

# Volksbanken Verbund

## Full Rating Report

### Ratings

#### Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	bb-
Support Rating	1
Support Rating Floor	A

#### Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA

### Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

### Watches

Viability Rating	RWN
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### Financial Data

#### Volksbanken Verbund

	31 Dec 10	31 Dec 09
Total assets (USDm)	87,074.6	95,320.0
Total assets (EURm)	65,166.6	66,167.3
Total equity (EURm)	2,352.3	2,313.0
Fitch core capital (EURm)	2,199.2	2,110.0
Loan impairment charges (EURm)	462.5	944.3
Operating profit (EURm)	236.4	-813.5
Net income (EURm)	171.5	-983.3
Cost/income ratio (%)	62.96	86.92
Operating ROAA (%)	0.36	-1.21
Operating ROAE (%)	10.13	nm
Fitch core capital/weighted risks (%)	4.65	4.65
Tier 1 ratio (%)	7.67	7.78
Equity/assets (%)	3.61	3.50

#### Oesterreichische Volksbanken Aktiengesellschaft

	30 Sep 11	31 Dec 10
Total assets (USDm)	58,898.7	62,085.5
Total assets (EURm)	43,620.4	46,464.8
Total equity (EURm)	94.4	1,024.0
Fitch core capital/weighted risks (%)	-0.23	2.59
Loan impairment charges (EURm)	90.2	364.3
Operating profit (EURm)	-633.6	106.9

### Related Research

[Oesterreichische Volksbanken Aktiengesellschaft \(February 2012\)](#)

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### Key Rating Drivers

**Sovereign Support Key:** Volksbanken Verbund's (VB-Verbund) Long- and Short-Term Issuer Default Ratings (IDR) reflect Fitch Ratings' view that the systemic importance of VB-Verbund means an extremely high probability of continued support for the group from the Austrian authorities, if needed. Fitch has assigned "group" ratings to all member banks under its rating criteria for banking structures backed by mutual support mechanisms. Fitch views the support mechanisms, although not legally binding, as very strong.

**Weaknesses at Central Institution:** VB-Verbund's Viability Rating (VR) reflects weaknesses encountered at the group's central institution, Oesterreichische Volksbanken-Aktiengesellschaft (OeVAG) ('A'/Stable), notably its poor capitalisation and depressed profitability. At the same time, it takes into account the group's stable domestic retail franchise and improving risk profile.

**Need for Improved Capitalisation:** In Fitch's view, OeVAG will struggle to generate sufficient capital for timely repayment of government participation capital and for compliance with stricter regulatory capital requirements in the future. VB-Verbund's capitalisation is slightly stronger (and VB-Verbund's larger primary banks are generally well capitalised), but improving OeVAG's capital to an adequate level will put a strain on VB-Verbund's capital resources.

**Capital Optimisation from Reorganisation:** In late 2011 VB-Verbund and OeVAG initiated a comprehensive legal reorganisation of the group structure similar to Rabobank Group ('AA'/Stable). In February 2012, the Austrian parliament amended the Banking Law to allow for such structures. Its implementation should optimise the regulatory capital base, making the group better placed for Basel III. Execution risks, however, are in Fitch's view still material.

**Profitability Pressure Ahead:** Steady performance of VB-Verbund's primary banks is not sufficient to offset OeVAG's continued losses, which are largely driven by write-downs on OeVAG's financial investments and participations. A return to sustainable profitability will, in the agency's view, be preceded by a period of operating volatility driven by the impact of negative economic environment and the restructuring process.

**Improving Asset Quality Trends:** The sale of OeVAG's generally poorer performing assets in central and eastern European (CEE) markets should result in improved overall asset quality and stabilising loan impairment charges. However, OeVAG's Romanian operations, where asset quality is poor, were excluded from the sale. Asset quality in Austria is adequate.

**Adequate Funding:** Primary banks are predominantly deposit-funded, whilst OeVAG benefits from its role as a central liquidity manager. Maintenance of adequate funding and liquidity positions are important for a successful repositioning.

### What Could Trigger a Rating Action

**Propensity to Support:** Should the Austrian government's propensity to support the group weaken or become constrained by legislative changes, this could result in a downgrade of the group's IDRs. The Stable Outlook on the IDRs, however, reflects Fitch's view that the implementation of any new legislation is likely to be a lengthy process and the withdrawal of sovereign support to be therefore gradual.

**VR and Capital:** A significant delay in restoring capital ratios to more acceptable levels could lead to a downgrade of VB-Verbund's VR. In this context, inability to improve the group's core profitability to allow for healthy internal capital generation would put pressure on the VR.

- Austria's fourth-largest banking group with domestic market share of 7.3%.
- Strategy to execute a major restructuring overhaul, including changing the legal structure of the group.
- Focus on domestic retail market; withdrawal from CEE markets through sale of CEE subsidiary to Sberbank.
- The Republic of Austria has the right to convert its participation capital in OeVAG into common equity: conversion in Fitch's view unlikely.

## Profile

### Organisational Structure

VB-Verbund, which is not a legal entity itself but a cooperative grouping of member banks as part of the Austrian Cooperative Association (OeGV), is Austria's fourth-largest banking group.

The sector has a two-tier structure: the local primary banks (63 in total) mainly focus on servicing their local retail and small and medium-sized (SME) customers in Austria; and the central institution, OeVAG. The member banks have retained their operational independence and have built up close relationships with their local customers, in accordance with the principle of "regional limitation" of business, but they have been working closely together since their inception under a common logo, brand and risk management guidelines.

OeVAG provides liquidity, support functions and consultancy services to all the member banks. At end-2010, OeVAG was 60.8% owned by Volksbanken Holding (ie, the sector's primary banks), 23.4% by Germany's DZ Bank AG Deutsche Zentral-Genossenschaftsbank (DZ Bank, 'A+'/'Stable), 9.4% by Victoria insurance group and 5.7% by Raiffeisen Zentralbank Oesterreich AG (RZB AG).

### Mutual Support Mechanism

Although there is no legally binding support mechanism, financial distress at VB-Verbund banks has historically been resolved through joint efforts of all its members including OeVAG. There are several stages of control and support mechanisms within the VB-Verbund such as annual audits by the OeGV, management support and an early warning system. The latter is a key tool in assessing the financial condition of the member banks, and has allowed the association to act quickly to identify and prevent the financial position of a weak institution from deteriorating.

The support mechanisms are put into effect through the Volksbanken support fund (Volksbanken-Gemeinschaftsfonds) and Volksbanken-Beteiligungsgesellschaft (VB-BG). Each member bank has to contribute to the support fund on a yearly basis, as a function of risk-weighted assets. The fund provides either a capital injection or guarantees. The last available type of support in the process is the regulatory deposit insurance scheme (the Schulze-Delitzsch-Haftungsgenossenschaft), however, this has not been used to date.

### Planned Restructuring and Revised Strategy

As part of a major structural overhaul prompted by consecutive losses denting OeVAG's capitalisation, OeVAG disposed of several operations during 2010 and 2012, notably its real estate subsidiary, Europolis Group (in 2010), and its CEE subsidiary, Volksbank International AG (VBI) to Sberbank of Russia ('BBB'/'Stable) in Q112.

The sale of VBI was completed at a EUR80m discount to the initially agreed price in particular as a result of the weakening financial profile of OeVAG's Hungarian subsidiary, in line with the Hungarian market. The transaction excluded Volksbank Romania S.A. (VB Romania). Instead, VB Romania will be restructured with the aim of improving internal controls and operating efficiency in preparation for its sale in the medium term. The restructuring process has already been initiated, however, the agency believes that a successful turnaround of the bank will necessitate significant resources. VB Romania was deconsolidated in September 2011 and is now accounted for at equity.

The sale of VBI is part of the group's longer-term strategy to withdraw itself from the CEE region. Consequently, the group is now almost entirely concentrated on the domestic market, focusing on the Austrian retail market (primary banks). As a result, VB-Verbund's earnings base should in Fitch's opinion become more stable and its risk profile should improve. Conversely, VB-Verbund will now only indirectly benefit from any economic upswing in CEE and related earnings opportunities.

## Related Criteria

[Global Financial Institutions Rating Criteria \(August 2011\)](#)

[Rating Bank Regulatory Capital and Similar Securities \(December 2011\)](#)

[Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms \(April 2011\)](#)

The original structural overhaul foresaw further measures, notably the disposal of the stake in RZB AG and the reverse merger with its corporate lending subsidiary, Investkredit Bank AG, which however were postponed on the back of adverse market conditions. Instead, and as part of capital strengthening measures, VB-Verbund together with OeVAG has initiated a reorganisation of the group structure, similar to the one of Rabobank Group. On 15 February 2012, the Austrian parliament amended the Austrian Banking Law to allow for such structures. In the context of the reorganisation, the primary banks agreed to create a new central institution ("Verbundbank").

In Fitch's opinion this development is likely to optimise the regulatory capital base and strengthen corporate governance and risk management control. However, execution risks remain and full effects may take some time to filter through.

In preparation for the legal reorganisation of the group, OeVAG has grouped its operations into three core divisions: executive departments and services; risk management; and markets. Wind-down activities including VB Romania, VB-Leasing International Holding GmbH, Volksbank Malta and large parts of the bank's corporate and real estate business, have been grouped under non-core business. A separate legal entity is likely to be created for its non-core activities. If the final legal structure disadvantages certain bondholders (eg, by creating a separate, non-consolidated legal entity for non-core assets), Fitch could take corresponding rating action.

At end-2010, VB-Verbund employed 12,980 staff (7,628 at OeVAG) at over 1,000 branches. Following the sale of VBI (excluding Romania), VB-Verbund will employ around 8,892 staff in 731 branches (545 of which in Austria, 181 in Romania and 5 elsewhere). The reorganisation itself will necessitate a headcount reduction, estimated by management to be around 250 employees.

In Fitch's view, VB-Verbund's large domestic market share (7.3% at end-Q311) should not be affected by the announced reorganisation and VB-Verbund should therefore continue to be systemically important for the Austrian economy.

### Ownership

VB-Verbund's capital contains a considerable proportion of minority interests. OeVAG's largest owner (60.8%) is Volksbanken Holding, representing 66 cooperative entities, the majority of which are primary banks. The second-largest owner is DZ Bank (23.4% holding).

According to the terms agreed between OeVAG and the Austrian government, VB-Verbund's decision not to repay the first tranche of the government participation capital in 2011 gives the Republic of Austria the option (first exercise date in May 2012) to convert the participation capital into common equity. If converted, this would give the government considerable voting rights in OeVAG. The government authorities have, however, publicly stated that they currently have no intention of exercising their conversion rights.

### Presentation of Accounts

Consolidated financial statements for VB-Verbund include a consolidation of OeVAG's IFRS statements with individual statements for the primary banks prepared under local GAAP and then consolidated under IFRS annually. VB-Verbund's consolidated accounts eliminate intra-group exposure related to OeVAG, but not to some of its other subsidiaries such as the VBI and VB-Leasing International Holding GmbH. VB-Verbund produces consolidated IFRS accounts at year-end only, whereas OeVAG reports quarterly under IFRS.

### Performance

While the VB-Verbund's first tier continues to perform adequately, net profit generated by the steady performing primary banks is not sufficient to offset OeVAG's sizeable losses, which are

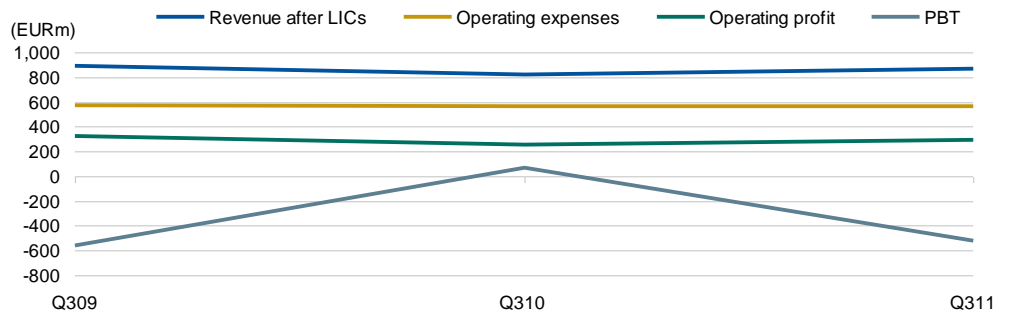
- OeVAG's sizeable losses offset profits generated by primary banks.
- Return to sustainable profitability unlikely before completion of the group restructuring.
- Focus on domestic operations means lower LICs and less volatile but less profitable earnings base.
- Challenged to improve operating efficiency in order to allow for timely repayment of government participation capital.

primarily driven by write-downs on its participations and financial investments. After a short-lived return to profitability in 2010, the group was again loss-making in 9M11 and pressure on its profitability is in Fitch's view likely to persist in 2012.

Nevertheless, divesting much of OeVAG's CEE retail operations and renewing the focus on the domestic lending market should improve the quality and stability of VB-Verbund's earnings and should lower loan impairment charges (LICs). At the same time, the worsening macroeconomic outlook for Austria coupled with heightened international market volatility is likely to lead to subdued credit growth and lower transaction volumes, and may necessitate further fair value adjustments.

Figure 1

**VB-Verbund Performance Indicators**



Source: VB-Verbund; Fitch

Fitch does not expect a return to sustainable profitability to precede the completion of the group repositioning. In addition, the initiated restructuring of VB Romania is likely to act as an indirect constraint on the group's attempts to stabilise its underlying core profitability. In this context, the agency expects deteriorating operating efficiency over the next few quarters, impeding the much needed internal capital generation to build up capital and allow for timely repayment of government participation capital received by OeVAG.

**Operating Revenue**

Net interest income (NII) continues to be VB-Verbund's main source of revenue, accounting for two-thirds of operating revenue, but this is expected to diminish significantly in absolute terms following the sale of CEE operations, resulting in a more stable but less diversified earnings base. NII increased on the back of higher capital market-related revenue during 2010 and in 2011, but was somewhat offset by negative effects from declining net interest margins in CEE.

Net fee and commission income remained relatively stable at end-2010 year on year (yoy). Income from lending activities contributed positively, but was offset by lower income from the provision of services in relation to securities transactions. Given an exceptionally good 2009 trading result, trading income, which relates to the result from the trading book, returned to somewhat more normalised levels.

Losses reported from financial investments at OeVAG were by far the largest cause for depressed revenue of the group in 9M11. Around 90% (EUR640m) of the loss was attributable to impairments on its investments (Greek government bonds, losses on CDS portfolio and write-down of participation capital held in Kommunalkredit) and OeVAG's participations (VB Romania).

By division, the real estate and corporate units showed the most improvements and returned to profitability at end-2010 on the back of lower LICs and deconsolidation of the poor-performing real estate Europolis Group. Geographically, Austria was most profitable, driven by a fall in LICs and higher income from financial investments. At OeVAG in 9M11, retail segment was heavily negatively impacted by the deconsolidation effects of VB Romania (-EUR294m). The

Figure 2

**VB-Verbund Performance Indicators**

(EURm)	Q311	Q310
NII after LICs	628.1	571.2
Net fee income	213.0	190.6
Net trading income	3.6	39.6
Operating expenses	568.1	565.5
Operating profit	297.4	253.2
Pre-tax profit	-520.6	70.7

Note: Adjusted end-Q310 figures, unaudited, VBI is included  
Source: VB-Verbund; Fitch

Figure 3

**OeVAG Performance Indicators**

(EURm)	Q311	Q310
NII	341.8	378.1
Net fee income	74.9	80.1
Net trading income	12.9	29.7
Income from financial investments	-346.0	-29.2
Income/loss from discontinued operations	-62.6	53.6
Operating expenses	627.0	266.5
Loan impairments	90.2	221.7
Operating profit	-633.6	-622.0

Note: Q310 restated  
Source: OeVAG; Fitch

investment book was equally a bad performer, hit by write-downs on financial investments (–EUR345m). At end-2010, Austria accounted for 50% of total operating revenue at VB-Verbund.

### Operating Expenses

Personnel expenses continue to account for around 60% of total expenses, although the new restructuring plans foresee a cut in the number of staff (in addition to VBI staff). Other operating expenses are likely to suffer from the costs associated with the restructuring of VB Romania and the implementation of the new group structure in the short term.

Consequently, Fitch expects the already low operating efficiency to deteriorate further in the short term given VB-Verbund's weak earnings base. Successful restructuring of the group could lead to synergies and hence operating efficiencies, but this is not likely to be crystallised in the near term. Furthermore, the bank's mutual cooperative nature means that further cost efficiency is difficult to achieve and VB-Verbund's cost base is likely to remain heavier than most of its peers'.

Figure 4  
VB-Verbund Segment Reporting (End-2010)

(EURm)	Retail	Corporate	Real estate	Financial markets	Corporate centre ("Other")
NII	1,138.30	125.60	90.10	37.10	-32.90
Net fee income	297.43	16.17	3.78	52.75	15.25
Net trading income	19.06	1.07	-1.08	29.02	-4.35
Income from financial investments	8.60	3.14	-8.48	0.80	39.79
Other operating income	-21.81	-1.40	10.68	0.00	-0.97
Operating expenses	-916.27	-73.46	-43.78	-48.80	-44.40
Pre-impairment profit	525.26	71.13	51.21	70.83	-27.60
Impairment charge	-400.60	-25.33	-38.92	0.36	2.05
Pre-tax profit	125.60	45.80	18.60	71.19	-25.55
Segment loans	34,067.20	6,384.52	4,265.80	0.00	221.85
Segment deposits	27,167.00	828.41	125.03	1,329.60	384.06
Debt securities issued	2,619.96	3,455.60	245.96	0.00	17,291.93
Segment balance sheet	49,112.14	7,552.30	6,558.53	2,881.48	30,926.90
Pre-impairment profit/assets (%)	1.07	0.94	0.97	2.46	-0.09
Pre-tax profit/assets (%)	0.26	0.61	0.28	2.47	-0.08

Note: Consolidation effects not taken into account; VBI included  
Source: VB-Verbund; Fitch

OeVAG announced that it would not be paying a dividend for 2011, and issued a profit warning, indicating that the IFRS consolidated loss would range between EUR500m and EUR700m at end-2011. Later, in November 2011, OeVAG revised the expected loss up by a further 10%. The material deviation from the budgeted profit for 2011 primarily arose from the inability to carry out the various activities originally planned (the sale of the RZB stake, expenses related to VB Romania, a delay in the reverse merger of Investkredit) but also the worse-than-expected operating environment in 2011 leading to one-off write-down losses on OeVAG's participations and financial investments. Fitch expects the group to return to sustainable profitability only once the reorganisation has successfully been carried out.

### Loan Impairment Charges

In 2010 LICs were substantially below their end-2009 levels, with the Corporates division showing the most positive development. The trend continued in 9M11 and improvements largely in the retail segment led to a fall in LICs at OeVAG. Exit from the poorer performing CEE markets is likely to lead to further improvements in LICs of the group, after which Fitch expects these to stabilise given the focus on the less volatile domestic market.

VB Romania is the exception to this, where LICs remain extremely vulnerable and subject to further increases. The agency cautions, however, that accounting for VB Romania at equity

means that the LICs will not directly appear in the consolidated accounts until another recapitalisation of the bank should become necessary.

**Risk Management**

Fitch considers VB-Verbund's risk profile to be more vulnerable than most peers', but acknowledges that the bank's planned restructuring in the medium term should be positive for VB-Verbund's overall risk profile. The withdrawal from the retail activities in the CEE region should result in an improved credit risk profile of the group, although VB Romania will continue to elevate the group's off-balance sheet risks. The planned overhaul of the group should further strengthen the group's risk culture and improve internal controls, but given the maturity profile of assets, the impact from the improving risk culture may take time to become evident.

VB-Verbund's credit risks comprise the largest risk source, accounting for around 55% of required capital at end-H111, followed by market risk (22%) and operational risks. Credit risk charges are calculated based on the standardised approach under Basel II by the primary banks, while around half of credit exposures at OeVAG are subject to the foundation internal ratings-based (IRB) approach.

Reflecting its two-tier set-up and cooperative organisational structure, risk management controls at VB-Verbund are fairly decentralised. While common credit and market risk policies are in place for the primary banks, OeVAG has independent risk management systems, and supervision by the sector (the OeGV) is limited. The OeGV plays a more active role in terms of the risk management of the primary banks, carrying out frequent audits, providing standardised documentation and processes and offering various training. Fitch believes that the planned restructuring will result in a tighter risk management framework for the group as a whole.

**Credit Risk**

VB Verbund's loan book accounted for around two-thirds of total assets at end-Q311 (including VBI), EUR20.3bn of which was in CEE (held via OeVAG). Within the loan book, the exposure remained broadly in line with the previous year, with retail loans accounting for around 75% of gross loans. OeVAG accounted for around a half of VB-Verbund's loan book at end-Q311.

Following the completion of the VBI sale, the loan book should shrink by around one-third, with the remainder of the retail book being largely represented by its primary banks. The agency notes that the change in the accounting treatment to measure VB Romania (excluded from the VBI sale) at equity with effect from 30 September 2011 means that the risks will be no longer directly shown on the group's balance sheet.

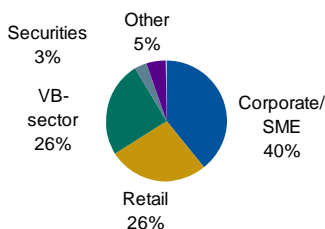
VB-Verbund expects to expand its domestic retail and to a lesser extent corporate loan books. Growth in real estate financing is likely to be muted in the medium term.

The primary banks' credit exposure (including undrawn facilities at primary-bank level amounted to EUR37.9bn at end-H111 with the corporate/SME exposure and the retail exposures being the largest (see chart in margin). Around 60% and 40% were covered by tangible collateral, respectively. Virtually all of the primary banks' credit exposure related to Austria.

OeVAG's total credit exposure (including undrawn commitments and off-balance sheet exposure) was EUR51.8m at end-Q311. If CEE assets are excluded, then OeVAG's credit exposure largely related to corporate and interbank assets. Given OeVAG's role as liquidity provider for the sector, the primary banks place their excess liquidity with OeVAG, which explains a relatively high exposure to interbank and fixed-income assets. These assets are typically placed with the VB sector, and Austrian and German institutional investors. OeVAG's exposure to the real estate segment shrank with the deconsolidation of the Europolis Group, and loan-to-value (LTVs) ratios continue to be acceptable.

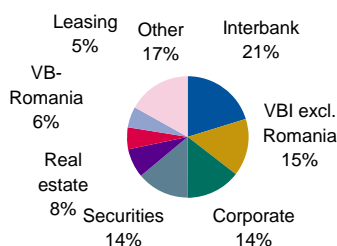
- Disposal of CEE book improves credit risk profile and should have a positive effect on asset quality.
- Improved market risk profile following Europolis disposal.
- Elevated operational risk from major restructuring overhaul, but successful repositioning should lead to stronger corporate governance and risk management controls.

Figure 5  
**VB-Verbund: Credit Exposure (End-H111)**



Source: VB-Verbund; Fitch

Figure 6  
**OeVAG: Credit Exposure Incl. VBI (End-Q311)**



Source: OeVAG; Fitch

Derivatives at the primary banks level are essentially limited to hedging purposes and are provided by OeVAG. At the central-institution level (mostly interest rate swaps), counterparties in the derivative market are largely investment-grade western European and US banks.

At end-Q311, OeVAG's net CDS protection sold position amounted to EUR1.7bn, with counterparties largely investment-grade western European and US banks. During 2011, CDS positions previously recognised as off-balance sheet financial guarantees were reclassified as assets at fair value through profit and loss, but the overall impact was limited.

Concentration risk in OeVAG's corporate book is high, with the 10 largest exposures at end-Q111 roughly equating to VB-Verbund's end-2010 Fitch core capital, or to 78% if the collateral is included. Concentration risk in OeVAG's banks book is higher, with the 10 largest exposures almost double VB-Verbund's end-2010 Fitch core capital. This is mitigated by more than half of these being to the group's primary banks.

### Asset Quality

The poor quality of VB-Verbund's loan book has historically been a significant contributor towards its adverse performance. Asset quality continued to deteriorate between 2009 and 2010, with the largest problems stemming from the CEE operations, notably in Romania, but also from real estate-related assets. Asset quality at primary banks is consistently stronger than at OeVAG. At end-Q311, the NPL ratio for the primary banks (based on total exposure) and OeVAG (excluding VBI and VB Romania) was 5.7% and 9.4%, respectively.

Although the sale of VBI means that its poorer-performing segment will result in healthier overall asset quality indicators, the quality of the remaining assets will continue to be weaker than that of many of its peers. As part of the restructuring overhaul, the poorer-performing assets will be classified into a run-down category, and will be wound down over time. The main challenge will be the work-out and containment of the, in agency's view, increasing NPL portfolio at VB Romania amid a deteriorating macroeconomic environment and a high portion of Swiss franc-denominated loans (around half of total portfolio).

Although NPLs remain above those of peers, the agency views the coverage ratio as adequate given a high portion of available collateral. At end-Q311, loan loss coverage for primary banks and OeVAG (excluding VBI and VB Romania) was 47% and 53%, respectively.

### Market Risk

VB-Verbund's main source of market risk is concentrated at OeVAG. Internal guidelines limit the exposure to market risk at primary banks. To manage its exposures, each member bank has its own assets and liabilities management committee, with OeVAG providing advice to the sector banks in this area.

The focus is on interest-rate instruments, although the group has also derivatives, equities and foreign-currency trading. The use of derivatives, mostly used for macro- and micro-hedging, at primary banks is limited and has to be authorised by the OeGV. Equity risk is mostly based on index-simulation and is limited to 20% of equity. Open foreign-currency positions tend to be small. Besides the structural interest rate risk, OeVAG has a sizeable structured bonds portfolio.

Market risk is measured by using an internally developed model, which has been approved by the Austrian banking regulator. Credit spread risk is measured using Value-at-Risk (VaR) and basis point sensitivity analyses.

Figure 7

#### OeVAG Asset Quality Indicators – Q311

(%)	NPL	Coverage
Corporate	9.4	51.1
Real estate	11.1	36.7
VBI excl. VB Romania	13.2	26.2
VB Romania	34.1	29.6
Leasing	11.2	79.5
Financial markets	1.7	0.0
Other	1.8	87.0

Note: Calculation based on total exposure (on and off-balance sheet)

Source: OeVAG; Fitch

- Primary banks are predominantly self-funded; OeVAG's funding plan primarily includes sector deposits, and selective private placements.
- Adequate liquidity position.
- Capitalisation adequate at group level, but OeVAG capitalisation remains thin.
- Government participation capital likely to stay in the short to medium term.

At end-H111, a 100bp parallel upward/downward shift in interest rates would have had a 0.84% positive/0.62% negative impact on the primary banks' equity, which Fitch considers acceptable.

Total VaR (99% confidence interval, one-day holding period) in OeVAG's trading book was below the limit of EUR3.35m and decreased to EUR1.4m at end-H111 from EUR2.1m at end-H110.

VB-Verbund's exposure to peripheral countries was limited to 3% of its end-2010 balance sheet (predominantly at OeVAG), with the largest exposures to Italian and Spanish corporates and to Greek government debt.

### Operational Risk

Most of the primary banks' operational risk resides in their branch network. Business limitations and the OeGV's tight control on processes reduce the potential for operational losses. Fitch expects the exposure to operational risks to be elevated during the restructuring phase, but to diminish upon successful repositioning.

Most of the members of the VB-Verbund share the same external IT service provider. Back-office functions are provided mostly by OeVAG. Processes and documentation have been standardised for all the primary banks, securities business settlement occurs at the centralised back office, and payment system processes are also centralised.

### Funding and Capital

VB-Verbund's funding structure continues to be dominated by the stable domestic retail deposit base of the primary banks, and its loans to deposit ratio of over 150% should be viewed in the context of intra-group deposits such as placements from VBLI and the previously owned VBI, which are not eliminated during the consolidation exercise. Primary banks are predominantly self-funded, but OeVAG has a relatively weak deposit base, which will shrink further once retail deposits from the CEE (except VB Romania) have been deconsolidated.

OeVAG, however, benefits from its role as a central liquidity entity within the group. Sector deposits and liquidity placements within the sector accounted for around one third of end-H111 OeVAG's non-equity funding, followed by customer deposits from its now discontinued CEE operations, and bond issuance outside the sector. Reliance on interbank funding is declining, and the sale of VBI further reduced funding needs (by around EUR1.1bn according to the bank). VB Romania, on the other hand, is likely to require substantial funding (around EUR1.8bn). Only 51% of the funding for VB Romania will be provided by OeVAG, with the rest provided by the co-shareholders.

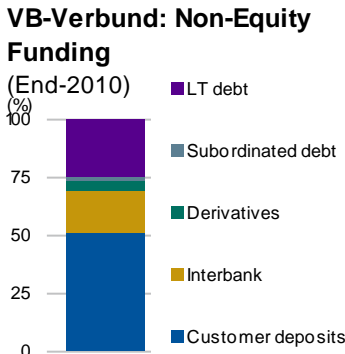
Wholesale maturities (defined as public bond issues) at OeVAG will amount to EUR1.5bn and EUR1.2bn in 2012 and 2013, respectively. OeVAG intends to cover the funding needs by selective private placements, and covered bonds for ECB refinancing. The latter will be achieved via cover pool-eligible assets of primary banks.

VB-Verbund's group asset-liability management (ALM) department manages liquidity for the entire group. OeVAG intends to maintain a minimum liquidity buffer of EUR2bn (EUR3bn at end-Q311). Fitch views this buffer as adequate, but notes that OeVAG's standalone funding and liquidity profile is weaker than VB-Verbund's.

### Capital

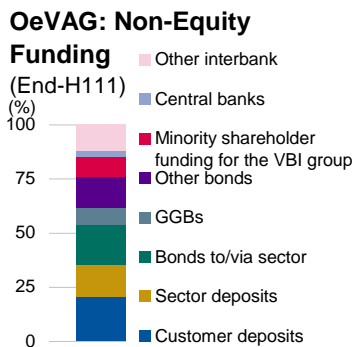
While the capitalisation of the group is still acceptable, OeVAG's capitalisation remains thin and the bank will, in Fitch's view, find it hard to repay the government participation capital in a timely manner and to comply with stricter foreseen regulatory capital requirements. Although the initiated legal restructuring of the group should optimise the regulatory capital base, Fitch expects OeVAG to hold on to its government participation capital in the medium term, as any internally generated capital is likely to absorb any future operating losses.

Figure 8



Source: VB-verbund; Fitch

Figure 9



Source: OeVAG; Fitch

OeVAG's capital structure contains a large proportion of government participation capital and hybrids. Government participation capital is treated as Tier 1 capital under Austrian law, however, Fitch does not consider this to qualify for core Tier 1 capital, resulting in a much lower Fitch core capital ratio compared with regulatory capitalisation.

Amid the above challenges, VB-Verbund and OeVAG delayed the repayment of the first tranche of government participation capital (EUR300m) and did not pay coupons on this instrument in 2011. This gives the Republic of Austria the right to convert its stake into common equity which would potentially make it a majority shareholder in OeVAG. The government authorities have, however, publicly stated that they currently have no intention of exercising their conversion rights.

In the context of its weak capitalisation, OeVAG announced various capital strengthening measures earlier in 2011 (see *Profile* above). As market conditions continued to serve as an impediment to the planned capital measures, VB-Verbund and OeVAG initiated a comprehensive legal reorganisation of the group structure in order to optimise its regulatory capital base. In addition, a reduction in risk-weighted assets and increase of retained earnings are planned as part of capital improvement measures. The sale of VBI alone resulted in a reduction of risk-weighted assets of EUR6.6bn. Although OeVAG is no longer subject to the EBA capital requirement from mid-2012 following the sale of VBI, timely optimisation of the capital base is needed for a sustainable business model.

The bank's internal capital generation ability remains limited and rapid visible capital improvements are vital in preparation for Basel III capital requirements and as protection against large credit events.

Figure 10

**VB-Verbund and OeVAG: Capital Structure**

(EURm)	VB-Verbund		OeVAG	
	2009	2010	2010	Q311
Fitch core tier 1 capital	2,110.0	2,119.2	722.9	-59.2
Government participation capital	1,000.0	1,000.0	1,000.0	1,000.0
Commercial participation capital	500.0	500.0	500.0	500.0
Other hybrid tier 1 capital	387.2	334.1	334.1	334.1
Tier 1 capital after deductions	3,526.4	3,497.0	2,612.6	2,274.2
Total regulatory capital	5,179.2	4,731.0	3,563.0	3,202.2
Total RWA	45,393.6	45,591.0	27,880.8	26,226.5
Regulatory Tier 1 capital ratio (%)	7.78	7.67	9.37	9.96
Total regulatory capital ratio (%)	11.40	10.38	12.78	12.21
Fitch core capital ratio (%)	4.65	4.65	2.59	-0.23

Note: OeVAG's regulatory capital at end-Q311 does not include the loss for the year, resulting in larger difference between Fitch Core capital ratio and the regulatory tier 1 capital ratio at end-Q311 compared to end-2010  
 Source: VB-Verbund; OeVAG; Fitch

Annex

Figure 11  
Peer Group Comparison

(EURm)	Erste Group Bank AG ('A'/ Stable/ 'a-/RWN')		UniCredit Bank Austria AG ('A'/ Stable/'bbb+')		Raiffeisen Bank International AG ('A'/ Stable/'bbb')		OeVAG <sup>a</sup>		VB-Verbund	
	Q311	2010	Q311	2010	Q311	2010	Q311	2010	2010	2009
Operating revenue	5,264	7,342	5,279	7,126	4,103	5,456	84	1,054	1,887	1,276
Total operating expenses	2,892	3,817	3,089	3,910	2,287	2,980	627	583	1,188	1,109
Loan impairment charge (LIC)	1,859	2,031	1,044	1,837	782	1,194	90	364	463	944
Operating profit	532	1,515	991	1,489	1,034	1,283	-634	107	236	-814
Net income	-775	1,186	43	798	759	1,177	-696	57	172	-983
Impaired loans	11,113	10,087	14,007	12,478	7,153	6,661	1,482	3,651	n.a.	3,753
Loan loss reserve (LLR)	7,189	6,119	7,554	6,936	5,052	4,756	977	1,523	2,512	2,199
Total assets	216,094	205,938	197,667	193,049	148,368	131,173	43,620	46,465	65,167	66,167
Fitch core capital	9,769	10,601	14,011	13,135	6,385	6,414	-59	723	2,199	2,110
Pre-impairment operating profit/average equity (%)	21.08	23.90	17.84	19.74	30.44	33.93	-56.57	30.80	29.96	4.70
Pre-impairment operating profit/average assets (%)	1.51	1.72	1.62	1.70	1.74	2.82	-1.63	0.98	1.06	0.19
LIC/pre-impairment operating profit (%)	77.75	57.28	57.65	55.42	43.06	48.21	-16.60	77.31	66.18	721.94
Tangible common equity/tangible assets (%)	4.78	5.31	7.42	7.25	4.52	4.95	0.19	1.57	3.42	3.28
Equity/total assets (%)	6.33	7.46	8.74	9.05	5.29	6.03	0.22	2.20	3.61	3.50
Tier 1 regulatory capital ratio (%)	9.80	10.20	10.75	10.35	8.70	9.70	9.96	9.37	7.67	7.78
Fitch core capital/weighted risks (%)	8.15	8.85	11.32	10.27	6.33	6.77	-0.23	2.59	4.65	4.65
Impaired loans/total loans (%)	8.22	7.60	10.10	9.11	8.80	8.80	11.33	15.46	n.a.	8.47
LLR/impaired loans (%)	64.69	60.66	53.93	55.59	70.63	71.4	65.90	41.70	n.a.	4.96
LIC/average gross loans (%)	1.86	1.55	1.02	1.37	1.33	2.12	0.57	1.51	1.04	2.11
Loans/customer deposits (%)	111.20	113.43	134.37	136.64	117.96	131.27	510.26	322.97	152.16	151.80
Cost/income	54.93	51.99	58.51	54.87	55.74	54.61	750.00	55.29	62.96	86.92

<sup>a</sup> 2010 financial data includes subsequently discontinued operations and are therefore not fully comparable with Q311

Source: Banks data adapted by Fitch

**Volksbanken Verbund  
Income Statement**

	31 Dec 2010		As % of Earning Assets	31 Dec 2009		As % of Earning Assets	31 Dec 2008		As % of Earning Assets	31 Dec 2007	
	Year End USDm	Year End EURm		Year End EURm	Year End EURm		Year End EURm	Year End EURm		Year End EURm	Year End EURm
	Unqualified	Unqualified		Unqualified	Unqualified		Unaudited	Unaudited		Unaudited	Unaudited
1. Interest Income on Loans	2,443.2	1,828.5	3.06	2,180.0	3.56	2,995.1	4.78	4,691.0	5.30		
2. Other Interest Income	1,151.5	861.8	1.44	798.5	1.31	976.2	1.56	1,161.3	1.31		
3. Dividend Income	23.5	17.6	0.03	14.1	0.02	566.3	0.90	n.a.	-		
<b>4. Gross Interest and Dividend Income</b>	<b>3,618.3</b>	<b>2,707.9</b>	<b>4.53</b>	<b>2,992.6</b>	<b>4.89</b>	<b>4,537.6</b>	<b>7.24</b>	<b>5,852.3</b>	<b>6.62</b>		
5. Interest Expense on Customer Deposits	873.3	653.6	1.09	1,026.3	1.68	1,665.5	2.66	3,386.1	3.83		
6. Other Interest Expense	932.9	698.2	1.17	893.0	1.46	1,114.5	1.78	1,370.9	1.55		
<b>7. Total Interest Expense</b>	<b>1,806.3</b>	<b>1,351.8</b>	<b>2.26</b>	<b>1,919.3</b>	<b>3.14</b>	<b>2,780.0</b>	<b>4.43</b>	<b>4,757.0</b>	<b>5.38</b>		
<b>8. Net Interest Income</b>	<b>1,812.0</b>	<b>1,356.1</b>	<b>2.27</b>	<b>1,073.3</b>	<b>1.75</b>	<b>1,757.6</b>	<b>2.80</b>	<b>1,095.3</b>	<b>1.24</b>		
9. Net Gains (Losses) on Trading and Derivatives	56.4	42.2	0.07	125.6	0.21	39.0	0.06	57.6	0.07		
10. Net Gains (Losses) on Other Securities	21.9	16.4	0.03	-265.6	-0.43	-268.5	-0.43	n.a.	-		
11. Net Gains (Losses) on Assets at FV through Income Statement	36.7	27.5	0.05	-15.3	-0.03	-103.7	-0.17	-28.9	-0.03		
12. Net Insurance Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-		
13. Net Fees and Commissions	503.3	376.7	0.63	351.4	0.57	385.7	0.62	379.4	0.43		
14. Other Operating Income	90.6	67.8	0.11	6.9	0.01	12.9	0.02	172.4	0.19		
<b>15. Total Non-Interest Operating Income</b>	<b>709.0</b>	<b>530.6</b>	<b>0.89</b>	<b>203.0</b>	<b>0.33</b>	<b>65.4</b>	<b>0.10</b>	<b>580.5</b>	<b>0.66</b>		
16. Personnel Expenses	865.4	647.7	1.08	618.7	1.01	640.6	1.02	605.6	0.68		
17. Other Operating Expenses	721.7	540.1	0.90	490.7	0.80	517.5	0.83	468.8	0.53		
<b>18. Total Non-Interest Expenses</b>	<b>1,587.1</b>	<b>1,187.8</b>	<b>1.99</b>	<b>1,109.4</b>	<b>1.81</b>	<b>1,158.1</b>	<b>1.85</b>	<b>1,074.4</b>	<b>1.21</b>		
19. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	-	-36.1	-0.06	2.8	0.00	46.4	0.05		
<b>20. Pre-Impairment Operating Profit</b>	<b>933.9</b>	<b>698.9</b>	<b>1.17</b>	<b>130.8</b>	<b>0.21</b>	<b>667.7</b>	<b>1.07</b>	<b>647.8</b>	<b>0.73</b>		
21. Loan Impairment Charge	618.0	462.5	0.77	944.3	1.54	228.7	0.36	155.9	0.18		
22. Securities and Other Credit Impairment Charges	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-		
<b>23. Operating Profit</b>	<b>315.9</b>	<b>236.4</b>	<b>0.40</b>	<b>-813.5</b>	<b>-1.33</b>	<b>439.0</b>	<b>0.70</b>	<b>491.9</b>	<b>0.56</b>		
24. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-		
25. Non-recurring Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-		
26. Non-recurring Expense	10.8	8.1	0.01	5.7	0.01	176.3	0.28	n.a.	-		
27. Change in Fair Value of Own Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-		
28. Other Non-operating Income and Expenses	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-		
<b>29. Pre-tax Profit</b>	<b>305.1</b>	<b>228.3</b>	<b>0.38</b>	<b>-819.2</b>	<b>-1.34</b>	<b>262.7</b>	<b>0.42</b>	<b>491.9</b>	<b>0.56</b>		
30. Tax expense	85.8	64.2	0.11	149.0	0.24	-172.5	-0.28	69.3	0.08		
31. Profit/Loss from Discontinued Operations	9.9	7.4	0.01	-15.1	-0.02	-584.4	-0.93	19.5	0.02		
<b>32. Net Income</b>	<b>229.2</b>	<b>171.5</b>	<b>0.29</b>	<b>-983.3</b>	<b>-1.61</b>	<b>-149.2</b>	<b>-0.24</b>	<b>442.1</b>	<b>0.50</b>		
33. Change in Value of AFS Investments	n.a.	n.a.	-	n.a.	-	n.a.	-	-98.9	-0.11		
34. Revaluation of Fixed Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-		
35. Currency Translation Differences	n.a.	n.a.	-	n.a.	-	n.a.	-	-9.8	-0.01		
36. Remaining OCI Gains/(losses)	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-		
<b>37. Fitch Comprehensive Income</b>	<b>229.2</b>	<b>171.5</b>	<b>0.29</b>	<b>-983.3</b>	<b>-1.61</b>	<b>-149.2</b>	<b>-0.24</b>	<b>333.4</b>	<b>0.38</b>		
38. Memo: Profit Allocation to Non-controlling Interests	n.a.	n.a.	-	n.a.	-	n.a.	-	124.2	0.14		
39. Memo: Net Income after Allocation to Non-controlling Interests	229.2	171.5	0.29	-983.3	-1.61	-149.2	-0.24	317.9	0.36		
40. Memo: Common Dividends Relating to the Period	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-		
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-		

Exchange rate

USD1 = EUR0.74840

USD1 = EUR0.69416

USD1 = EUR0.71855

USD1 = EUR0.67930

**Volksbanken Verbund  
Balance Sheet**

	31 Dec 2010			31 Dec 2009		31 Dec 2008		31 Dec 2007	
	Year End USDm	Year End EURm	As % of Assets	Year End EURm	As % of Assets	Year End EURm	As % of Assets	Year End EURm	As % of Assets
<b>Assets</b>									
<b>A. Loans</b>									
1. Residential Mortgage Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Other Mortgage Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Other Consumer/ Retail Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Corporate & Commercial Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Other Loans	60,156.5	45,021.1	69.09	44,309.3	66.97	45,379.8	66.23	54,229.6	57.29
6. Less: Reserves for Impaired Loans/ NPLs	3,356.9	2,512.3	3.86	2,199.2	3.32	1,439.2	2.10	1,318.8	1.39
<b>7. Net Loans</b>	<b>56,799.6</b>	<b>42,508.8</b>	<b>65.23</b>	<b>42,110.1</b>	<b>63.64</b>	<b>43,940.6</b>	<b>64.13</b>	<b>52,910.8</b>	<b>55.90</b>
<b>8. Gross Loans</b>	<b>60,156.5</b>	<b>45,021.1</b>	<b>69.09</b>	<b>44,309.3</b>	<b>66.97</b>	<b>45,379.8</b>	<b>66.23</b>	<b>54,229.6</b>	<b>57.29</b>
9. Memo: Impaired Loans included above	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Memo: Loans at Fair Value included above	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>B. Other Earning Assets</b>									
1. Loans and Advances to Banks	3,168.9	2,371.6	3.64	2,358.1	3.56	2,783.7	4.06	9,707.5	10.26
2. Reverse Repos and Cash Collateral	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Trading Securities and at FV through Income	1,726.1	1,291.8	1.98	1,305.8	1.97	1,645.1	2.40	469.9	0.50
4. Derivatives	3,718.9	2,783.2	4.27	2,884.4	4.36	2,274.2	3.32	2,979.3	3.15
5. Available for Sale Securities	8,079.9	6,047.0	9.28	6,051.3	9.15	4,746.5	6.93	16,560.9	17.50
6. Held to Maturity Securities	2,320.6	1,736.7	2.67	1,959.2	2.96	2,379.2	3.47	4,036.4	4.26
7. At-equity Investments in Associates	1,078.7	807.3	1.24	743.2	1.12	926.8	1.35	343.4	0.36
8. Other Securities	2,455.8	1,837.9	2.82	1,918.3	2.90	2,137.7	3.12	n.a.	-
<b>9. Total Securities</b>	<b>19,379.9</b>	<b>14,503.9</b>	<b>22.26</b>	<b>14,862.2</b>	<b>22.46</b>	<b>14,109.5</b>	<b>20.59</b>	<b>24,389.9</b>	<b>25.77</b>
10. Memo: Government Securities included Above	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
11. Memo: Total Securities Pledged	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Investments in Property	450.7	337.3	0.52	1,838.9	2.78	1,855.0	2.71	1,420.2	1.50
13. Insurance Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
14. Other Earning Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	38.5	0.04
<b>15. Total Earning Assets</b>	<b>79,799.0</b>	<b>59,721.6</b>	<b>91.64</b>	<b>61,169.3</b>	<b>92.45</b>	<b>62,688.8</b>	<b>91.49</b>	<b>88,466.9</b>	<b>93.46</b>
<b>C. Non-Earning Assets</b>									
1. Cash and Due From Banks	2,971.5	2,223.9	3.41	3,242.7	4.90	4,118.3	6.01	3,425.2	3.62
2. Memo: Mandatory Reserves included above	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Foreclosed Real Estate	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Fixed Assets	1,003.9	751.3	1.15	774.1	1.17	772.0	1.13	773.3	0.82
5. Goodwill	173.8	130.1	0.20	147.2	0.22	147.1	0.21	474.6	0.50
6. Other Intangibles	n.a.	n.a.	-	0.0	0.00	0.0	0.00	0.0	0.00
7. Current Tax Assets	46.5	34.8	0.05	43.0	0.06	52.4	0.08	39.7	0.04
8. Deferred Tax Assets	287.9	215.5	0.33	210.6	0.32	392.3	0.57	122.2	0.13
9. Discontinued Operations	2,317.6	1,734.5	2.66	n.a.	-	n.a.	-	n.a.	-
10. Other Assets	474.2	354.9	0.54	580.4	0.88	345.8	0.50	1,357.3	1.43
<b>11. Total Assets</b>	<b>87,074.6</b>	<b>65,166.6</b>	<b>100.00</b>	<b>66,167.3</b>	<b>100.00</b>	<b>68,516.7</b>	<b>100.00</b>	<b>94,659.2</b>	<b>100.00</b>
<b>Liabilities and Equity</b>									
<b>D. Interest-Bearing Liabilities</b>									
1. Customer Deposits - Current	19,289.2	14,436.0	22.15	14,628.4	22.11	14,650.9	21.38	14,118.9	14.92
2. Customer Deposits - Savings	20,246.3	15,152.3	23.25	14,561.3	22.01	15,802.9	23.06	13,688.9	14.46
3. Customer Deposits - Term	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>4. Total Customer Deposits</b>	<b>39,535.4</b>	<b>29,588.3</b>	<b>45.40</b>	<b>29,189.7</b>	<b>44.11</b>	<b>30,453.8</b>	<b>44.45</b>	<b>27,807.8</b>	<b>29.38</b>
5. Deposits from Banks	14,076.0	10,534.5	16.17	11,866.3	17.93	15,335.9	22.38	21,677.1	22.90
6. Repos and Cash Collateral	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>8. Total Deposits, Money Market and Short-term Funding</b>	<b>53,611.4</b>	<b>40,122.8</b>	<b>61.57</b>	<b>41,056.0</b>	<b>62.05</b>	<b>45,789.7</b>	<b>66.83</b>	<b>49,484.9</b>	<b>52.28</b>
9. Senior Debt Maturing after 1 Year	19,281.5	14,430.3	22.14	15,925.1	24.07	13,832.6	20.19	35,271.3	37.26
10. Subordinated Borrowing	1,766.4	1,322.0	2.03	1,330.6	2.01	1,294.6	1.89	n.a.	-
11. Other Funding	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>12. Total Long Term Funding</b>	<b>21,048.0</b>	<b>15,752.3</b>	<b>24.17</b>	<b>17,255.7</b>	<b>26.08</b>	<b>15,127.2</b>	<b>22.08</b>	<b>35,271.3</b>	<b>37.26</b>
13. Derivatives	3,472.2	2,598.6	3.99	2,442.0	3.69	2,213.4	3.23	3,738.2	3.95
14. Trading Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>15. Total Funding</b>	<b>78,131.6</b>	<b>58,473.7</b>	<b>89.73</b>	<b>60,753.7</b>	<b>91.82</b>	<b>63,130.3</b>	<b>92.14</b>	<b>88,494.4</b>	<b>93.49</b>
<b>E. Non-Interest Bearing Liabilities</b>									
1. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Credit impairment reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Reserves for Pensions and Other	494.1	369.8	0.57	372.0	0.56	339.9	0.50	370.9	0.39
4. Current Tax Liabilities	33.1	24.8	0.04	29.6	0.04	34.5	0.05	38.1	0.04
5. Deferred Tax Liabilities	150.3	112.5	0.17	154.8	0.23	179.7	0.26	164.9	0.17
6. Other Deferred Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Discontinued Operations	1,701.6	1,273.5	1.95	0.0	0.00	0.0	0.00	0.0	0.00
8. Insurance Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Other Liabilities	969.9	725.9	1.11	657.0	0.99	669.5	0.98	1,689.4	1.78
<b>10. Total Liabilities</b>	<b>81,480.8</b>	<b>60,980.2</b>	<b>93.58</b>	<b>61,967.1</b>	<b>93.65</b>	<b>64,353.9</b>	<b>93.92</b>	<b>90,757.7</b>	<b>95.88</b>
<b>F. Hybrid Capital</b>									
1. Pref. Shares and Hybrid Capital accounted for as Debt	1,068.9	800.0	1.23	853.1	1.29	913.4	1.33	n.a.	-
2. Pref. Shares and Hybrid Capital accounted for as Equity	1,381.7	1,034.1	1.59	1,034.1	1.56	n.a.	-	161.7	0.17
<b>G. Equity</b>									
1. Common Equity	2,397.4	1,794.2	2.75	1,644.5	2.49	2,565.8	3.74	2,552.1	2.70
2. Non-controlling Interest	1,049.4	785.4	1.21	864.3	1.31	939.4	1.37	1,242.1	1.31
3. Securities Revaluation Reserves	-250.0	-187.1	-0.29	-150.1	-0.23	-244.7	-0.36	-77.3	-0.08
4. Foreign Exchange Revaluation Reserves	-57.5	-43.0	-0.07	-42.7	-0.06	n.a.	-	n.a.	-
5. Fixed Asset Revaluations and Other Accumulated OCI	3.7	2.8	0.00	-3.0	0.00	-11.1	-0.02	22.9	0.02
<b>6. Total Equity</b>	<b>3,143.1</b>	<b>2,352.3</b>	<b>3.61</b>	<b>2,313.0</b>	<b>3.50</b>	<b>3,249.4</b>	<b>4.74</b>	<b>3,739.8</b>	<b>3.95</b>
<b>7. Total Liabilities and Equity</b>	<b>87,074.6</b>	<b>65,166.6</b>	<b>100.00</b>	<b>66,167.3</b>	<b>100.00</b>	<b>68,516.7</b>	<b>100.00</b>	<b>94,659.2</b>	<b>100.00</b>
8. Memo: Fitch Core Capital	2,831.6	2,119.2	3.25	2,110.0	3.19	2,889.7	4.22	3,265.2	3.45
9. Memo: Fitch Eligible Capital	4,914.9	3,678.3	5.64	3,695.7	5.59	2,889.7	4.22	3,265.2	3.45

Exchange rate USD1 = EURO.74840 USD1 = EURO.69416 USD1 = EURO.71855 USD1 = EURO.67930

**Volksbanken Verbund  
Summary Analytics**

	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
	Year End	Year End	Year End	Year End
<b>A. Interest Ratios</b>				
1. Interest Income on Loans/ Average Gross Loans	4.09	4.86	6.01	9.40
2. Interest Expense on Customer Deposits/ Average Customer Deposits	2.22	3.44	5.72	13.20
3. Interest Income/ Average Earning Assets	4.48	4.83	6.00	7.02
4. Interest Expense/ Average Interest-bearing Liabilities	2.27	3.10	3.67	5.99
5. Net Interest Income/ Average Earning Assets	2.24	1.73	2.33	1.31
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	1.48	0.21	2.02	1.13
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	2.24	1.73	2.33	1.31
<b>B. Other Operating Profitability Ratios</b>				
1. Non-Interest Income/ Gross Revenues	28.12	15.91	3.59	34.64
2. Non-Interest Expense/ Gross Revenues	62.96	86.92	63.53	64.11
3. Non-Interest Expense/ Average Assets	1.81	1.65	1.42	1.22
4. Pre-impairment Op. Profit/ Average Equity	29.96	4.70	19.11	17.85
5. Pre-impairment Op. Profit/ Average Total Assets	1.06	0.19	0.82	0.73
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	66.18	721.94	34.25	24.07
7. Operating Profit/ Average Equity	10.13	-29.25	12.56	13.55
8. Operating Profit/ Average Total Assets	0.36	-1.21	0.54	0.56
9. Taxes/ Pre-tax Profit	28.12	-18.19	-65.66	14.09
10. Pre-Impairment Operating Profit / Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
11. Operating Profit / Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
<b>C. Other Profitability Ratios</b>				
1. Net Income/ Average Total Equity	7.35	-35.36	-4.27	12.18
2. Net Income/ Average Total Assets	0.26	-1.46	-0.18	0.50
3. Fitch Comprehensive Income/ Average Total Equity	7.35	-35.36	-4.27	9.19
4. Fitch Comprehensive Income/ Average Total Assets	0.26	-1.46	-0.18	0.38
5. Net Income/ Av. Total Assets plus Av. Managed Securitized Assets	n.a.	n.a.	n.a.	n.a.
6. Net Income/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
7. Fitch Comprehensive Income/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
<b>D. Capitalization</b>				
1. Fitch Core Capital/Weighted Risks	n.a.	n.a.	n.a.	n.a.
2. Fitch Eligible Capital/ Weighted Risks	n.a.	n.a.	n.a.	n.a.
3. Tangible Common Equity/ Tangible Assets	3.42	3.28	4.54	3.47
4. Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.	n.a.
5. Total Regulatory Capital Ratio	n.a.	n.a.	n.a.	n.a.
6. Core Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.	n.a.
7. Equity/ Total Assets	3.61	3.50	4.74	3.95
8. Cash Dividends Paid & Declared/ Net Income	n.a.	n.a.	n.a.	n.a.
9. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	n.a.	n.a.	n.a.	n.a.
10. Cash Dividends & Share Repurchase/Net Income	n.a.	n.a.	n.a.	n.a.
11. Net Income - Cash Dividends/ Total Equity	7.29	-42.51	-4.59	11.82
<b>E. Loan Quality</b>				
1. Growth of Total Assets	-1.51	-3.43	-27.62	15.33
2. Growth of Gross Loans	1.61	-2.36	-16.32	18.99
3. Impaired Loans(NPLs)/ Gross Loans	n.a.	n.a.	n.a.	n.a.
4. Reserves for Impaired Loans/ Gross loans	5.58	4.96	3.17	2.43
5. Reserves for Impaired Loans/ Impaired Loans	n.a.	n.a.	n.a.	n.a.
6. Impaired Loans less Reserves for Imp Loans/ Equity	n.a.	n.a.	n.a.	n.a.
7. Loan Impairment Charges/ Average Gross Loans	1.04	2.11	0.46	0.31
8. Net Charge-offs/ Average Gross Loans	0.04	0.05	0.01	n.a.
9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	n.a.	n.a.	n.a.	n.a.
<b>F. Funding</b>				
1. Loans/ Customer Deposits	152.16	151.80	149.01	195.02
2. Interbank Assets/ Interbank Liabilities	22.51	19.87	18.15	44.78
3. Customer Deposits/ Total Funding excl Derivatives	52.95	50.06	49.99	32.81

**Volksbanken Verbund**  
**Reference Data**

	31 Dec 2010		As % of Assets	31 Dec 2009		31 Dec 2008		31 Dec 2007	
	Year End USDm	Year End EURm		Year End EURm	As % of Assets	Year End EURm	As % of Assets	Year End EURm	As % of Assets
<b>A. Off-Balance Sheet Items</b>									
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Other off-balance sheet exposure to securitizations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Guarantees	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Acceptances and documentary credits reported off-balance sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Committed Credit Lines	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Other Contingent Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Total Business Volume	87,074.6	65,166.6	100.00	66,167.3	100.00	68,516.7	100.00	94,659.2	100.00
8. Memo: Total Weighted Risks	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Fitch Adjustments to Weighted Risks.	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Fitch Adjusted Weighted Risks	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>B. Average Balance Sheet</b>									
Average Loans	59,680.9	44,665.2	68.54	44,844.6	67.77	49,804.7	72.69	49,903.2	52.72
Average Earning Assets	80,766.3	60,445.5	92.76	61,929.1	93.59	75,577.9	110.31	83,376.2	88.08
Average Assets	87,743.2	65,667.0	100.77	67,342.0	101.78	81,588.0	119.08	88,366.7	93.35
Average Managed Securitized Assets (OBS)	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Average Interest-Bearing Liabilities	79,654.9	59,613.7	91.48	61,942.0	93.61	75,812.4	110.65	79,438.7	83.92
Average Common equity	2,297.4	1,719.4	2.64	2,105.2	3.18	2,559.0	3.73	2,394.3	2.53
Average Equity	3,116.9	2,332.7	3.58	2,781.2	4.20	3,494.6	5.10	3,629.2	3.83
Average Customer Deposits	39,269.1	29,389.0	45.10	29,821.8	45.07	29,130.8	42.52	25,653.3	27.10
<b>C. Maturities</b>									
<b>Asset Maturities:</b>									
Loans & Advances < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans and Advances 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances > 5 years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>Liability Maturities:</b>									
Retail Deposits < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing 3-12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing 1- 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Total Senior Debt on Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Fair Value Portion of Senior Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Covered Bonds	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing 3-12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing 1- 5 Year	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Total Subordinated Debt on Balance Sheet	1,766.4	1,322.0	2.03	1,330.6	2.01	1,294.6	1.89	n.a.	-
Fair Value Portion of Subordinated Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>D. Equity Reconciliation</b>									
1. Equity	3,143.1	2,352.3	3.61	2,313.0	3.50	3,249.4	4.74	3,739.8	3.95
2. Add: Pref. Shares and Hybrid Capital accounted for as Equity	1,381.7	1,034.1	1.59	1,034.1	1.56	n.a.	-	161.7	0.17
3. Add: Other Adjustments	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Published Equity	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>E. Fitch Eligible Capital Reconciliation</b>									
1. Total Equity as reported (including non-controlling interests)	3,143.1	2,352.3	3.61	2,313.0	3.50	3,249.4	4.74	3,739.8	3.95
2. Fair value effect incl in own debt/borrowings at fv on the B/S- CC only	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
3. Non-loss-absorbing non-controlling interests	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
4. Goodwill	173.8	130.1	0.20	147.2	0.22	147.1	0.21	474.6	0.50
5. Other intangibles	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
6. Deferred tax assets deduction	137.6	103.0	0.16	55.8	0.08	212.6	0.31	0.0	0.00
7. Net asset value of insurance subsidiaries	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
8. First loss tranches of off-balance sheet securitizations	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
<b>9. Fitch Core Capital</b>	<b>2,831.6</b>	<b>2,119.2</b>	<b>3.25</b>	<b>2,110.0</b>	<b>3.19</b>	<b>2,889.7</b>	<b>4.22</b>	<b>3,265.2</b>	<b>3.45</b>
10. Eligible weighted Hybrid capital	2,083.2	1,559.1	2.39	1,585.7	2.40	0.0	0.00	0.0	0.00
11. Government held Hybrid Capital	1,336.2	1,000.0	1.53	1,000.0	1.51	0.0	0.00	0.0	0.00
<b>12. Fitch Eligible Capital</b>	<b>4,914.9</b>	<b>3,678.3</b>	<b>5.64</b>	<b>3,695.7</b>	<b>5.59</b>	<b>2,889.7</b>	<b>4.22</b>	<b>3,265.2</b>	<b>3.45</b>

Exchange Rate

USD1 = EUR0.74840

USD1 = EUR0.69416

USD1 = EUR0.71855

USD1 = EUR0.67930

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