) Financial assets and liabilities

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.

Financial investments contain securities classified as held to maturity and loans & receivables with a carrying amount of euro 3,254,406 thousand, a total of euro 734,583 thousand above their fair value, as there is no objective evidence of impairment. In 2007, no financial investments were measured above their respective fair value.

Carrying amounts of underlyings to fair value hedges

Euro thousand	Interest rate risk		Foreign currency risk
	Available for sale	Amortised cost	Amortised cost
31 Dec 2008			
Loans and advances to credit institutions	0	35,760	0
Loans and advances to customers	0	491,113	0
Financial investments	1,387,339	408,505	0
Financial assets	1,387,339	935,377	0
Amounts owed to credit institutions	0	1,861,213	0
Amounts owed to customers	0	960,591	0
Debts evidenced by certificates	0	14,896,109	144,107
Subordinated liabilities	0	32,757	0
Financial liabilities	0	17,750,670	144,107
31 Dec 2007			
Loans and advances to credit institutions	0	37,288	0
Loans and advances to customers	0	426,636	13,786
Financial investments	827,924	0	0
Financial assets	827,924	463,924	13,786
Financial assets of the disposal group	2,574,587	4,868,754	0
Amounts owed to credit institutions	0	953,143	0
Amounts owed to customers	0	847,486	0
Debts evidenced by certificates	0	12,566,201	211,685
Subordinated liabilities	0	32,000	0
Financial liabilities	0	14,398,830	211,685
Financial liabilities of the disposal group	0	11,132,425	0

The table below shows a classification of financial assets and liabilities in accordance with their individual categories and their fair values.

Euro thousand	Note	At fair value			Available for sale	Amortised cost	Carrying amount total	Fair value
		Held for trading	through profit or loss	Held to maturity				
31 Dec 2008								
Liquid funds	13	0	0	0	0	3,897,897	3,897,897	3,897,897
Loans and advances to credit institutions	14	0	0	0	0	5,574,957	5,574,957	5,624,637
Loans and advances to customers	15	0	0	0	0	28,818,341	28,818,341	28,140,353
Trading assets	17	1,085,598	0	0	0	0	1,085,598	1,085,598
Financial investments	18	0	1,357,211	2,379,228	3,087,528	2,137,667	8,961,634	8,308,994
Assets for operating lease	19	0	0	0	0	1,852,592	1,852,592	1,852,592
Companies measured at equity and participations	20, 21	0	0	0	0	896,120	896,120	896,120
Derivatives – investment book	25	1,391,710	0	0	0	0	1,391,710	1,391,710
Financial assets – total		2,477,308	1,357,211	2,379,228	3,087,528	43,177,574	52,478,849	51,197,901
Amounts owed to credit institutions	26	0	0	0	0	18,686,846	18,686,846	18,660,490
Amounts owed to customers	27	0	7,453	0	0	11,822,002	11,829,455	11,807,696
Debts evidenced by certificates	28	0	0	0	0	15,212,758	15,212,758	14,876,270
Trading liabilities	29	787,618	0	0	0	0	787,618	787,618
Derivatives – investment book	33	1,347,940	0	0	0	0	1,347,940	1,347,940
Subordinated liabilities	34	0	0	0	0	2,014,314	2,014,314	1,639,608
Financial liabilities – total		2,135,558	7,453	0	0	47,735,920	49,878,931	49,119,623

Euro thousand	Note	At fair value				Amortised cost	Carrying amount total	Fair value
		Held for trading	through profit or loss	Held to maturity	Available for sale			
31 Dec 2007								
Liquid funds	13	0	0	0	0	3,172,239	3,172,239	3,172,239
Loans and advances to credit institutions	14	0	0	0	0	4,628,380	4,628,380	4,755,883
Loans and advances to customers	15	0	0	0	0	24,764,279	24,764,279	24,349,615
Trading assets	17	981,047	0	0	0	0	981,047	981,047
Financial investments	18	0	1,606,530	2,668,407	3,655,037	561,076	8,491,050	8,247,050
Assets for operating lease	19	0	0	0	0	1,411,742	1,411,742	1,411,742
Companies measured at equity and participations	20, 21	0	0	0	0	278,354	278,354	313,246
Derivatives – investment book	25	606,962	0	0	0	0	606,962	606,962
Financial assets – total		1,588,009	1,606,530	2,668,407	3,655,037	34,816,070	44,334,053	43,837,783
Financial assets of the disposal group	2	1,815,282	8,834,610	1,421,777	5,708,241	14,871,217	32,651,127	32,236,739
Amounts owed to credit institutions	26	0	0	0	0	15,573,105	15,573,105	15,510,322
Amounts owed to customers	27	0	10,253	0	0	10,180,984	10,191,237	10,181,187
Debts evidenced by certificates	28	0	2,478	0	0	13,433,428	13,435,906	13,068,965
Trading liabilities	29	319,393	0	0	0	0	319,393	319,393
Derivatives – investment book	33	769,004	0	0	0	0	769,004	769,004
Subordinated liabilities	34	0	0	0	0	1,457,018	1,457,018	1,395,286
Financial liabilities – total		1,088,397	12,731	0	0	40,644,535	41,745,663	41,244,157
Financial liabilities of the disposal group	2	2,605,265	216,343	0	0	29,252,959	32,074,567	31,685,268

37) 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	Interest rate
		related transactions	related transactions
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
31 Dec 2007			
	up to 3 months	-12	-747
	up to 1 year	1,358	-4,079
	up to 5 years	924	-31,452
	more than 5 years	0	-725
	Total	2,270	-37,004
	of which disposal group	0	-2,280

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 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
31 Dec 2007		
up to 3 months	-6	-790
up to 1 year	1,353	-3,968
up to 5 years	934	-31,118
more than 5 years	0	-1,059
Total	2,281	-36,935
of which disposal group	0	-2,280

38) 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.

39) Assets and liabilities denominated in foreign currencies

On the balance sheet date, assets denominated in foreign currencies (non-MUM currencies) totalled euro 17,701,597 thousand (2007: euro 27,621,834 thousand), whereas liabilities denominated in foreign currencies stood at euro 9,547,460 thousand (2007: euro 21,102,004 thousand). Differences between the amounts of foreign currency assets and liabilities are covered by derivative transactions.

40) Trust transactions

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Assets from trust transactions			
Loans and advances to credit institutions	15	67	67
Loans and advances to customers	173,567	171,852	196,018
Financial investments	727	727	727
Mutual funds	2,993,907	4,166,182	4,166,182
Liabilities arising from trust transactions			
Amounts owed to credit institutions	2,474	1,831	1,831
Amounts owed to customers	171,836	170,815	194,980
Mutual funds	2,993,907	4,166,182	4,166,182

41) Subordinated assets

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Loans and advances to credit institutions	0	124,320	124,320
Loans and advances to customers	18,193	22,470	22,470
Financial investments	327,458	139,888	139,888

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

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Assets pledged as collateral			
Loans and advances to credit institutions	0	28,756	28,756
Loans and advances to customers	460,577	189,574	422,159
Financial investments	579,951	113,457	195,689
Other assets	120,795	0	0
Liabilities for which assets have been pledged as collateral			
Amounts owed to credit institutions	970,296	311,646	596,642
Amounts owed to customers	38,200	0	0
Other liabilities	0	20,140	20,140

The secured party is not entitled to sell or repledge the assets pledged as collateral.

43) Contingent liabilities and credit risks

Euro thousand	31 Dec 2008	31 Dec 2007 restated	31 Dec 2007 published
Contingent liabilities			
Acceptances and endorsements	199,489	199,141	199,141
Liabilities arising from guarantees and assets pledged as collateral	5,086,104	4,610,050	14,330,115
Others (amount guaranteed)	44,098	29,197	29,197
Commitments			
Liabilities arising from sales with an option to repurchase	102,203	117,942	117,942
Unutilised loan commitments	6,527,926	8,746,424	10,180,167

The financial guarantees do not have a significant fair value.

44) Repurchase transactions and other transferred assets

As at 31 December 2008, VBAG as pledgor had buy-back commitments under genuine repurchase agreements in the amount of euro 178,487 thousand (2007 restated: euro 112,944 thousand; 2007 published: euro 3,468,516 thousand).

The balance sheet does not contain any further financial assets for which material risks or opportunities were retained.

45) 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 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	0
Debt securities	0	0	0	956	0
Amounts owed to credit institutions	1,671	927,819	0	2,738,161	0
Amounts owed to customers	684,287	131,164	36,017	0	0
31 Dec 2007					
Loans and advances to credit institutions	1,785	285,526	617,491	19,500	619,146
Loans and advances to customers	436,328	218,072	110,175	0	106,655
Debt securities	0	0	623	956	0
Amounts owed to credit institutions	2,404	640,522	29,399	1,258,563	29,399
Amounts owed to customers	115,212	60,238	36,877	0	2,279

Settlement prices between the VBAG Group and its associated companies are consistent with standard market practices.

The shareholders Volksbanken Holding e. Gen. and DZ Bank AG Deutsche Zentral-Genossenschaftsbank exercise a significant influence on Österreichische Volksbanken-AG.

46) 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 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
31 Dec 2007			
Mortgage bonds	273,475	167,424	106,051
Covered bonds	9,451,691	8,222,993	1,228,698
Total	9,725,166	8,390,417	1,334,748
of which disposal group	8,216,898	7,048,756	1,168,142

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.

47) Branches

	31 Dec 2008	31 Dec 2007
Domestic	50	49
Foreign	610	546
Total number of branches	660	595

As from 2008, the branches also include bank shops. The previous year figures were restated accordingly.

There was no decrease in the number of branches due to the deconsolidation of Kommunalkredit, as Kommunalkredit does not have any branches.

48) Events occurring after the balance sheet date

In accordance with section 23 (3) no. 8 of the Austrian Banking Act, VBAG granted participation capital of euro 173 million to Kommunalkredit Austria AG in January 2009 in line with the agreement on the sale of Kommunalkredit with the Republic of Austria.

At its meeting on 4 March 2009, the Supervisory Board commissioned the Managing Board of VBAG to implement the planned measures for strengthening the capital basis of the Group. A combination model consisting of participation capital and cooperative self-help measures is intended. Following negotiations with the Austrian Federal Government, an agreement on the provision of up to euro 1 billion for this purpose is now ready for signing. The measures also involve the sale of the Austrian banks currently belonging to VBAG Group (Volksbank Wien AG, Volksbank Linz+Mühlviertel rGmbH, IMMO-Bank AG, Bank für Ärzte und Freie Berufe AG and VB Factoring Bank AG). Up to euro 300 million is to be raised under this self-help package in the form of contributions by shareholders.

No further events with a significant impact on the Group's financial statements as at 31 December 2008 occurred between the balance sheet date and the approval of the Group's financial statements by the Managing Board on 11 March 2009.

49) Segment reporting

Segment reporting serves to provide an overview of the most significant business areas and markets of the VBAG Group and their profitability. The strategic divisions which are, in particular, oriented to the Group's internal management, constitute the basis for the primary segment reporting format. 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.

In essence, the subsidiaries which are managed as profit centres represent the individual business areas.

Public Finance

As the Public Finance segment consisted entirely of the business activities of Kommunalkredit, the segment ceased to exist following Kommunalkredit's deconsolidation. The income from the Kommunalkredit disposal group is presented in Other Operations/Consolidation.

Corporates

This segment comprises the small and medium-sized companies, corporates and international business areas, with Investkredit Bank AG being responsible for operative management. 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 Wien AG, Volksbank Linz+Mühlviertel rGmbH, Bank für Ärzte und Freie Berufe AG as well as IMMO-Bank AG. 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 and project development activities of the Immoconsult Leasing group. 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- 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/Consolidation

This segment is entrusted with all other activities which cannot be clearly assigned to any one of the segments described above. This segment included Kommunalkredit as well as NÖ Hypo in 2007, both of which were subsequently classified as discontinued operations in accordance with IFRS 5. All consolidation amounts are also presented in this 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 relate to Austria.

The results presented are the results of the individual legal entities or results attributable in accordance with the market interest method. The intra-group settlement prices for investments, refinancing or services rendered correspond to standard market conditions.

In addition, Group overheads are divided among the segments according to the solvency assessment base as well as cost and income ratios. Costs of Group projects are also allocated to the individual segments.

Impairment of goodwill is allocated to the respective business segments.

a) Segment reporting by business segments

Euro thousand	Corporate Finance	Retail	Real Estate	Financial Markets	Other Operations/ Consolidation	Total
Net interest income						
2008	170,823	530,841	152,811	72,073	308,758	1,235,306
2007	124,702	422,580	197,745	58,621	-43,021	760,628
Risk provisions						
2008	-44,588	-120,088	-18,992	25,870	2,846	-154,952
2007	-13,090	-64,865	-3,768	-33,359	18,683	-96,400
Net fee and commission income						
2008	22,165	129,081	7,780	34,706	8,966	202,698
2007	11,448	111,676	9,414	34,547	8,775	175,860
Net trading income						
2008	-159	17,037	-22,350	54,268	-7,435	41,359
2007	4,055	11,143	-2,111	38,679	4,117	55,882
General administrative expenses						
2008	-88,142	-451,387	-80,895	-56,215	-6,171	-682,809
2007	-71,978	-376,046	-58,421	-50,499	-25,029	-581,974
Other operating result						
2008	-8,313	5,531	-166,248	-131	3,696	-165,465
2007	1,959	-2,675	762	314	-4,127	-3,768
<i>of which impairment of goodwill</i>						
2008	0	0	-176,332	0	0	-176,332
2007	-457	0	-776	0	0	-1,234
Income from financial investments						
2008	-108,880	-8,040	-21,233	-105,174	-50,298	-293,625
2007	-7,477	1,923	23,704	-15,077	-5,235	-2,161
Income from the disposal group						
2008	0	0	0	0	-584,360	-584,360
2007	0	0	0	0	80,053	80,053
Annual result before taxes						
2008	-57,094	102,975	-149,127	25,396	-323,999	-401,849
2007	49,619	103,735	167,325	33,225	34,217	388,121
Total assets						
2008	10,520,254	24,399,651	7,294,909	5,329,270	5,379,682	52,923,765
2007	11,058,629	19,334,235	6,454,152	5,909,094	35,884,719	78,640,829
Loans and advances to customers						
2008	6,657,537	17,071,313	4,502,838	422,499	164,153	28,818,341
2007	6,961,958	14,066,074	3,627,259	430,710	-321,723	24,764,279
Amounts owed to customers						
2008	1,050,204	8,107,854	690,970	2,142,179	-161,752	11,829,455
2007	913,751	6,881,289	1,060,064	1,640,351	-304,218	10,191,237
Debts evidenced by certificates, including subordinated liabilities						
2008	2,895,822	1,208,916	914,647	0	12,207,686	17,227,071
2007	2,664,896	1,057,728	854,782	0	10,315,518	14,892,924

b) Segment reporting by regional markets

Euro thousand	Austria	Central and Eastern Europe	Other markets	Total
Net interest income				
2008	645,367	529,267	60,672	1,235,306
2007	241,947	450,621	68,060	760,628
Risk provisions				
2008	-57,578	-104,552	7,177	-154,952
2007	-3,784	-57,663	-34,952	-96,400
Net fee and commission income				
2008	98,951	111,203	-7,457	202,698
2007	82,636	96,260	-3,036	175,860
Net trading income				
2008	32,501	12,064	-3,206	41,359
2007	49,034	6,758	90	55,882
General administrative expenses				
2008	-261,930	-396,582	-24,297	-682,809
2007	-235,109	-323,089	-23,776	-581,974
Other operating result				
2008	7,143	-177,742	5,133	-165,465
2007	2,536	-6,878	575	-3,768
Income from financial investments				
2008	-32,120	-10,586	-250,918	-293,625
2007	11,305	1,271	-14,738	-2,161
Income from the disposal group				
2008	-584,360	0	0	-584,360
2007	80,053	0	0	80,053
Annual result before taxes				
2008	-152,026	-36,927	-212,896	-401,849
2007	228,618	167,281	-7,778	388,121

50) Risk report

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.

Various risk categories are addressed for internal risk management purposes:

- Credit risk (counterparty risk, concentration 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

a) Risk strategy

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 flow into the risk strategy via the annual update process.

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 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 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 at 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.

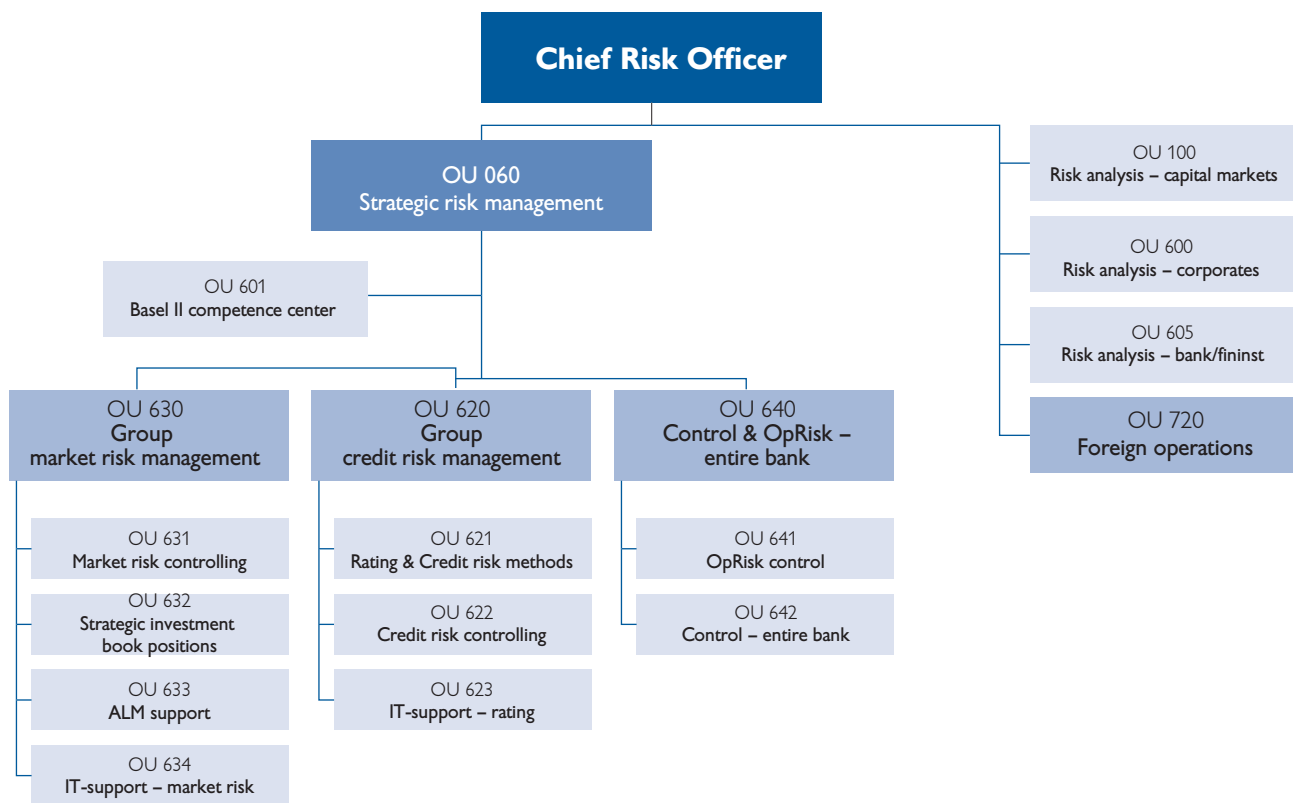
Risk reporting: At VBAG Group, prompt, regular and comprehensive risk reporting is implemented in the form of a Group risk report, among other things. This is an important element for identifying, measuring, managing and monitoring risks within the Group. It is produced on a quarterly basis and covers 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 at VBAG Group.

New product launches: An efficient, standardised process for launching new treasury products ensures that new products are correctly presented in the relevant risk management systems and that their risk content can be calculated with sufficient accuracy. With regard to derivatives, particular attention is paid to ensuring that independent measurement is possible, even in the case of closed positions. This ensures that the legal requirements for presenting counterparty default risk are met.

A standardised Group-wide product launch process for all new products was implemented in the third quarter of 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. At 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 deviations is too high from a statistical perspective) lead to an immediate analysis of the calculation methods or the models.



Stress testing: Credit, market and operational risks at 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 were carried out for the first time in 2008. 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) Risk management structure

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.

Since 2006, a single Chief Risk Officer has been responsible for the risk management throughout the entire VBAG Group. As of 1 January 2009, Michael Mendel assumed this function from Wolfgang Perdich. All centrally managed and regulated risk management activities at VBAG Group are concentrated in this Managing Board function: strategic risk management, incorporating the sub-areas of the Basel II competence center, 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.

c) Risk hedging and mitigation

The use and management of loan collateral are regarded as important components of credit risk management at VBAG Group. Alongside borrowers' creditworthiness, they are a decisive factor in determining the credit risk of an exposure. The primary significance of loan collateral lies 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 available at VBAG Group are comprehensively categorised and presented according to the hedging transaction and the type of goods on which they are based. In this process, for each type of collateral information is provided on whether it is recognised as suitable collateral in line with Basel II and can thus be used to reduce regulatory minimum equity requirements.

At VBAG Group, a key requirement when selecting a type of collateral is its congruence with the loan to be secured. If collateral is ordered 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 ordering, 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 throughout the Group by the Basel II collateral handbook.

For recognition of CRMT (credit risk minimisation techniques) in IRB Retail, the same requirements as in FIRB apply throughout the Group.

In particular, the qualitative requirements for weighting the individual types of collateral in accordance with the provisions of sections 102 to 116 Austrian Solvency Regulation are met.

Valuation of collateral

In each case, the starting point for considering collateral in terms of regulatory calculation of own funds and internal risk management 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.

As regards real estate collateral, the qualitative requirements for weighting commercial real estate (CRE) and residential real estate (RRE) are identical in both the standard and IRB approaches and have been implemented at VBAG Group in accordance with sections 92, 103, 104 and 110 Austrian Solvency Regulation.

In line with the requirements defined under the Austrian Solvency Regulation, the following collateralisation instruments are deemed to be recognised at present:

- Incorporated mortgages over real estate, buildings on third-party land and construction rights
- Transferable letters of hypothecation relating to the above instruments, provided that the letter of hypothecation is transferable at any time and the bank is in possession of the ranking for the intended pledge
- Transfer of title of real estate as collateral
- Leasing property pursuant to the requirements of section 110 Austrian Solvency Regulation

At VBAG Group, financial collateral is assessed using a comprehensive financial collateral procedure both at institutions that have implemented the IRB approach and at those that have remained with the standard approach for the time being.

Financial collateral is valued using the current fair value of the collateral (e.g. the relevant stock exchange price).

The relevant legal requirements must be guaranteed in the collateral agreements in order for financial collateral to be recognised. Equally, the monitoring and realisation process ensures that the minimum requirements defined under section 102 Austrian Solvency Regulation are appropriately implemented.

Liability instruments, which are recognised as suitable personal collateral, assure the beneficiary as far as possible of the right to call upon the guarantor directly in the event of the borrower's default.

Whether or not collateral is recognised depends largely on the quality of the guarantor. For this reason, pursuant to the Austrian Solvency Regulation guarantees from private individuals cannot be deemed to minimise risk.

The following liability instruments are recognised at VBAG Group for regulatory calculation of own funds:

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

The provisions of section 96 Austrian Solvency Regulation and the examination steps defined under section 111 Austrian Solvency Regulation are observed in the acceptance of guarantees.

Besides the use of loan collateral, liability and asset portfolio management at VBAG Group permits the use of further effective techniques for hedging and reducing risk (see portfolio management for more detail).

d) Trends in internal risk management

Risk measurement and economic capital

Key significance is attached to identifying and measuring risks within VBAG Group. The requirement for risk capital is determined based on measuring individual types of risk and aggregating them into an overall risk position. The aim is to implement value at risk methods to the fullest extent possible in the risk measurement procedure. The term risk capital describes the minimum economic capital necessary from an economic perspective based on the result of a risk measurement. This is calculated in parallel to the regulatory capital required and compared with previously defined risk-covering equity. Economic capital is allocated to the segments via the individual risk position and the allocation allows for sustainable and value-oriented risk income management at bank level.

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.

Loan portfolio management

Step-by-step, VBAG Group is putting suitable measures in place to ensure that risks affecting the entire business are effectively managed and monitored. In this process, loan portfolio management is

generally determined by the course of new business. As a rule, portfolio management is limited to termination of individual customer relations.

e) Basel II – implementation at VBAG Group

The Basel II regulations are based on three pillars. 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). Pillar 3, disclosure, regulates disclosure for market participants.

Pillar 1 minimum capital requirements at VBAG Group

In accordance with Managing Board resolutions, the implementation of pillar 1 at 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:

- Credit risk: standard approach and IRB basic approach since 1 April 2008
- 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

Pillar 2 supervisory review at VBAG Group

The implementation of pillar 2 at VBAG Group is described in detail under f) Internal capital adequacy assessment process.

Pillar 3 disclosure at 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 (link: http://www.volksbank.com/m101/volksbank/m101_oevag/en/individuelle_seite/oevag_investorrelations/basel2.jsp) 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.

Credit risk

Pursuant to the decision of the Austrian Financial Market Supervisory Authority of 31 March 2008, VBAG was granted approval as the superordinated bank of a banking group as well as on a single-entity basis for calculating the assessment basis for credit risk using the internal rating based approach (IRB approach) in

accordance with section 22b Austrian Banking Act pursuant to section 21a (1) in conjunction with sections 21a (7), 21a (8), 22b (9) and 21g Austrian Banking Act, Austrian Federal Law Gazette No. 532/1993, as amended. The approval pursuant to section 21a (1) Austrian Banking Act for calculating the assessment basis in accordance with section 22 (2) Austrian Banking Act using the IRB approach in line with section 22b Austrian Banking Act covers the following banks:

- Volksbank AG
- Investkredit Bank AG
- Investkredit Int. Bank p.l.c.
- Volksbank Wien AG
- Volksbank Malta Limited

The preliminary approval in accordance with section 21a (1) in conjunction with section 103e no. 2 Austrian Banking Act for calculating the assessment basis in accordance with section 22 (2) Austrian Banking Act using the IRB approach in line with section 22b Austrian Banking Act covers the following banks:

- Ärztebank AG
- IMMO-Bank AG
- Volksbank Linz+Mühlviertel reg. GenmbH

The following procedure is being implemented in accordance with section 22b (7) Austrian Banking Act:

- For retail receivables, internal estimating procedures are used for the PD, LGD and CCF parameters.
- Outside of the retail receivables category, PD is estimated internally and the estimation parameters provided by the supervisory regulations are used for CCF and LGD.

Permanent partial use is used for the entire VBAG Group in the central governments and central banks receivables categories and for associations, insurance and leasing companies.

Since the end of 2007, banks have been rated centrally at VBAG using a rating model, thus sufficiently fulfilling the required use test for intended application of IRB (foundation IRB approach) in the bank portfolio as per 1 April 2010.

In accordance with section 21a (7) Austrian Banking Act, the gradual transition to the IRB approach in line with section 22b Austrian Banking Act has been approved in accordance with the following roll-out plan:

1 April 2008 (Banks as per 1 April 2010)	1 Jan 2011	1 Jan 2012	1 Jan 2013
Volksbank AG	VB International	VB Czech Republic	VB Bosnia
Ärztebank	VB Slovakia	VB Croatia	VB Banja Luka
Volksbank Linz	VB Romania	VB Slovenia	VB Serbia
Volksbank Wien	VB Hungary		VB Ukraine
IMMO-Bank			VB Leasing International
Volksbank Malta			
Investkredit			
Investkredit International			

In addition, the following special regulations apply to the banks already using the IRB approach:

- Special finance is treated in accordance with the slotting approach (section 74 (3) Austrian Solvency Regulation).
- The basic risk weighting approach is used for investment positions with application of the grandfathering principle (section 103e no. 11 Austrian Banking Act).
- The rating based approach pursuant to section 166 Austrian Solvency Regulation is used for securitisations.

Permanent partial use is used for VB Factoring Bank AG and IK Investmentbank AG in accordance with section 22b (9) no. 2 Austrian Banking Act.

Implementation of the IRB roll-out plan

Following the granting of approval for application of the IRB approach at VBAG, its subordinated domestic banks and banks in Malta as per 31 March 2008, in the second half of the year Group-wide projects were set up to ensure implementation of the roll-out plan. An extensive project was initiated for implementation of the F-IRB approach at VBI AG and its subordinated banks as well as at VBLI Holding and its subordinated financial institutions in CEE.

f) 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 ICAAP is a revolving management circuit which starts with defining a risk strategy, identifying, quantifying and aggregating risks, determining risk-bearing ability, allocating capital and establishing limits and leads to ongoing risk monitoring. The individual

elements of the circuit are performed with varying regularity (daily for measurement of trading book market risk, quarterly 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, 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 at VBAG Group.

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 lays down 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 at 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 individual risks are aggregated into a total bank risk. The existing previously defined risk-covering capital is then compared with this total bank risk. In the course of the risk monitoring process, compliance with the defined limits is monitored, the risk-bearing ability is calculated and the Group risk report is produced.

g) Credit risk

At VBAG Group, general credit and default risk, counterparty default risk in derivative transactions and concentration risk are categorised under credit risk.

General credit risk

General credit risk denotes potential losses in value that may arise from business partners defaulting. Control of this risk is based on the interplay of organisational structure and assessment of individual exposures.

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 new processes for the collaboration between the risk management units in the subsidiaries and risk management at Group level. For large-volume transactions, a new process was created to ensure the involvement of operational Group risk management and the Group Managing Board in risk analyses and credit decisions. A limit system that restructures decision-making competences in the individual corporate units plays a key role in this process.

Controlling the credit risk also necessitates the development of sophisticated models and systems 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, VBAG Group paid particular attention to ensuring that all rating systems used with the Group show a comparable 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.

Rating systems

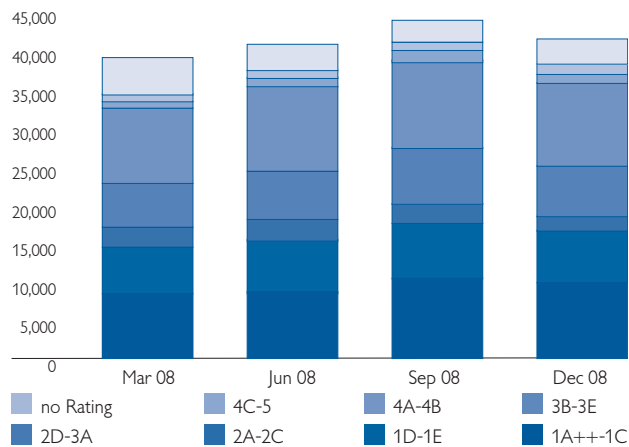
The expected likelihood of each customer defaulting is estimated across the VB rating family and expressed via the VB master scale.

The VB rating family current comprises the following systems:

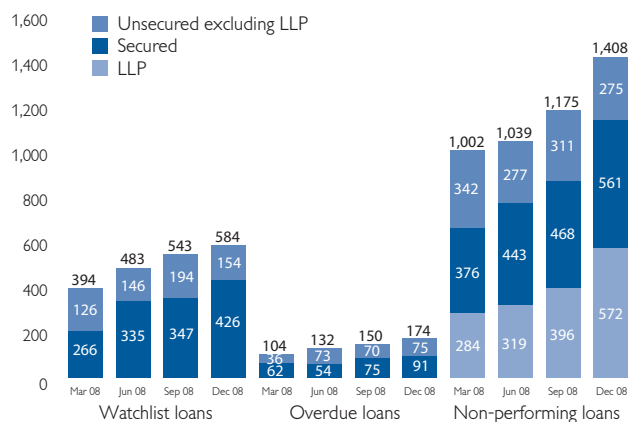
System	Target group
VB Corporate Rating	Enterprises that draw up full financial statements
VB Bank Rating	Banks
VB Rating – Private customers	Private customers
VB Behavioural Rating	Private customers
VB Rating – Statement of revenues and expenditures	Enterprises that draw up statements of revenues and expenditures
VB Rating – Founders of new businesses	Newly established enterprises
VB Rating – Income Producing Real Estate	Real estate projects
VB Rating – Other customers ¹⁾	Other customers

¹⁾ VB Rating – Other customers should only be regarded as a separate rating system in a formal sense, as it in turn comprises several rating instruments.

The distribution of exposures measured against the unsecured exposure across the internal rating levels on the VB master scale can be outlined as follows. It should be noted that the investment grade range extends to internal rating level 3A. (in euro million)



The following graphic shows the changes in the problematic loan categories in 2008 (in euro million):



Explanation:

Watchlist loans: customers with a high likelihood of defaulting (rating 4D or 4E) who do not fall under overdue loans.

Overdue loans: customers whose payments are more than 60 days overdue who do not yet fall under non-performing loans.

Non-performing loans: customers in one of the five default categories (5A-5E).

As a percentage of the loan portfolio as a whole, non-performing loans amounted to 2.5 % at the end of 2008 compared with 2 % in the third quarter of 2008. The presentation for the unsecured loans is primarily based on a regulatory view (Basel II). The economic collateral for this portfolio is considerably higher. The Kommunalkredit sub-group is no longer contained in either table.

Group-wide use of credit risk instruments and the consistency of the methods used form the basis for calculating the expected loss. Thanks to systematic recording of default events and collateral reflow rates, in the future models at VBAG Group will increasingly be enhanced based on statistical backtesting results, thus having a corresponding effect on the quality of the expected loss.

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 operationalising the risk strategy as it relates to 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 VBAG Group.

The development and presentation of rating procedure 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.

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, 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.

In future, 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, 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.

Credit risk reporting

The credit risk section of the Group risk report provides a detailed reporting day-specific presentation of the existing credit risk at 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
- Country group analyses
- Customer segments (customer segment split)
- Sector distributions (commerce)
- Credit risk concentrations
- Non-performing loans

These analyses are presented according to different sizes and key figures: 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.

Counterparty risk

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).

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.

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)

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 institutional counterparties the amount of the add-ons is based on section 234 (2) Austrian Solvency Regulation; 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

As part of internal risk management at VBAG Group, a daily comparison of the fair value of derivative transactions is currently performed with around 50 partners for transactions concluded on the basis of International Swaps and Derivatives Association (ISDA) 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 over 70 contractual partners are also examined with regard to the amount of collateral. In line with agreed margin calls, collateral is mostly transferred in the form of cash or government bonds in euro. Of the current number of around 50 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 collateral requirement in the amount of euro 40 million would arise as a result of reduction of the threshold.

Concentration risks

Two levels of limit-setting exist within VBAG Group for monitoring, managing and limiting risk clusters:

- Credit limits for groups of affiliated customers
- Portfolio limits

When limits are defined, with regard to 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. 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.

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.

At present, when setting limits for portfolios 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.

The concentration risks inherently associated with the portfolio structures are also presented on a quarterly basis in both text and graphic form in the course of producing the Group risk report. The presentations below are excerpts from the Group risk report and describe the distribution of Group exposures across country groups and customer segments.

The following table shows the regional distribution of unsecured exposures across strategic segments:

Euro million	31 Dec 2008						Other
	Austria	EEA incl. Switzerland	EU Central- and Eastern Europe	Non EU Europe	USA and Canada		
Real Estate	937	761	2,976	311	0	91	
Corporate	5,047	3,421	1,278	588	151	265	
Retail Domestic	2,618	456	302	10	2	3	
Retail CEE	105	245	4,072	1,285	4	13	
Leasing	449	36	187	49	0	0	
Financial Markets	8,233	5,478	715	262	1,177	288	
Total	17,388	10,398	9,531	2,506	1,334	660	

The table below shows the portfolio sub-divided by sector and customer segment with the total credit granted in the respective categories:

Euro million	31 Dec 2008							
	Retail privat	Public sector	Banks	Social finance	Retail SME	Corporates	SPV (ABS and similar recs.)	Non classifiable
Real Estate	16	11	30	3,689	21	2,300	0	0
Corporate	73	620	1,004	693	105	9,623	0	0
Retail Domestic	1,394	50	675	249	816	2,674	0	0
Retail CEE	4,730	844	720	1,720	1,465	3,183	0	12
Leasing	306	25	14	0	2,463	357	0	0
Financial Markets	1	4,706	8,587	8	15	1,551	1,296	0
Total	6,519	6,257	11,030	6,359	4,884	19,687	1,296	12

h) Market risk

Market risk in the trading book

Market risks in trading at 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.

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 an 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 3.

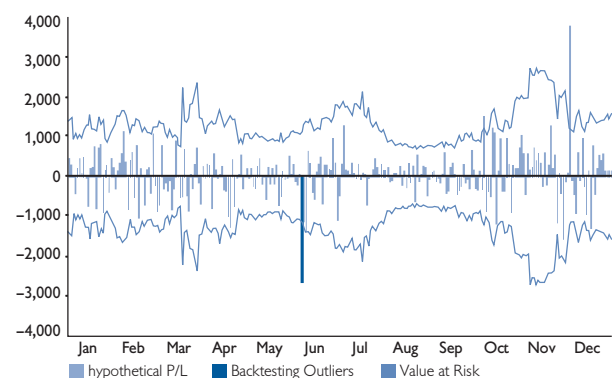
The plausibility and reliability of the risk ratios is reviewed daily by way of backtesting. In this process, the potential risk amounts calculated by the model on a daily basis are compared ex post with the trading results, whereas the Supervisory Authority favours the use of hypothetical trading results. An exception (deviation) 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.

The results of backtesting for 2008 once again confirmed the quality of the internal model. Despite the extreme volatility on the interest rate, currency, share and commodity futures markets, only one deviation was identified in 2008 (a daily loss exceeded the VaR estimate). Such deviations are absolutely to be expected in the event of extraordinary market movements and a confidence level of 99 %. The best possible multiplier of 3 for calculating capital requirements thus remains unchanged.

Backtesting results for the trading book in 2008 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)
- Euro Crisis (16 September to 16 October 1992)
- Mexican Peso Crisis (20 December 1994 to 23 January 1995)
- Asian Crisis (24-27 October 1997)
- Russian Crisis (18 August to 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 usually stress several risk types simultaneously and attempt to find combinations with 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.

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

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.

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 VBAG Group:

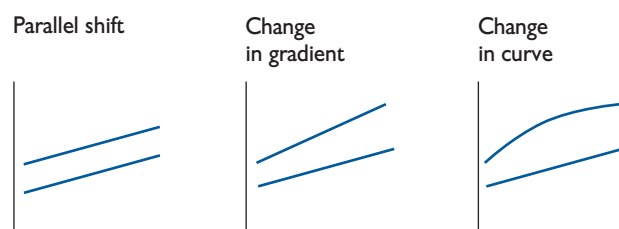
Repricing risk

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:



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 optionalities

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 optionalities 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 optionalities 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

Structure and organisation of the risk management functions

Functional separation of the units that enter into interest rate risks and those that monitor such risks is in place.

The asset liability management 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.

Risk report and risk measurement systems

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 +1bp
- Parallel shift by -1bp

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.

Presentation of the net positions by currency in maturity bands:

Euro thousand Currency	up to 3 months	up to 1 year	up to 5 years	more than 5 years	Total
2008					
EUR	7,421,056	-9,773,762	152,049	83,502	-2,117,155
USD	-471,775	324,438	92,678	71,232	16,574
CHF	-892,845	518,036	-22,228	12,179	-384,858
JPY	-34,706	17,128	-267	-2	-17,847
GBP	10,494	2,419	7,638	-548	20,003
CAD	-2,577	-911	-104	-9	-3,601
Other	1,301,754	492,812	-85,154	95,333	1,804,744
Total	7,331,401	-8,419,840	144,612	261,686	-682,140
2007					
EUR	226,357	554,534	-641,630	387,383	526,644
USD	-1,106,864	1,159,498	191,748	136,666	381,048
CHF	953,401	-750,287	-127,958	128,722	203,878
JPY	-16,243	-70,022	4,183	87,598	5,515
GBP	14,917	32,565	10,356	-541	57,296
CAD	8,066	1,482	869	-1,839	8,579
Other	85,909	-49,199	6,654	148,443	191,808
Total	165,542	878,572	-555,779	886,433	1,374,768

The data for the Kommunalkredit sub-group is contained in the 2007 data. In 2008, all material institutions exhibiting a relevant interest rate risk were included.

Currently, the following stress tests are performed:

- Parallel shift by +200bp
- Parallel shift by -200bp
- Tilt/money market +100bp, capital market -100bp
- 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

Guidelines for risk hedging and mitigation

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).

The maximum limit for VBAG Group and for each individual Group member is 20 % for a decrease in own funds and +200bp for a shift in the interest rate curve (section 69 (3) Austrian Banking Act). The current limits are set far below this level.

Euro thousand currency	2008		2007	
	Interest rate risk	in % of own funds requirements	rate risk	in % of own funds requirements
EUR	66,801	1.78 %	29,886	0.70 %
USD	17,926	0.48 %	43,226	1.02 %
CHF	6,400	0.17 %	12,741	0.30 %
GBP	454	0.00 %	293	0.01 %
JPY	111	0.01 %	7,772	0.18 %
CAD	19	0.00 %	220	0.01 %
Others	23,678	0.63 %	21,639	0.51 %
Total	115,389	3.07 %	115,778	2.73 %

The data for the Kommunalkredit sub-group is contained in the 2007 data. In 2008, all material institutions exhibiting a relevant interest rate risk were included.

The Group offers structured issues whose repayment is based on market indexes and/or whose repayment amount is guaranteed up to the face value of the bond. Furthermore, the Group offers bonds with gradually reduced interest rates that grant the issuer a right to terminate at points in time determined in advance.

All derivatives embedded in such bonds are also monitored by the Group market risk management department and hedged with suitable products by the treasury.

Derivative financial instruments

Euro thousand	Nominal value			Total	Fair value	
	up to 1 year	1 to 5 years	over 5 years		31 Dec 2008	31 Dec 2007
Interest rate-related transactions	22,207,772	28,372,034	28,863,174	79,442,981	243,133	-60,374
Caps & floors	266,061	901,801	669,142	1,837,005	2,461	-2,315
Forward rate agreements	1,667,379	0	0	1,667,379	2,483	560
Futures	1,100,613	50,000	0	1,150,613	-510	285
Interest rate swaps	19,153,719	26,218,136	24,648,757	70,020,612	377,291	-19,127
Swaptions	20,000	1,202,097	3,545,275	4,767,372	-138,591	-39,777
Currency-related transactions	14,919,626	2,140,985	857,803	17,918,414	-57,288	8,314
Cross currency swaps	757,268	1,460,757	624,807	2,842,832	-62,271	-35,836
Foreign exchange options	1,188,520	652,720	232,568	2,073,808	4,314	2,039
Forward exchange transactions	12,973,838	27,507	428	13,001,774	668	42,111
Other transactions	898,979	3,947,292	691,368	5,537,639	-90,850	6,575
Total	38,026,377	34,460,311	30,412,345	102,899,034	94,995	-45,485

The 2007 fair values are presented excluding Kommunalkredit. In 2007, Kommunalkredit reported a fair value of euro -658,602 thousand for interest rate-related transactions, euro -8,486 thousand for currency-related transactions and euro -141,059 thousand for other transactions.

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

Strategic investment book positions

Particular attention is paid to what are termed strategic investment book positions. These essentially include all bonds, credit default swaps and credit linked notes, securitisations, syndicated loans, investment and hedge funds and shares in the entire VBAG Group. These positions are brought to the attention of the Managing Board on a quarterly basis as part of the risk report. In 2009, this reporting has been supplemented by risk ratios, such as specific sensitivities and credit spread VaR.

i) Operational risk

VBAG Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people or systems or from the occurrence of 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. 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).

Both quantitative and qualitative methods are used in the measurement of operational risks. The line management responsible for managing operational risks receives optimum support from the OpRisk control function based in strategic risk management. Local business line operational risk managers in the business units and the risk committees based in some Group member units provide for optimum OpRisk management in VBAG Group and deal with operational risk issues on an ongoing basis. Close collaboration with other Group functions such as audit, compliance, legal as well as security, safety and insurance management ensures optimum and comprehensive management of operational risks.

The following policies and principles derived from the bank-wide 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 2008.

j) Liquidity risk

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 the Austrian National Bank accounts and monitoring large-volume payments.
2. Management of eligible assets (eligible bonds and credit claims) and the associated initiation/use of refinancing via the ECB.
3. Liquidity planning is implemented using a newly developed tool with inclusion of the existing liquidity outlook. The presentation of cash flow in all currencies at product level is significantly more detailed as a result. As part of the new short-term plan, the cash flow at product level is modelled daily for the next 30 days and weekly for the next 12 months.
4. Compliance with the legal provisions of section 25 Austrian Banking Act in connection with managing eligible assets and monitoring liquid funds is a key element of liquidity management. These items also have a significant influence on ALM decisions.
5. Planning and complying with the minimum reserve (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.

The bundling of activities into a centralised operational liquidity management function also involves compiling liquidity figures from the corporate units to comply with and manage liquidity requirements.

Liquidity risk management

A liquidity overview based on SAP SEM is produced for medium and long-term liquidity risk management. The overview takes both capital repayments and interest payments into account. Capital repayment structures and forward interest rates are calculated in the SAP system, while reports and graphics are currently prepared outside of SAP following the data export. For 2009, the plan is to implement a project to improve and enhance report design, to perform simulations with the inclusion of new business and to model stochastic cash flows by implementing an MS SQL server solution.

k) Real estate risk and other risks

VBAG defines real estate risk as the risk from decreases in the value of the real estate portfolio due to market price fluctuations and market-related changes to real estate yields. 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.

In terms of other risks, VBAG Group is confronted with strategic risk, reputational risk, equity risk and business risk. While the medium-term aim with respect to business risk is quantification in line with the VaR approach, this type of measurement is not possible for the other risk sub-groups of strategic risk, reputational risk and equity risk. Therefore, a capital buffer is defined to protect against these risks. Mainly organisational measures are implemented for the management of other risks.

The table below presents 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	Loan commitments
31 Dec 2008						
Carrying amount	18,686,846	11,829,455	15,212,758	2,014,314	1,347,940	6,527,926
Undiscounted cash flows	21,848,477	13,124,345	19,226,362	2,780,592	2,362,063	6,527,926
up to 3 months	7,970,477	7,240,572	1,098,381	46,942	-2,275	3,763,495
up to 1 year	3,714,178	2,381,430	1,867,436	120,754	371,877	2,057,906
up to 5 years	5,614,941	1,439,559	10,328,788	1,193,294	666,326	616,503
over 5 years	4,548,880	2,062,784	5,931,757	1,419,602	1,326,135	90,022
31 Dec 2007						
Carrying amount	24,200,454	10,850,921	33,108,714	1,966,480	3,364,637	10,180,167
Undiscounted cash flows	27,176,065	11,985,645	42,004,576	2,313,583	349,180	10,433,050
up to 3 months	15,308,554	7,589,524	5,365,051	34,979	34,952	6,650,481
up to 1 year	3,211,382	1,498,945	6,455,061	96,691	-22,656	3,061,039
up to 5 years	3,812,655	834,315	16,781,986	798,757	128,274	467,582
over 5 years	4,843,475	2,062,860	13,402,477	1,383,156	208,610	253,948

With regard to the pending EU competition proceedings, the EU Commission decision was delivered to us in 2002 and an action to have the decision declared void was brought before the European Court of Justice in the second instance. The provisions made for this purpose have been utilised. Owing to the current status of the proceedings, no additional provisions appear necessary as at the balance sheet date.

As in the previous year, no letters of comfort from VBAG to third-party entities exist as at the balance sheet date. VBAG ensures that Back Office Service für Banken GmbH can meet its contractual obligations.

51) 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 %	2,829
"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 %	7
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
Bank für Ärzte und Freie Berufe Aktiengesellschaft; Wien	KI	86.14 %	86.14 %	9,698
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; Nicosia	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 %	12
CD Centrum a.s.; Praha	SO	49.50 %	49.50 %	372
Cefin Logistic Park Beta SRL; Bukarest	SO	65.00 %	65.00 %	5,088
Cefin Logistic Park Infrastructura S.R.L.; Bukarest	SO	65.00 %	65.00 %	600
Cefin Real Estate Beta S.R.L.; Bukarest	SO	65.00 %	65.00 %	1,688
Cefin Real Estate BV SRL; Bukarest	SO	52.00 %	52.00 %	13,000
Cefin Real Estate Gamma SRL; Bukarest	SO	65.00 %	65.00 %	0
CJSC "Petersburg StroilInvest"; St. Petersburg	SO	48.10 %	48.10 %	0
Com Park Kft.; Budapest	SO	65.00 %	65.00 %	11
E 30 Industrial Center VIII Sp.z.o.o.; Blonie	SO	65.00 %	65.00 %	14
E 30 Industrial Center X Sp.z.o.o.; Blonie	SO	65.00 %	65.00 %	12
E 30 Industrial Center XI Sp.z.o.o.; Blonie	SO	65.00 %	65.00 %	12
EPC Kappa Limited; Limassol	SO	100.00 %	100.00 %	10
EPC Lambda Limited; Limassol	SO	75.00 %	75.00 %	11
EPC Ledum Limited; Limassol	SO	100.00 %	100.00 %	10
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 %	2,490
EPC Two Limited; Limassol	SO	65.00 %	65.00 %	968
Eurobalt Commerce Ltd.; Nicosia	SO	48.10 %	48.10 %	17
Europolis ABP Kft.; Budapest	SO	51.00 %	51.00 %	164
Europolis AG; Wien	KI	100.00 %	100.00 %	5,000
Europolis Alliance Logistic Center 1 Sp.z.o.o.; Blonie	SO	65.00 %	65.00 %	208
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	HD	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

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
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 City Gate Kft.; Budapest	SO	65.00 %	65.00 %	49
EUROPOLIS Duat Holding GmbH & Co OG; Wien	FI	100.00 %	100.00 %	2,907
Europolis Harbour City s.r.o.; Bratislava	SO	65.00 %	65.00 %	29
Europolis Infopark Ingtatlanüzemeltő Kft.; Budapest	SO	51.00 %	51.00 %	20
Europolis IPW Kft.; Budapest	SO	65.00 %	65.00 %	187
Europolis Lipowy Office Park Sp.z.o.o.; Warszawa	SO	100.00 %	100.00 %	12
Europolis M1 Kft.; Budapest	SO	51.00 %	51.00 %	206
Europolis Orhideea B.C. SRL; Bukarest	SO	65.00 %	65.00 %	0
EUROPOLIS PHEME Holding GmbH; Wien	FI	100.00 %	100.00 %	18
Europolis Property Holding TzOV; Kyiv	SO	65.10 %	65.10 %	30
Europolis Real Estate Asset Management GmbH; Wien	SO	100.00 %	100.00 %	35
Europolis Real Estate Asset Management Kft.; Budapest	SO	100.00 %	100.00 %	11
Europolis Real Estate Asset Management LLC; Moskau	SO	99.99 %	99.99 %	644
EUROPOLIS REAL ESTATE ASSET MANAGEMENT LTD.; Limassol	SO	100.00 %	100.00 %	2
Europolis Real Estate Asset Management S.R.L.; Bukarest	SO	100.00 %	100.00 %	112
Europolis Real Estate Asset Management s.r.o.; Praha	SO	100.00 %	100.00 %	37
Europolis Real Estate Asset Management Sp. z o.o.; Warszawa	SO	100.00 %	100.00 %	120
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 SaskiPoint Sp. z o.o.; Warszawa	SO	51.00 %	51.00 %	12
EUROPOLIS Selini Holding GmbH; Wien	SO	100.00 %	100.00 %	35
Europolis Sienna Center Sp. z o.o.; Warszawa	SO	51.00 %	51.00 %	1,103
EUROPOLIS Technopark s.r.o.; Praha	SO	51.00 %	51.00 %	7
EUROPOLIS Zagrebtower d.o.o.; Zagreb	SO	65.00 %	65.00 %	2,086
Gefinag-Holding AG; Wien	HD	100.00 %	100.00 %	436
GUB-Holding GmbH; Wien	SO	100.00 %	100.00 %	18
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 AG; Wien	SO	100.00 %	100.00 %	8,000
IKIB Mittelstandsfinanzierung AG; Wien	SO	100.00 %	100.00 %	7,300
IMMO-Bank Aktiengesellschaft; Wien	KI	96.59 %	96.59 %	11,298
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 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

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
Imobilia Kik s.r.o.; Praha	FI	100.00 %	100.00 %	8
Imobilia Sen s.r.o.; Praha	FI	100.00 %	100.00 %	7
Imobilia Spa s.r.o.; Praha	FI	100.00 %	100.00 %	15
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
LLC Investment company Citycentre; Volgograd	SO	84.62 %	84.62 %	0
Magyarországi Volksbank zrt; Budapest	KI	48.67 %	49.72 %	56,490
Mithra Holding Gesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	18
Mithra Unternehmensverwaltung Gesellschaft m.b.H.; Wien	SO	100.00 %	100.00 %	18
OJSC Volksbank; Lviv	KI	50.95 %	50.95 %	24,148
OLYMPIA Mladá Boleslav s.r.o.; Praha	SO	51.00 %	51.00 %	74
OLYMPIA Teplice s.r.o.; Praha	SO	51.00 %	51.00 %	74
OOO Europolis Baltic RUS; St. Petersburg	SO	48.10 %	48.10 %	0
Oprah Enterprises Limited; Limassol	SO	100.00 %	100.00 %	2
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 %	544
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
Privatinvest d.o.o.; Ljubljana	HD	48.91 %	48.91 %	2,296
RCP Alfa s.r.o.; Praha	SO	51.00 %	51.00 %	37
RCP Amazon s.r.o.; Praha	SO	65.00 %	65.00 %	37
RCP Beta s.r.o.; Praha	SO	65.00 %	65.00 %	2,746
RCP Delta s.r.o.; Praha	SO	65.00 %	65.00 %	37
RCP Gama s.r.o.; Praha	SO	65.00 %	65.00 %	3,607
RCP ISC s.r.o.; Praha	SO	65.00 %	65.00 %	37
RCP Residence. s.r.o.; Praha	SO	100.00 %	100.00 %	37
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 Real Estate Asset Management"; Kiev	SO	100.00 %	100.00 %	1,000
TzoV "Logistik-Tsentr A"; Kiev	SO	65.10 %	65.10 %	3
UBG Netherlands Holding & Finance B.V.; EJ Amsterdam	SO	100.00 %	100.00 %	114
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 Leasing CZ. spol.s.r.o.; Brno	FI	50.00 %	50.00 %	133,133
VB LEASING d.o.o.; Zagreb	FI	50.11 %	50.13 %	10,169
VB Leasing doo Beograd; Novi Beograd	FI	49.72 %	49.72 %	4,901

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VB Leasing Finanzierungsgesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	18
VB LEASING POLSKA S.A.; Wroclaw	FI	50.00 %	50.00 %	1,936
VB Leasing Services. spol. s r.o.; Brno	FI	50.00 %	50.00 %	380
VB LEASING SK. spol. s.r.o.; Bratislava	FI	49.14 %	49.49 %	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 BROKER DE PENSII PRIVATE S.R.L.; Bukarest	SO	50.10 %	50.15 %	6
VBL SERVICES DOO BEOGRAD; Beograd	FI	50.00 %	50.00 %	95
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-Aktiengesellschaft; 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 Kereskedelmi Kft.; Budapest	HD	48.67 %	49.72 %	1,511
Verwaltungsgenossenschaft der IMMO-BANK registrierte Genossenschaft mit beschränkter Haftung; 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
VOBA-Holding GmbH; Wien	SO	100.00 %	100.00 %	36
VOGEVA - Gebäudevermietung Gesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	36
Volgograd GmbH; Wien	SO	84.62 %	84.62 %	35
Volksbank a.d.; Beograd	KI	49.42 %	49.42 %	66,753
Volksbank a.d. Banja Luka; Banja Luka	KI	50.98 %	50.99 %	12,132
VOLKSBANK BH d.d.; Sarajewo	KI	48.68 %	49.90 %	24,031
Volksbank CZ. a.s.; Praha	KI	50.05 %	50.24 %	74,619
Volksbank d.d.; Zagreb	KI	50.58 %	50.67 %	83,696
Volksbank Ingatlankezelő Kft; Budapest	HD	48.67 %	49.72 %	6,186
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 Leasing Romania IFN S.A.; Bukarest	FI	50.10 %	50.15 %	254
Volksbank Linz - Mühlviertel registrierte Genossenschaft mit beschränkter Haftung; Linz	KI	97.20 %	97.20 %	14,920
Volksbank Malta Limited; Sliema	KI	100.00 %	100.00 %	167,821
Volksbank Romania S.A.; Bukarest	KI	50.52 %	50.76 %	101,045
VOLKSBANK Slovensko. a.s.; Bratislava	KI	46.41 %	47.89 %	33,194
Volksbank Wien AG; Wien	KI	82.81 %	82.81 %	43,637
Volksin d.o.o.; Zagreb	HD	51.00 %	51.00 %	927
Warsaw Towers Sp. z o.o.; Warszawa	SO	51.00 %	51.00 %	12

¹⁾ All fully consolidated companies are under direct or indirect control of VBAG

52) 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
INVEST EQUITY Beteiligungs-AG; Wien	SO	29.85 %	29.85 %	7,300
TRASTONA HOLDINGS LIMITED; Nicosia	SO	40.00 %	40.00 %	1
VBV delta Anlagen Vermietung Gesellschaft m.b.H.; Wien	SO	40.00 %	40.00 %	36

* Abbreviations

KI credit institution

FI financial institution

HD banking related auxiliary services

SO other enterprises

INDEPENDENT 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 to 31 December 2008. Those financial statements comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible 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 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.

Auditor's responsibility

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 on Auditing and 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 ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 entity'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 entity's internal control. An audit also includes evaluation of 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. Based on the results of our audit in our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on other legal requirements

Law and regulation applicable in Austria require us to perform audit procedures whether the group management report is consistent with the consolidated financial statements and whether the other disclosures made in the Group management report do not give rise to misconception of the position of the Group.

In our opinion, the Group management report is consistent with the consolidated financial statements.

Vienna, 11 March 2009

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed
Martin Wagner Renate Vala
Certified Public Accountant Certified Public Accountant
(Austrian Chartered Accountants)

The above translation of the Auditor's Report is provided as a free translation from German, which is official and binding.


STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial positions and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the Group faces.

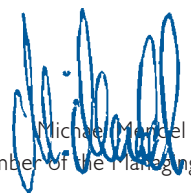
Vienna, 11 March 2009



Franz Prohl
Chairman of the Managing Board



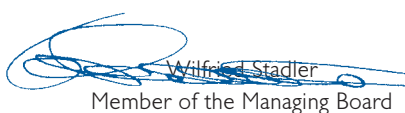
Manfred Kunert
Member of the Managing Board



Michael Marzfel
Member of the Managing Board



Wolfgang Perdich
Member of the Managing Board



Wilfried Stadler
Member of the Managing Board



Dieter Tschach
Member of the Managing Board

**PEOPLE WHO
ALSO SEE THE
OPPORTUNITIES
IN CHANGE.**

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SUPERVISORY BOARD AND MANAGING BOARD

Supervisory Board

Chairman

Walter ZANDANELL

Chairman of the Managing Board of Volksbank Salzburg eG

1. First deputy chairman

Gerald WENZEL

Chairman of the Managing Board of Volksbank Baden e.Gen.

2. 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

Klaus FLEMMING

Member of the Board of ERGO Versicherungsgruppe AG
(from 29 May 2008)

Hans HOFINGER

Syndic and chairman of the Managing Board of Österreichischer Genossenschaftsverband (Schulze-Delitzsch)

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

Rainer KUHNLE

Member of the Managing Board of Volksbank Krems-Zwettl AG

Edwin REITER

Chairman of the Managing Board of Volksbank Oberkärnten rGmbH

Walter ROTHENSTEINER

Chairman of the Managing Board of Raiffeisen Zentralbank Österreich AG

Daniel VON BORRIES

Member of the Managing Board of ERGO Versicherungsgruppe AG
(until 29 May 2008)

Thomas WIESER

Chairman of the Managing Board of Allgemeine Bausparkasse rGmbH
(until 31 March 2008)

Delegated by the staff council

Hans LANG

Chairman of the staff council

Ilse HABERLEITNER

(from 21 July 2008)

Michaela POKORNY

(from 21 July 2008)

Richard PREISSLER

Rosa PROHASKA

(until 18 July 2008)

Christian RUDORFER

Dieter SEYSER

(until 18 July 2008)

Matthäus THUN-HOHENSTEIN

Christian WERNER

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(until 30 June 2008)

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Wolfgang PERDICH

Wilfried STADLER

Dieter TSCHACH

(from 1 October 2008)

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Volksbank AG

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(for short: ÖVAG)

VBAG Group

Volksbank AG with its subsidiaries in Austria and abroad:
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Immoconsult Leasinggesellschaft m.b.H., Volksbank Wien AG,
Volksbank Linz+Mühlviertel reg. GenmbH, Bank für Ärzte und Freie
Berufe AG, Immo-Bank AG, Volksbank International AG with its
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VB Leasing FinanzierungsgmbH

Volksbank primary banks

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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 7 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 Genossen-
schaftsverband (Schulze-Delitzsch) – known as ÖGV for short.
ÖGV represents the interests of and acts as an auditing association
for independent regional Volksbanks whose co-operative assignment
is to advance and support their respective local and the companies
and private customers located there. The regional focus of
Volksbanks enables targeted regional use of financial resources.

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