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FINANZMARKTAUFSICHT
Abt. III/1. Markt- und Börseaufsicht
1090 Wien, Otto-Wagner-Platz 5

VOLKSBANK

Österreichische Volksbanken-Aktiengesellschaft

(a stock corporation under the laws of Austria, registered number FN 116476 p)

Prospectus Supplement No. 7
relating to the
€ 10,000,000,000 Debt Issuance Programme
dated 31 May 2011

This Prospectus supplement (the "**Supplement**") constitutes a Supplement pursuant to Art 16 of Directive 2003/71/EC (the "**Prospectus Directive**") and section 6 of the Austrian Capital Market Act ("**Kapitalmarktgesetz**") and is supplemental to, and should be read in conjunction with the prospectus relating to the € 10,000,000,000 Debt Issuance Programme (the "**Programme**") of Österreichische Volksbanken-Aktiengesellschaft (the "**Issuer**") dated 31 May 2011 (the "**Original Prospectus**") as supplemented by the supplement No. 1 dated 18 July 2011, the supplement No. 2 dated 25 August 2011, the supplement No. 3 dated 8 September 2011 as amended by a revised version of 21 September 2011, the supplement No. 4 dated 21 September 2011, the supplement No. 5 dated 14 October 2011 as amended by a revised version of 24 October 2011 and the supplement No. 6 dated 28 October 2011 (the "**Supplement No. 1**", the "**Supplement No. 2**", the "**Supplement No. 3**", the "**Supplement No. 4**", the "**Supplement No. 5**", the "**Supplement No. 6**", and together with the Original Prospectus, the "**Prospectus**").

The Original Prospectus was approved on 31 May 2011 by the Austrian Financial Market Authority (*Finanzmarktaufsichtsbehörde*, the "**FMA**") and published by making it available in printed form, free of charge, to the public at the registered office of the Issuer and on the website of the Issuer (www.volksbank.com/prospectus). A notice about the publication of the Prospectus and where it can be obtained was published in the *Amtsblatt zur Wiener Zeitung* on 31 May 2011. The Supplement No. 1 was approved on 20 July 2011 by the FMA and published on 18 July 2011, the Supplement No. 2 was approved on 30 August 2011 by the FMA and published on 25 August 2011, the Supplement No. 3 was approved and published on 21 September 2011, the Supplement No. 4 was approved on 27 September 2011 and published on 21 September 2011, the Supplement No. 5 was approved on 24 October 2011 and published on 14 October 2011 and the Supplement No. 6 was approved on 2 November 2011 and published on 28 October 2011 each by making it available in printed form, free of charge, to the public at the registered office of the Issuer and on the website of the Issuer (www.volksbank.com/prospectus).

This Supplement has been filed for approval with the FMA in its capacity as competent authority in accordance with the Austrian Capital Market Act on 13 December 2011 and has been amended by a revised version of 21 December 2011. The Supplement amended has been published, deposited and approved by the FMA on 21 December 2011. The Issuer has requested the FMA to provide the competent authorities of Germany, the Czech Republic, the Slovak Republic, Slovenia, Hungary, and Romania notifications concerning the approval of this Supplement. This Supplement has been published on 21 December 2011 by making it available in printed form, free of charge, to the public at the registered office of the Issuer and on the website of the Issuer (www.volksbank.com/prospectus).

Terms defined in the Original Prospectus shall have the same meaning when used in the Supplement, if there is no indication to the contrary.

This Supplement does not constitute an offer of, or an invitation by or on behalf of any of the Issuer, the Dealers or the Arranger to subscribe for, or purchase, any Notes.

To the extent that there is any inconsistency between any statement in this Supplement and any other statement in or contemplated by reference in the Prospectus, the statements in this Supplement will prevail.

In accordance with Art 16 of the Prospectus Directive and section 6 of the Austrian Capital Market Act, investors who have agreed to purchase or subscribe for Notes (as defined in the Prospectus) after the occurrence of the significant new factor, material mistake or inaccuracy relating to the information included in the Prospectus to which this Supplement relates to, but before the publication of this Supplement, have a right to withdraw their acceptances within two bank working days after the date of publication of this Supplement. In case investors are consumers within the meaning of section 1 paragraph 1 No 2 of the Austrian Consumer Protection Act (*Konsumentenschutzgesetz*), the period for a withdrawal of their acceptances is one week after the day on which this Supplement has been published.

This Supplement has been approved by the FMA in its capacity as competent authority under the Capital Market Act. The accuracy of the information contained in this Supplement does not fall within the scope of examination by the FMA under applicable Austrian law. The FMA examines the Supplement only in respect of its completeness, coherence and comprehensibility pursuant to section 8a of the Capital Market Act.

Arranger
DZ BANK AG

Dealers

VBAG **DZ BANK AG**

This Supplement does not constitute an offer to sell, or the solicitation of an offer to buy Notes in any jurisdiction where such offer or solicitation is unlawful. In particular, the Notes have not been and will not be registered under the United States Securities Act of 1933.

The Issuer accepts responsibility for the information contained in this Supplement. Having taken all reasonable care to ensure that such is the case, the information contained in this Supplement is, to the best of the knowledge of the Issuer, in accordance with the facts and contains no omission likely to affect its import.

No person has been authorised to give any information or to make any representation other than those contained in this Supplement in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers or the Arranger (other than the Issuer).

The distribution of this Supplement and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplement comes are required by the Issuer, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to US persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Supplement, see "7. Subscription and Sale" of the Original Prospectus.

This Supplement does not constitute an offer of, or an invitation by or on behalf of any of the Issuer, the Dealers or the Arranger to subscribe for, or purchase, any Notes.

The Dealers and the Arranger (other than the Issuer) have not separately verified the information contained in this Supplement. None of the Dealers or the Arranger (other than the Issuer) makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Supplement. Neither this Supplement nor any financial statements supplied in connection with the Programme or any Notes are intended to provide the basis of any credit or other evaluation (e.g. financial analyses) and should not be considered as a recommendation by any of the Issuer, the Dealers or the Arranger that any recipient of this Supplement or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Supplement or any financial statements and its purchase of Supplement should be based upon any such investigation as it deems necessary. None of the Dealers or the Arranger (other than the Issuer) undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Supplement nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger (other than the Issuer).

Significant new factors

Since the date of the Original Prospectus, the Issuer has become aware of significant new factors which are capable of affecting the assessment of the Notes. Therefore, the following changes are made to the Prospectus:

1. Risk factors relating to the Issuer - There are risks in connection with the sale of shares in subsidiaries that may have an adverse impact on the Issuer's business or profitability (page 27)

On page 27 of the Prospectus in the paragraph under the heading starting "*There are risks in connection with the sale"* before the sentence "*There is also a risk that the sale"* the following sentence is inserted:

"This risk is even higher as the Austrian government may influence the evaluation process due to the state aid investigations which have been opened by the European Commission according to a press release dated 9 December 2011 (for more details see the chapter "Legal and arbitration proceedings" commencing on page 89)."

2. Description of the Issuer - Legal and arbitration proceedings (page 89)

On page 89 of the Prospectus under the heading "*Legal and arbitration proceedings*" before the paragraph beginning with "*In addition to the proceedings described above ...*" the following paragraph is inserted:

"State aid: Commission opens investigation into aid granted to Austrian bank VBAG: According to an EU Press Release[1] dated 9 December 2011, the European Commission has opened under EU state aid rules an in-depth investigation into several support measures that Austria had granted to VBAG in 2009. The European Commission believes that VBAG is unable to implement the restructuring plan which it has presented in autumn 2010. Furthermore, the Commission had doubts that the plan would enable VBAG to become viable and that it sufficiently addressed the distortion of competition brought about by the state support. The Commission has serious doubts that the state aid for VBAG can be approved under EU State aid rules. A new, further reaching restructuring plan should be presented as soon as possible."

[1] http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1522&format=HTML&aged=0&language=DE&guiLanguage=en

STATEMENT PURSUANT TO COMMISSION REGULATION (EC) NO 809/2004

Österreichische Volksbanken-Aktiengesellschaft, with its corporate seat in Vienna, Austria, is responsible for the information in this Supplement and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Supplement and in the Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Vienna, 21 December 2011

Österreichische Volksbanken-Aktiengesellschaft
as Issuer

Martin Fuchsbauer, MBA	Heimo Rottensteiner
(Member of the Management Board)	(Authorized Representative)

ANNEX 1 TO THE SUPPLEMENT DATED 21 December 2011

By reason of this Supplement also the Annex to the Prospectus is amended accordingly. The Annex of the Prospectus has not been approved by the Austrian Financial Market Authority.

Supplement to the Translations

relating to the

€10,000,000,000 Debt Issuance Programme

of

Österreichische Volksbanken-Aktiengesellschaft

dated 31 May 2011

Supplement to the German translation of the risk factors:

In der deutschen Fassung auf Seite 17 der Übersetzungen, die dem Prospekt als Annex beigefügt sind, wird im Absatz unter der Überschrift beginnend mit "*Es besteht das Risiko, dass das Ergebnis des Verkaufs von Tochtergesellschaften…*" vor dem Satz beginnend mit "*Es besteht auch das Risiko, dass der Verkauf der Beteiligungen …*" der nachfolgende Satz eingefügt:

"Dieses Risiko ist umso größer als die österreichische Bundesregierung aufgrund der Überprüfung der staatlichen Beihilfe für die ÖVAG durch die Europäische Kommission, die nach einer Pressemitteilung vom 09.12.2011 eingeleitet wurde (nähere Informationen dazu finden sich im Kapitel "Rechts- und Schiedsverfahren" ab Seite 63), Einfluss auf den Evaluierungsprozess nehmen könnte."

ANNEX 2 TO THE SUPPLEMENT DATED 21 December 2011

This Annex to the Supplement contains a consolidated version of the Risk factors relating to the Issuer and the Description of the Issuer.

The Annex 2 of the Prospectus has not been approved by the Austrian Financial Market Authority.

Supplement relating to the

€10,000,000,000 Debt Issuance Programme

of

Österreichische Volksbanken-Aktiengesellschaft

dated 31 May 2011

2.1 Risk factors relating to the Issuer

The Issuer is subject to general business risk

The Issuer is a full service bank primarily active in Austria and in the countries of Central and Eastern Europe ("CEE") and South Eastern Europe ("SEE"). The Issuer offers a variety of banking products, starting from typical banking products to structured financial solutions, such as derivative and capital market products. Among other things, banking accounts are offered and maintained, loans are granted to companies, consumers, territorial entities, credit institutions and states; real estate financings, project financings, export financings as well as leasing products are also offered. Deposit business is also conducted with the same customer group. Furthermore, services are offered in connection with investment banking, monetary transactions including credit card business, documentary business and asset management.

In connection with its business activities, the Issuer is subject to general business risks, in particular, that the Issuer's business development and performance develop worse than presented in this Prospectus.

A failure by the Issuer to adequately and/or in time fulfil the conditions precedent to which the Agreement regarding the sale of the shares in Volksbank International Aktiengesellschaft is subject could have significant negative effects on the assets, profits and/or financial position of the Issuer.

The Agreement regarding the sale of the shares in Volksbank International Aktiengesellschaft has already been signed by the parties. Nonetheless, such agreement will only enter into force in its entirety upon fulfilment of certain conditions precedent (Closing). Thus, there is the risk that the Issuer fails to adequately and/or in time fulfil such conditions precedent. In this case, the Agreement regarding the sale of the shares in Volksbank International Aktiengesellschaft would not enter into force completely and/or in time. This could have significant negative effects on the assets, profits and/or financial position of the Issuer.

There are risks in connection with the sale of shares in subsidiaries that may have an adverse impact on the Issuer's business or profitability.

The outcome of the sale of the Issuer's shares in Volksbank International Aktiengesellschaft ("**VBI**") and of the Issuer's current evaluation process regarding the sale of the shares in VB-Leasing International Holding GmbH may have an adverse impact on the Issuer's business or profitability. This risk is even higher as the Austrian government may influence the evaluation process due to the state aid investigations which have been opened by the European Commission according to a press release dated 9 December 2011 (for more details see the chapter "Legal and arbitration proceedings" commencing on page 89). There is also a risk that the sale of the shares in VB-Leasing International Holding GmbH may fail. For further detailed information on the sale of shares in subsidiaries see "3. Description of the Issuer" - 3.1 Business history and business development of VBAG – Recent Developments.

The Issuer is subject to credit risk, which means the risk of a partial or complete loss of interest and/or redemption payments expected to be made by a counterparty (credit risk).

Credit risk comprises non-payment risks, country risks and default risks. Any deterioration in the creditworthiness of a counterparty may lead to an increase in the credit risk. The worse the credit standing of the counterparty, the higher is the non-payment risk. Furthermore, it is possible that securities issued by the counterparty to cover the credit risk will not be sufficient to settle the default in payments, for example due to a dramatic drop in the market price.

Credit risk is the most important risk with respect to an investment in the Notes since it applies to both standard banking products, such as the credit, discount and guarantee business, as well as to certain trade products, such as derivative contracts like financial futures, swaps and options or security pension transactions and security lending and may therefore derive from a variety of transactions including all fields of business the Issuer is active in and may negatively affect the Issuer's profit and financial condition and thus its ability to make payments on the Notes.

Credit risk also encompasses the country risk, which is the risk that a foreign counterparty cannot make scheduled interest and/or redemption payments despite its own solvency due, for example, to a lack of foreign exchange reserves of the competent central bank ("economic risk") or due to political interference by the respective government ("political risk").

Potential holders of Notes should be aware that the Issuer is exposed to credit risk in each of its businesses and that materialisation of credit risk could reduce the Issuer's ability to service payments under the Notes and potentially adversely affect the trading price of the Notes.

There is a risk that a rating agency may suspend, downgrade or withdraw a rating of the Issuer and that such action might negatively affect the market value and trading price of the Notes.

The risk related to the Issuer's ability to fulfil its obligations (liquidity risk) as issuer of Notes is characterised among other matters by the rating of the Issuer.

A rating reflects the opinion of a rating agency on the credit standing of an issuer, i.e., a forecast or an indicator of a possible credit loss due to insolvency, delay in payment or incomplete payment to the investors. It is not a recommendation to buy, sell or hold securities.

The rating agency may suspend, downgrade or withdraw a rating at any time. Such suspension, downgrading or withdrawal may have an adverse effect on the market value and trading price of the Notes. A downgrading of the rating may also lead to a restriction of the access to funds and, consequently, to higher refinancing costs. Potential Noteholders should be aware that a suspension, downgrade or withdrawal of a rating which is relevant for the Issuer or the Notes may occur and that this could have a material negative effect on the Notes and the Issuer's ability to service payments under the Notes.

The Issuer is subject to the risk of losses arising from changes of market prices (market risk).

Market risk consists essentially of the risk related to changes in interest rates and foreign currency as well as price fluctuations of shares, commodities and other assets. Price changes due to increases in issuer specific credit spreads where no rating migration has occurred (credit spread risk) are also regarded as market risk.

Market risk positions of the Issuer result particularly from customer business as well as from proprietary trading and in the context of the asset and liability management.

If the market risk materialises the Issuer could be required to write down the value of its assets. This could have a material negative effect on the Issuers' profit and financial condition and could thus reduce the Issuer's ability to service payments under the Notes and potentially adversely affect the trading price of the Notes.

There is a risk of losses due to any inadequacy or failure of internal processes, people, systems, or external events, whether caused deliberately or accidentally or by natural circumstances (operational risk).

The Issuer is exposed to various risks due to potential inadequacies or failures of internal controls, processes, people, systems, or external events, whether caused deliberately or accidentally or by natural circumstances, and which may cause material losses. Such operational risks include the risk of unexpected losses incurred as a consequence of individual events resulting, among other things, from faulty information systems, inadequate organisational structures or ineffective control mechanisms. Such risks also include the risk of cost increases or profit losses due to unfavourable overall economic or trade-specific trends. Any reputational damage to the Issuer as a result of the occurrence of one of these events also falls into this risk category.

The operational risk is inherent in all activities of the Issuer and cannot be eliminated. In particular, potential investors should be aware that the Issuer is increasingly dependent on highly sophisticated information technology ("IT") systems. IT systems are vulnerable to a number of problems, such as computer virus infection, malicious hacking, physical damage to vital IT centres and software or hardware malfunctions.

Furthermore, the economical development of the Issuer is significantly depended upon its management and key personnel. There is the risk, that current members of the management or key personnel may not be available to the Issuer in the future. Furthermore the Issuer may have problems in acquiring new key personnel.

A materialisation of any operational risk may lead to unexpected high losses and could in turn reduce the Issuers' ability to service payments under the Notes and the market price of the Notes.

There is a risk that the Issuer will not be able to access capital market funding sources on favourable terms in the future

The Issuer's funding depends to a large degree on private placements of debt instruments on international and on local markets as well as on issues of retail bonds. The Issuers' continuing ability to access such funding sources on favourable economic terms is dependent upon a variety of factors outside its control, such as prevailing market conditions. There can be no assurance that the Issuer will continue to be able to access such funding sources on favourable terms in the future and if the Issuer would fail to do so this could have significant adverse effects on its financial condition and could thus limit its ability to service payments under the Notes.

The Issuer is exposed to the risk of defaults by large international financial institutions

Defaults by large financial institutions, such as credit institutions or insurance undertakings, could adversely affect the financial markets in general. The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default by, one or more large financial institutions could lead to significant market-wide liquidity problems, losses or defaults by other financial institutions. The afore-described risks are generally referred to as "systematic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Issuer interacts on a daily basis. The occurrence of any of these events or a combination thereof could have a material adverse effect on the Issuer and could accordingly reduce the Issuers' ability to service payments under the Notes and the market price of the Notes.

There is a risk of instability in foreign jurisdictions in which the Issuer is active

Business undertaken in or with some countries, for example countries undergoing rapid political, economic and social change, including, but not limited to, currency fluctuations, inflation, economic recession, local market disruption and labour unrest, create additional risk exposure. The occurrence of one or more of these events may affect the ability of the Issuer's clients or counterparties located in the affected area to obtain foreign exchange or credit and, therefore, to satisfy their obligations towards the Issuer. These risks could have an adverse effect on the Issuer's operations and its ability to service payments under the Notes.

There is a risk of adversely changing economic and/or political environment and declining financial markets

The Issuer is primarily active in Austria and in certain countries of CEE and SEE. The economic and political environment (e.g. unemployment, inflation, inclination to invest, and economic growth) in these countries as well as the development of the world economy have a fundamental influence on the demand for the services and financial products developed and offered by the Issuer.

Generally declining financial markets may lead to a considerable deterioration in the Issuer's operational and financial results. Reasons for declining financial markets may include economic factors as well as factors such as wars, terrorist attacks, natural catastrophes or similar events. Potential investors should be aware that negative changes in the economic and political environment in the markets where the Issuer is active and/or declining financial markets could significantly negatively affect the Issuer's profits and financial condition and could thus reduce the Issuers' ability to service payments under the Notes and the market price of the Notes.

The issuer is subject to intensified competition in all markets where it is active

There is fierce competition in the Austrian banking sector, which is expected to intensify further in the future. Furthermore, the Issuer is exposed to competition with other Austrian and international financial institutions in the markets in CEE and SEE where the Issuer is active. This intense competition pressure in the markets where the Issuer is active may generally reduce its profits and particularly lead to a reduction in the capital of the Issuer freely available for investments. Potential investors should be aware that increased competition may put the Issuers' margins under pressure, reduce its profit and negatively affect its financial condition and thus its ability to service payments under the Notes and the market price of the Notes.

Changes in existing, or new, government laws or regulations in the countries in which the Issuer operates may have a material adverse effect on its results of operations

Changes in existing, or new, government laws or regulations in the countries in which the Issuer operates may have a material adverse effect on the Issuer, including regulations relating to financial services, securities products and other transactions the Issuer is conducting. Furthermore, apart from changes to the economic environment, the introduction of new regulations, such as the introduction of a new framework for capital adequacy rules commonly known as Basle III or changes in accounting matters and/or their application, may adversely affect the Issuer's business as its implementation and compliance may result in costs that currently cannot be definitively determined. It is widely expected that there will be a substantial increase in government regulation and supervision of the financial industry, including the imposition of higher capital requirements, heightened disclosure standards and restrictions on certain types of transaction structures.

For example, at its meeting held on 8-9 December 2009, the Basle Committee on Banking Supervision approved a reform package (commonly referred to as "Basle III") consisting of two proposals regarding capital ("Capital Proposal") and liquidity ("Liquidity Proposal"). In December 2010, the Basel Committee on Banking Supervision issued the Basel III rules text contained in the two documents "A global regulatory framework for more resilient banks and banking systems" and "International framework for liquidity risk measurement, standards and monitoring". The Basel III framework covers both microprudential and macroprudential elements and sets out higher and better-quality capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk-based requirement, measures to promote the build up of capital that can be drawn down in an acute stress scenario, and the introduction of two global liquidity standards. The Basel III framework's text provides for different transitional arrangements until the end of 2018 to gradually phase in the new standards. Such transitional arrangements will further be used to assess the framework's design and calibration and any resulting adjustments are expected to be made in the first half of 2017.

Legal acts implementing Basel III or other proposals could require additional capital to be injected into the members of the Group, or require the Group to enter into business transactions that are not otherwise part of its current group strategy. They might also prevent the Group from continuing current lines of operations, restrict the type or volume of transaction the Group may enter into, limit the payment of dividends by members of the Group to the Issuer, or set limits on or require the modification of rates or fees that the Group charges on loans or other financial products. The Group may also face substantially increased compliance costs and material limitations on its ability to pursue business opportunities.

In the course of the implementation of Basel III in Austria, a new regime for credit institutions may be implemented, which may provide the supervisory authority with the ability, in limited circumstances, to cause investors in the notes to share losses.

Changes in laws, regulations or regulatory policies in the markets within which it operates may have an adverse effect on the Group's financial conditions and results of operations and may thus reduce its ability to service payments under the Notes.

There is a risk of increased regulation and public sector influence

Recent developments in the global markets have led to an increase in the involvement of various governmental and regulatory authorities in the financial sector and in the operations of financial institutions. In particular, governmental and regulatory authorities in the European Union and Austria have provided additional capital and funding facilities to financial institutions including the Issuer and are implementing other measures including increased regulatory control in their respective banking sectors including additional capital requirements (see also the risk factor above for details on Basle III). Where the public domain invests directly in a financial institution, it is possible that it will also interfere with that institution's business decisions.

In connection with the subscription of participation capital by the Federal Republic of Austria, the Issuer signed an agreement in principle (*Grundsatzvereinbarung*) with the Republic of Austria (the "Grundsatzvereinbarung"). The Grundsatzvereinbarung contains certain covenants and undertakings to and rights for the Republic of Austria in connection with the issue of the above-mentioned participation capital and in connection with the Issuer's conduct of business, which are safeguarded by contractual fines and will be in force for as long as the Republic of Austria holds such participation capital. It can not be excluded that the Republic of Austria may make use of the rights granted to it under the Grundsatzvereinbarung in a way which is detrimental to the Issuer and/or the Noteholders.

It is uncertain how the more rigorous regulatory climate will impact financial institutions including the Issuer.

Since substantial assets, operations and customers of the Issuer are located outside the Euro-zone, the Issuer is exposed to currency risks

The Issuer has substantial assets, operations and customers outside of the Euro-zone and is therefore subject to foreign currency risks, i.e. that the Issuer has to write down the value of such assets and/or of profits made outside the Euro-zone due to a depreciation of the relevant foreign currency vis-à-vis the Euro, which might have a material adverse effect on its businesses, operations, financial condition and prospects and in turn, could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Notes.

The Issuer owns substantial real estate and is therefore exposed to price risks in the real estate area

The Issuer's substantial real estate holdings create the risk that negative fluctuations in the fair value of its real estate will reduce their income or profits or the balance sheet value of its assets. Location, occupancy levels, length of time required to find new tenants and cluster effects in certain regions are considered to be the major factors of this risk. Because the real estate market has a lower level of liquidity, it is particularly difficult to determine fair value. This risk could have an adverse effect on the Issuer's operations and could thus reduce the Issuer's ability to service payments under the Notes and in turn could have a negative impact on the market value of the Notes.

There is a risk that the Issuer's appeal against a tax order concerning corporate tax payments for the previous years of two fully consolidated subsidiaries of the Issuer might not prevail

As a result of official tax audits, two fully consolidated subsidiaries of the Issuer were ordered to pay corporate tax for previous years. The Issuer has filed appeals against these orders. There is a risk that the Issuer's appeals will not prevail, as of spring 2011 the total tax payments involved amounted to approximately EUR 18.9 million (including interest of suspending the tax payments). This risk could have an adverse effect on the Issuer's operations.

For a description of pending legal and arbitration proceedings see "3.7 Legal and arbitration proceedings".

The stability tax (*Stabilitätsabgabe*) and the extra stability tax (*Sonderstabilitätsabgabe*) for credit institutions in Austria could negatively affect the Issuer's financial condition

Recently, the Budget Accompanying Act of 2011 (*Budgetbegleitgesetz 2011*) entered into force which foresees that credit institutions are charged with a stability tax from 1 January 2011 on. The stability tax is calculated from the credit institutions' average total assets based on the credit institutions' single (non-consolidated) annual financial statements (basically reduced by own funds and secured deposits). Additionally, there is an extra stability tax calculated from the business volume of all derivatives which are allocated to the trading book. The amount of funds to be paid by the Issuer in connection with the stability tax could significantly negatively affect the Issuers' financial condition.

Conflicts of interest and dual positions may lead to decisions which are not in the interest of the Noteholders

Members of the Issuer's managing and supervisory board hold certain further positions within the VBAG Group and other entities. It cannot be excluded that these dual positions of the Issuer's managing and supervisory board members within other entities may lead to conflicts of interest which in turn could cause decisions which are not in the interest of the Issuer and the Noteholders.

The value of the Issuer's shareholdings and the Issuer's proceeds arising from its shareholdings may decrease – shareholding risk

The Issuer's proceeds arising out of its listed and unlisted shareholdings may decrease or cease due to unfavourable market conditions, e.g. a deterioration of market prices for interests in companies of a particular sector in which the Issuer is invested, or unfavourable economic conditions, e.g. high market interest rates.

3 DESCRIPTION OF THE ISSUER

3.1 Business history and business development of VBAG

On 4 November 1922, the "Österreichische Zentralgenossenschaftskasse registrierte Genossenschaft mit beschränkter Haftung", a co-operative with limited liability, was - in an effort to implement the ideas of Hermann Schulze-Delitzsch - established as the umbrella organisation for regional credit co-operatives and primary banks, which were members of the Federation of Austrian Credit Co-operatives (*Fachverband der Kreditgenossenschaften nach dem System Schulze-Delitzsch*). It was renamed "Zentralkasse der Volksbanken Österreichs" on 10 December 1956 and was merged in 1974 into VBAG, which had been founded in 1974 specifically for this purpose. VBAG is now the central institution of the Austrian

Volksbanken (*Österreichische Volksbanken*) (the "Austrian Volksbanken") as well as an independent commercial bank.

VBAG and its consolidated subsidiaries (the "VBAG Group") offer a range of financial services to their customers and partners - mainly the Austrian Volksbanken and SMEs - in Austria, Germany as well as in certain CEE and SEE countries and Malta.

As of 31 December 2010, the VBAG Group comprises approximately 549 branches (including the registered office of VBAG in Vienna) and 7,531 employees (including 1,416 in Austria).

Legal form, name and registration of VBAG

VBAG is organised as a joint stock corporation (*Aktiengesellschaft*) under Austrian law and is registered in the Austrian companies' register (*Firmenbuch*) with the commercial court in Vienna (*Handelsgericht Wien*) under file number 116476p and the legal name "Österreichische Volksbanken-Aktiengesellschaft". VBAG operates *inter alia* under the commercial names "VBAG", "Volksbank AG" and "OEVAG".

Date of incorporation and term or duration

VBAG was founded on 8 July 1974 for the purpose of continuing the "Österreichische Zentralgenossenschaftskasse registrierte Genossenschaft mit beschränkter Haftung", a company founded in 1922, which was merged into VBAG. It is set up for an indefinite term.

Office, business address and applicable law

VBAG's registered office and principal business address is Kolingasse 14-16, A-1090 Vienna, Austria. The central phone number is +43 (0) 50 4004 - 0.

VBAG's constitutional documents are subject to Austrian law.

Recent developments

Decisions of the European Council regarding core capital ratios (27 October 2011): The total capital buffer shortfall as calculated by the European Banking Authority ("**EBA**") for VBAG is EUR 972 million. This is a preliminary and indicative figure which is subject to change on the basis of end September data and will be reviewed by banks and supervisory authorities. It is the revised, latter figure that will form the basis for any plans required to increase levels of capitalisation in the period to June 2012. Furthermore, EBA in its press release dated 26 October 2011 takes into account the current restructuring process at VBAG and its withdrawal from the CEE area which has been set in motion with the sale of VBI already.

Since last year VBAG has focused on the redesign of its business model and has evaluated strategic options. In particular, the major deterioration of the market environment for banks, the severe crisis on international financial markets as well as extraordinary impairment requirements on country risks, on participations, and from the sale of participations are expected to significantly affect VBAG's results as well as its planned measures.

The annual loss (according to guidance) in the VBAG single entity financial statements is expected to amount to approximately EUR 900 million (+/- EUR 150 million depending on the development of the markets). VBAG expects a loss ranging from EUR 500 million to EUR 750 million on the consolidated group level (IFRS). The main drivers are significant write-downs in the amount of EUR 700 million on the book value of the participations in Investkredit Bank AG and Volksbank Romania S.A. in the single entity accounts of VBAG.

In VBAG's shareholder meeting held on 19 May 2011 a resolution on the transfer of VBAG´s banking business to Investkredit Bank AG by means of a proportional de-merger was passed. The de-merger agreement stipulates that VBAG as transferring company intends to transfer its banking business to Investkredit Bank AG as assuming company by way of universal succession. Due to the planned redesign of the business model the de-merger will not take place this year.

In accordance with its "Strategy 2015", VBAG aims at focusing on its core business. This includes VBAG's function as central institution of the Volksbank sector, the corporate business and the real estate activities. Austria and its adjacent countries constitute the core regions for these activities. The Issuer is currently evaluating certain options for the business activities and participations which are not part of its core business. In this context, VBAG initiated a process regarding the possible sale of its stakes in Volksbank International AG and VB-Leasing International Holding GmbH.

On 8 September 2011 the shareholders of VBI (VBAG, Banque Populaire Caisse d'Epargne, DZ BANK AG und WGZ BANK AG) and Sberbank of Russia ("Sberbank") signed an agreement (the "Agreement") relating to the acquisition of the VBI Group (excluding Volksbank Romania S.A.). With signing of the Agreement, Sberbank agreed to acquire 100% of the shares in VBI (excluding Volksbank Romania S.A.). VB Romania is not included in the transaction. The purchase price will be VBI's equity capital (excluding Volksbank Romania S.A.) ranging from EUR 585 million and EUR 645 million depending on the business performance of VBI (excluding Volksbank Romania S.A.) in the financial year 2011. Additionally to the purchase price Sberbank will assume financings provided by the current owners in the amount of almost EUR 2.5 billion. Also at the closing of the Agreement Sberbank will be provided with a five-year funding in the amount of EUR 500 million by VBAG or a group of banks led by VBAG. The closing of the Agreement is expected by the end of the year 2011 – after certain conditions precedent are fulfilled.

The management board and the core shareholders of VBAG are discussing measures to strengthen VBAG's capitalization. Part of these discussions is the modification of the Schultze-Delitzsch Genossenschaftsverbund in the form of a cooperation under Article 3 of the directive 2006/48/EC (part of the European application of Basel II) based on the model of Dutch Rabobank or the Article 9 of the CCR I draft (Capital Requirements Regulation I, which is the directly applicable regulatory part of the Basel III execution on the European level). A resolution to implement such modification was adopted on 13 October 2011.

The main shareholders of VBAG resolved to acquire a part of the participation capital held by the Republic of Austria in the amount of EUR 300 million in 2011 in order to redeem the participation capital. However, currently a repayment of EUR 300 million participation capital held by the Republic of Austria will not take place in the year 2011.

<u>Half Year Report 2011:</u> On 25 August 2011, the Issuer announced a reduced consolidated net income for the first half year 2011. As a result of a difficult economic environment and the current degree of implementation of VBAG's "Strategy 2015" a payment or a full payment on dividend-carrying securities of VBAG (i.e. shares and participation capital) in 2012 for the business year 2011 is unlikely from today's point of view. Detailed information on the half year report 2011 can be found on the website of the Issuer (www.volksbank.com).

<u>European bank stress test:</u> VBAG participated in the EU-wide bank stress test conducted by the European Banking Authority (EBA). EBA published the results of the stress test on 15 July 2011 as follows: VBAG´s unstressed baseline core tier I ratio as of 31 December 2010 is 6.4%. Simulating a worst case scenario the core tier I ratio would be 4.5% as of 31 December 2012 which is 0.5% below the benchmark defined by EBA. Taking into account the measures that are currently being implemented the core tier I ratio as of 31 December 2012 is 6.6%. Considering the fully loss-absorbing capital according to the Austrian Banking Act the tier I ratio amounts to 9.8%.

<u>No payments on profit-related instruments for the business year 2011</u>:

On 20 September 2011, the Management Board of VBAG announced that due to the increasingly difficult economic environment a payment on profit-related instruments (shares, participation capital, hybrid capital and supplementary capital) in 2012 for the business year 2011 is unlikely from today's perspective. According to a current forecast the main reasons for the profit warning are an increasingly difficult economic environment which negatively affected the valuation of participations (VB Romania), the sale of participations as well as earnings forecast impacted by potential additional financial burdens (e.g. measures by the Hungarian government with respect to foreign currency loans).

Rating

The Issuer's ratings are as follows: Baa2 (Moody's as defined below) and A (Fitch as defined below). Detailed information on the rating can be found on the Issuer's website (www.volksbank.com/investor_relations/rating). General information regarding the meaning of the rating and the qualifications which have to be observed in connection therewith can be found on Moody's Investors Service's (www.moodys.com) and Fitch Rating Ltd's (www.fitchratings.com) homepages. The Issuer is not rated by S&P (as defined below).

Fitch Ratings ("Fitch") with its seat in 30 North Colonnade, London E14 5GN, United Kingdom is registered at Companies House in England.

Moody’s Investors Services Ltd. ("Moody’s") has its registered office at One Canada Square, Canary Wharf, London E14 5FA, United Kingdom and is registered at Companies House in England.

Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. ("S&P") has its registered office at 20 Canada Square, Canary Wharf, London E14 5LH, United Kingdom and is registered at Companies House in England

Fitch Ratings, Moody’s Services Ltd. and S&P have filed an application to become registered under Regulation (EC) No. 1060/2009 of the European Parliament and of Council of 16 September 2009 on credit rating agencies as a registered rating agency.

A rating is not a recommendation to buy, sell or hold securities and may be suspended, changed or withdrawn at any time by the assigning rating agency.

3.2 Business overview

Principal fields of activity

Being an universal bank VBAG offers through its subsidiaries, comprehensive banking services to private clients, corporate clients, and to its partners. In addition, the VBAG Group offers investment funds, real estate and leasing products and related services.

According to its articles of association, the principal corporate purpose of VBAG is to further the interests both of the Austrian Volksbanken and their members as well as those of SMEs. Furthermore, VBAG's objective as central institution of the Austrian Volksbanken is to engage in all types of banking operations domestically and internationally, including performing the following tasks for the Austrian Volksbanken:

- Managing and investing liquidity funds, especially the liquidity reserves of the Austrian Volksbanken;
- granting loans to the Austrian Volksbanken, providing them with technical support in their lending operations and offering temporary liquidity support, as well as facilitating money and business transactions among them and with third parties;
- conducting cashless payment transactions and providing other banking services, ensuring such transfers and services and their further technological development and advertising for such payment transfers and banking services; and
- issuing covered bonds.

Description of main business segments

VBAG's activities are organised in the following business segments:

Corporate

The corporate business division is responsible for servicing SMEs, multi-national and other large corporate clients. It aims at providing tailor-made and adequate solutions to the ever-diversifying, increasingly sophisticated financial and business strategy needs of domestic and international corporate clients.

Corporate banking provides an integrated range of products such as - but not limited to - corporate and commercial banking, trade finance, leasing, syndication, securitisation, real estate finance, acquisition finance and factoring.

In this division, VBAG provides these services indirectly through Investkredit Bank AG and its subsidiaries.

Real Estate

Investkredit Bank AG serves as competence center for real estate within the VBAG Group. Real estate leasing and real estate development are handled by VB Real Estate Services GmbH.

VBAG's real estate division provides a wide range of commercial real estate products and services including construction, interim (bridge) financing, short and medium term sized commercial real estate loans, project and leasing financing, real estate development as well as real estate investments and management to commercial real estate clients, investors, developers and owners in Austria, CEE and SEE countries. The services are provided through VB Real Estate Services GmbH and its subsidiaries. The real estate division also engages in investment fund business through Immo KAG.

The Real Estate Services division is the center of excellence for real estate services along the entire value creation chain for the Volksbank sector, customers and institutional investors, and specialises in special and individual solutions.

VB Real Estate Services sees itself a competent partner in all matters pertaining to real estate developments, real estate financing and real estate investment products, thanks to its bundled real estate know-how.

Retail

Products and services in this division include, among others, money transfers, savings and loan facilities, credit cards and mortgage loans and leasing. The retail business division provides a wide range of banking and related financial products and services to individuals and corporate clients and to SMEs.

In 2010, the final sale of domestic retail banking subsidiaries was completed and VB Linz-Mühlviertel has been deconsolidated. Since then the Issuer operates no retail branches in Austria. The retail banking customers are serviced entirely through the Volksbanken on the primary level (*Primärbanken*).

Retail services in CEE Countries are provided by the network of Volksbank International Group. The Volksbank International Group network consists of ten banks in CEE Countries (Bosnia-Herzegovina, Croatia, the Czech Republic, Hungary, Romania, Serbia, Slovakia, Slovenia and the Ukraine) and Volksbank International AG with its seat in Vienna.

The Issuer operates its leasing business in Austria indirectly through its subsidiary VB Leasing Finanzierungsgesellschaft m.b.H. and in CEE indirectly through its subsidiary VB Leasing International Holding GmbH.

Both, VB Leasing Finanzierungsgesellschaft m.b.H. and VB-Leasing International Holding GmbH, offer a range of leasing products such as vehicle-, equipment- and vendor-leasing to their customers,.

For information on the possible sale of Volksbank International AG and VB-Leasing International Holding GmbH, please see "3. Description of the Issuer" sub-chapter "3.1 Business history and business development of VBAG" "Recent developments".

Financial Markets

The financial markets division comprises VBAG treasury, fixed income and derivatives, structured investments, CEE-treasury, VB consulting and capital markets.

This division focuses on the generation of liquidity in the money and the capital markets and on medium to long-term strategic investments in the national and the international markets. Treasury services include, among others, money market, trading in cash and trading in derivative instruments (e.g. forward rates, foreign currencies), as well as bond origination.

In addition, VBAG offers its customers standard as well as tailored cash and capital market products in the context of treasury sales to meet the needs of its customers.

The treasury division also comprises the investment fund activities for VBAG's institutional and private clients which are provided through Volksbank Invest Kapitalanlagegesellschaft m.b.H.

3.3 Risk management

Risk report

Assuming and professionally managing the risks associated with its 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 its banking operations at VBAG Group level.

Risk strategy

The Group-wide risk strategy is reassessed and determined by the Management Board annually – 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 VBAG Group. Enhancements of the methods applied for measuring and managing risks are incorporated into the risk strategy via the annual update process.

Risk management structure

The VBAG Group has implemented the organisational precautions necessary to meet the requirements of a modern risk management system. There is clear separation of market and risk assessment, measurement and control. For security reasons and in order to prevent conflicts of interest, these tasks are performed by different organisational units.

Since 2006, a single Chief Risk Officer is responsible for the risk management throughout the entire VBAG Group. All centrally managed and regulated risk management activities at the VBAG Group are concentrated in this Management Board function: Strategic risk management, credit risk, market risk and enterprise-wide risk management. For reasons of cost effectiveness and to optimise collections, receivables management is performed locally in the individual sub-groups and subsidiaries.

Basel II – Implementation in the VBAG Group

In accordance with Management Board resolutions, the implementation of pillar 1 in the VBAG Group not only fulfils the minimum requirements but, while taking cost efficiency into account, also provides for implementation of internal models in order to improve the risk management systems for all types of risk on an ongoing basis. Thus, at present the following methods are used to calculate the minimum capital requirements for each type of risk:

- Credit risk: Standard approach and IRB approach since 1 April 2008
- Market risk in the trading book: Internal VaR model since 1 January 2005 and standard approach
- Operational risk: Standard approach since 1 January 2011 for the whole VBAG Group

Internal capital adequacy assessment process

The 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 play a key role in the formulation 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, monthly for interest rate risk in the banking book and liquidity risk, quarterly for the calculations of the risk bearing capacity 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 VBAG Group, VBAG Group regularly ascertains what risks are present in ongoing banking operations within the VBAG Group as well as their significance and the danger they potentially pose for the VBAG 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 are incorporated into the risk strategy, which defines and documents the general framework and principles for risk management to be applied consistently across the VBAG Group and the design of appropriate processes and organisational structures in a clear and comprehensible manner.

The basis for the quantitative implementation of the ICAAP in the VBAG Group is the risk bearing capacity calculation, which demonstrates that adequate risk-covering capital is in place at any time to provide sufficient cover for risks that have been entered into and which also ensures such cover is available in 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 VBAG Group risk report is produced.

Credit risk

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

Pursuant to the decision of the FMA dated 31 March 2008, VBAG was granted approval as the superordinated bank (*übergeordnetes Kreditinstitut*) 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).

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 Management Board in risk analyses and credit decisions. All measurable risks in the VBAG Group are subject to a limit structure that is in turn subject to ongoing operational monitoring. The "no risk without limit" principle applies. Risks for which current theory does not provide sufficiently exact measurement methods or instruments are considered either on the basis of regulatory equity requirements or conservative calculation methods, taking stress assumptions into consideration, or in the form of safety buffers. The prudence principle is applied in such cases.

Controlling the credit risk also necessitates the development of sophisticated models and systems tailored to VBAG's own portfolio. The aim is firstly to structure and improve credit decision-making and secondly to use such instruments and their findings as a basis for portfolio management. When implementing these systems, the VBAG Group paid particular attention to ensuring that all rating systems used with the Group show a comparable probability of default ("PD") and are connected with the Volksbank 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.

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, economic capital is held for the purpose of covering unexpected losses exceeding expected losses. In VBAG, the calculation of the economic capital requirements needed for the credit risk is based on the credit value at risk ("CVaR") method. For this purpose, the VBAG Group has selected an analytical calculation method based on an actuarial approach. In particular, a credit risk model (CreditRisk+ model) adapted in line with internal requirements is in use for modelling the default risk in the loan portfolio.

From the first quarter of 2010 on, the CVaR method is used at group level as a basis for the following tasks:

- Breaking down the CVaR into individual segments and customers;
- identifying portfolio concentrations;
- analysing the development of the CVaR in portfolio and new business;
- individual address analysis; and
- identifying the major drivers behind CVaR changes (collateral, new business, default rate, etc.).

The CVaR for the credit risk is also used for the following purposes as part of general bank management:

- Calculating economic capital;
- ensuring comparability of the risk situation for different types of risk (e.g. credit risk and market risk);

- calculating risk-adjusted performance ratios (e.g. ROEC); and
- allocating capital.

The CVaR results also serve as a means of obtaining additional information for portfolio analysis and management. A corresponding report is compiled every month.

An important aim of credit risk methods and instruments is to limit loss through the identification of risks at an early stage. In this process, the VBAG Group pays particular attention to ensuring that the systems primarily serve to support the persons performing the tasks. Thus, in addition to the quality of the methods, great importance is attached to the training, qualifications and experience of the employees.

Credit risk reporting

The credit risk section of the Group risk report provides a detailed reporting of the credit risk at VBAG Group.

The report contains a quantitative presentation of management-oriented information on the credit risk, which is supplemented by a brief assessment of the situation and further qualitative information where appropriate.

Group credit risk manual

The Group credit risk manual ("GCRM") regulates credit risk management throughout the VBAG Group. 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 within the Group, 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.

The GCRM is a living document that is regularly expanded and adapted to current developments and changes within VBAG Group.

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 over 70 counterparties on the basis of International Swaps and Derivatives Association (ISDA) and credit support annex contracts. If the fair values exceed certain contractually defined thresholds, these surpluses must be covered by collateral. Repo transactions with close to 80 contractual partners are also collateralised accordingly. In line with agreed margin calls, collateral is mostly transferred in the form of cash or government bonds in euro.

Market risk

Market risk in the trading book

Market risks in the trading book are managed and monitored by the independent Group market risk management department. Apart from the daily risk reporting the main tasks of this department include the development of methods for measuring market risks, the creation and implementation of comprehensive limit structures, administration of the front office systems, collateral management for derivatives and the enhancement of risk measurement systems. Monitoring market risk and counterparty limits are also among the important tasks of this department. The key element in risk measurement is estimating the amount of a possible loss that could arise from unfavourable market developments. These daily value at risk calculations are performed by using the internationally recognised software program KVaR+ working with the method of historical simulation and essentially include the following calculation steps: Following the identification and definition of the market risk factors to be included in the modelling process, historical changes are identified from the time series of the market risk factors. The historic simulation method is based on the assumption that future changes can be forecast from these historically observed changes.

To identify the future (hypothetical) development of market risk factors required for the VaR calculation, in each case the historically observed changes are added as an alternative to the current development of a risk factor, thus producing a hypothetical distribution for the future development of individual market risk factors. In the next step, hypothetical portfolio values are defined for the scenarios generated in this way that are then used to calculate the profit and loss distribution by mapping the differences between the hypothetical future and currently observed portfolio value. The VaR is obtained by applying the relevant quantile to the empirically calculated profit and loss distribution. The time series length used at VBAG corresponds with the minimum legal requirement of one year.

The amount of VaR is ascertained from the 1 % quantile of the hypothetical profit and loss distribution, thus meeting the legal requirement of assuming a one-sided forecast interval with a probability level of 99 % in the VaR calculation. VBAG calculates the VaR for a holding period of one day. The capital requirements of products that are not integrated into the internal VaR model are covered in the standard procedure.

The plausibility and reliability of the risk figures is reviewed daily by way of backtesting. Despite the high volatility on the interest rate, currency, stock and commodity futures markets, only two exceptions were identified in 2010 (a daily loss exceeding the VaR estimate).

A hierarchical limit system approved by the Management Board is a key element of market risk management. The desired high degree of diversification in the portfolios and the trading strategy are key factors in the development of this limit structure. In addition to the VaR, a further series of market risk figures are calculated and limited up to department level. These include interest rate sensitivities and option risk ratios (delta, gamma, vega, rho).

Volume limits for all currencies and product groups are established in order to limit the liquidity risk. Management action triggers and stop loss limits are also in place. The effectiveness of hedging strategies is monitored 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 complex products.

As the effects of extreme situations on earnings cannot be covered by VaR, stress tests using around 70 historical and portfolio-specific worst case scenarios are performed monthly or more frequent if required.

Well-organised, efficient processes and procedures are an important component of risk management. The process for launching new treasury products, which falls under the responsibility 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 lays down the limit structure and escalation procedures in the event of limits being exceeded.

Interest rate risks in the banking book

Generally, taking interest rate risks is a normal part of banking business and is a key source of income. However, excessive interest rate risk represents a significant threat to the earnings and capital situation of a bank. Accordingly, an effective risk management system that monitors and limits interest rate risk in line with the scope of business is vital for maintaining VBAG's ability to bear risk.

The declared aim of interest rate risk management at VBAG is to identify all material interest rate risks from assets, liabilities and off-balance positions in the banking 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 static and dynamic reports that also incorporate new business.

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 in time 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 comparing the present value risk calculated in this way with 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.

Additionally, present value reports are produced at VBAG to obtain further ratios. Besides parallel shifts, twists 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.

The risk measurement system aims at recording all the main forms of interest rate risk, such as basis and option risks. All positions sensitive to interest rate movements are intended to be included. Risk reporting covers the whole Group and takes place on a monthly or an ad-hoc basis whenever necessary. The objective of risk management is to keep the VBAG's interest rate risks within specific parameters defined by the bank itself.

Strategic banking book positions

Particular attention is paid to what are termed strategic banking 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 Management Board on a quarterly basis as part of the risk report. In 2009, this reporting was supplemented by risk ratios, such as specific sensitivities and credit spread VaR for bonds and credit default swaps.

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 2011, capital requirement has been based on the standard approach for the whole VBAG Group. 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 operational risk 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 operational risk management in VBAG Group and deal with operational risk issues on an ongoing basis. Close collaboration with other Group functions such as audit, compliance and legal as well as security, safety and insurance management shall ensure optimum and comprehensive management of operational risks.

Liquidity risk

ALM and liquidity management

Through the use of both, tried-and-tested instruments and newly developed tools, operational liquidity management monitors compliance with legal provisions, daily reporting and liquidity provision within the Group within short timeframes.

ALM/Liquidity management is a centralised operational liquidity management function. Its main tasks are the fund transfer pricing, the group wide management of collateral, the funding structure and the responsibility for the liquidity strategy and the liquidity emergency process.

Liquidity risk management

A monthly liquidity report based on the data from “SAP SEM” is produced by the market risk management department for the strategic liquidity risk management. This report takes both capital repayments and interest payments into account. Capital repayment structures and forward interest rates are calculated in the SAP system. The modelling of stochastic cash flows, the reports and the graphics are prepared outside of SAP following the data export. The monthly reporting also includes the available liquidity buffer, stress scenarios and key rate indicators.

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. As for 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 general 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.

Principal markets

VBAG's principal geographic markets are Austria, Bosnia-Herzegovina, Croatia, the Czech Republic, Germany, Hungary, Malta, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.

Competitive position

The following ranking shows that based on unconsolidated balance sheet figures, VBAG was the sixth largest bank in Austria as of 31 December 2009

Rank	*Name of Bank*
1	*UniCredit Bank Austria AG*
2	*Raiffeisen Zentralbank Österreich Aktiengesellschaft*
3	*Erste Group Bank AG*
4	*BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse*
5	*Oesterreichische Kontrollbank Aktiengesellschaft*
6	*Österreichische Volksbanken-Aktiengesellschaft*
7	*UniCredit CAIB AG*
8	*Raiffeisenlandesbank Niederösterreich-Wien AG*
9	*Raiffeisenlandesbank Oberösterreich Aktiengesellschaft*
10	*Hypo Alpe-Adria-Bank International AG*

(Source: OeNB)

3.4 Organisational structure

Volksbanken Verbund

As the central credit institution of the alliance of Volksbanken (*Volksbanken Verbund*) (the "Volksbanken Verbund"), VBAG plays a central role in the Volksbanken Verbund.

The Volksbanken Verbund consists of the *Volksbanken* entities on the primary level (*Primärbanken*) (the "Volksbanken" and each a "Volksbank"), the VBAG Group (VBAG and its subsidiaries in Austria and abroad) and the Allgemeine Bausparkasse registrierte Genossenschaft mit beschränkter Haftung ("ABV"), a building society.

The primary level of the Volksbanken Verbund (i.e. the *Primärbanken*) consists of 62 regional Volksbanken (4 of which are special purpose credit co-operatives). Each Volksbank holds an own banking licence.

In its role as the central institution of the Volksbanken Verbund, VBAG provides various services to the Volksbanken. The portfolio of these services consists of the management and investment of liquidity funds - especially the liquidity reserves of the members of the Volksbanken Verbund - the granting of loans, the provision of technical support in lending operations and the offering of temporary liquidity support as well as the facilitation of money and business transactions between the members of the Volksbanken Verbund and third parties (see also the sub-chapter "Principal fields of activity" in "3.2 Business Overview").

As of 31 December 2010, the Volksbanken sector (*Volksbanken Sektor*) (the "Volksbanken Sector") has 67 member institutions (Source: OeNB Kreditinstitutsverzeichnis): In addition to the 62 regional Volksbanken the Volksbanken Verbund consists of VBAG as single entity, VB Factoring Bank AG, Volksbank- Quadrat Bank AG, IK Investmentbank AG and Investkredit Bank AG.

The members of the regional Volksbanken are mainly natural persons. Approximately 525,000 persons are members of the regional Volksbanken, further 150,000 persons are members of the building society ABV. Each regional Volksbank is not only legally independent but also autonomous in its management. Therefore the Volksbanken require a management like any other commercial bank which is in a position to act in a manner of accountable self-responsibility. The bank management is subject to supervision by the FMA and internal control.

The Issuer believes that the customers' proximity to the decision-making process is an advantage of the regional Volksbanken. Volksbanken Verbund is a vertically organised system in which the independent entities work together. On the basis of common goals they withdraw certain individual functions from their autonomous decision-making realm and transfer them to other members of VBAG Group to be fulfilled ("principle of subsidiarity"). This principle regulates the relationship between decentralised units (regional Volksbanken) and centralised units *Österreichischer Genossenschaftsverband (Schulze-Delitzsch)* ("Austrian Cooperative Association") and VBAG. The centralised units' function is intended as supplemental assistance for the (decentralised) members.

Each financial institution within Volksbanken Verbund must be a member of the Austrian Cooperative Association. The Austrian Cooperative Association was founded in 1872 and also has non-financial (industrial and commercial) co-operatives as its members.

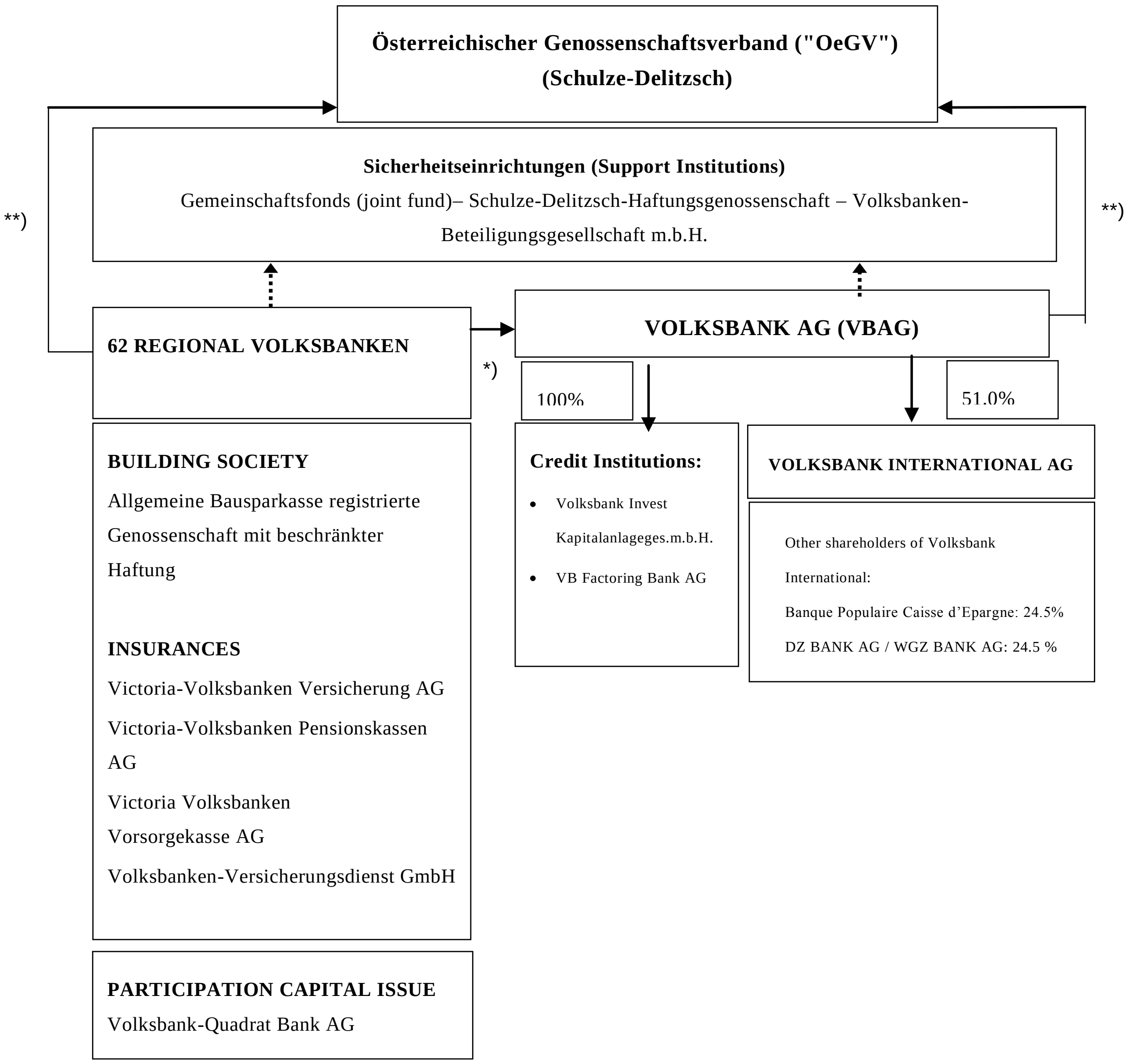
In addition to its function as central credit institution in the Volksbanken Verbund, VBAG indirectly – through Volksbank International AG and Investkredit Bank AG - holds interests in banks in Bosnia-Herzegovina, Croatia, the Czech Republic, Germany, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia and the Ukraine and directly in a bank in Malta.

For information on the possible sale of Volksbank International AG and VB-Leasing International Holding GmbH, please see "3.1 Business history and business development of VBAG" sub-chapter "Recent developments".

Dependence within the Volksbanken Verbund

VBAG is a joint stock corporation and dependent on its shareholders (see "3.5 Major Shareholders"). The regional Volksbanken hold a 60.8 % interest in VBAG via Österreichischer Volksbankenverbund including Volksbanken Holding eingetragene Genossenschaft (e.Gen.). Thus there is the possibility of an exercising influence over VBAG to a certain extent, amongst other things, by appointing or dismissing members of the Supervisory Board or by changing the articles of association in shareholders' meetings.

__Simplified description of selected members of the Volksbanken Verbund__



*) The regional 62 Volksbanken hold a 60.8 % participation in VBAG via Österreichischer Volksbankenverbund including Volksbanken Holding eingetragene Genossenschaft (e.Gen.)

**) Membership in OeGV

Data as of 30 May 2011. Source: Issuer

3.5 Trend information

Statement

The VBAG Group has stabilized in 2010 after a difficult year 2009 with a result of EUR –1,123 million after taxes. The positive trend throughout the first three quarters of the fiscal year 2010 has been confirmed by the 2010 annual result. VBAG Group reports a consolidated result after taxes of EUR 56.484 million for the fiscal year 2010.

For further details see the financial statements of VBAG Group and the financial statements of VBAG as single entity for the years 2009 and 2010 and the unaudited consolidated interim report for the first quarter ended 31 March 2011. As to the situation with regard to the sale of certain subsidiaries the subscription of participation capital by the Republic of Austria and the formal process by the Issuer of evaluating its strategic options please refer to "3 Description of the Issuer – 3.1 Business history and business development of VBAG - Recent developments".

Material influences on the prospects of VBAG

For details in connection with recent developments of the international financial markets and restructuring of VBAG, please refer to "3. Description of the Issuer – 3.1 Business history and business development of VBAG - Recent developments".

Profit forecasts or estimates

No profit forecasts or profit estimates are being included in the Prospectus.

3.6 Administrative, Management, and Supervisory Bodies

Members of the administrative, management and supervisory bodies

Name	Activities outside VBAG
MANAGEMENT BOARD (Vorstand)	
Gerald WENZEL Chairman of the Management Board	**Management Board** Investkredit Bank AG (Chairman) **Supervisory Board** ARZ Allgemeines Rechenzentrum GmbH Österreichische Kontrollbank Aktiengesellschaft PayLife Bank GmbH VICTORIA – Volksbanken Versicherungsgesellschaft m.b.H. Volksbank-Quadrat Bank AG Volksbanken-Versicherungsdienst-Gesellschaft m.b.H. Schulze-Delitzsch-Haftungsgenossenschaft registrierte Genossenschaft mit beschränkter Haftung VB Wien Beteiligung eG Allgemeine Bausparkasse registrierte Genossenschaft mit beschränkter Haftung **Executive Committee** CIBP – Confederation International des Banques Populaires (Association) **Other**

Volksbank Akademie (Association) (Advisory Council)
Österreichischer Genossenschaftsverband –
Verbandsrat der Gruppe "Volksbank" (Vicepresident)
Österreichische Bankwissenschaftliche Gesellschaft
(Association)
(Management Board)
Wirtschaftskammer Österreich - Fachverband der
Kreditgenossenschaften nach dem System-Schulze-
Delitzsch
(Chairman of the Committee)

Martin FUCHSBAUER
Member of the Management Board

Supervisory Board
Gefinag-Holding AG (Chairman)
Österreichische Clearingbank AG
VB GFI AG (Chairman)
VICTORIA-VOLKSBANKEN Vorsorgekasse AG
VIVH AG (Chairman)
Volksbank International AG
Verwaltungsgenossenschaft der Volksbank Wien
e.Gen. (Chairman)

Michael MENDEL
Member of the Management Board

Management Board
Investkredit Bank AG
Supervisory Board
Volksbank International AG
RHÖN-KLINIKUM AG, Bad Neustadt/Saale
AVECO Holding AG, Frankfurt am Main

Audit Committee
Volksbank International AG

Credit Committee
Volksbank International AG

Wolfgang PERDICH
Member of the Management Board

Management Board
Investkredit Bank AG

Supervisory Board
VB Factoring Bank Aktiengesellschaft (Chairman)
VB-Holding Aktiengesellschaft (Chairman)
VB-Leasing International Holding GmbH (Chairman)
VICTORIA životno osiguranje d.d.
VICTORIA – VOLKSBANKEN Biztosito Zrt.
Victoria – Volksbanken Eletbiztosito Rt.
Victoria – Volksbanken Pojistovna a.s. (CZ)
Victoria – Volksbanken Pojistovna a.s. (SK)
VICTORIA-VOLKSBANKEN
Versicherungsaktiengesellschaft

Volksbank International AG (Chairman)
Volksbank-Quadrat Bank AG
Volksbanken-Beteiligungsgesellschaft m.b.H.
Schulze-Delitzsch-Haftungsgenossenschaft registrierte Genossenschaft mit beschränkter Haftung
DZ BANK Polska S.A.

Managing Director
VIBE-Holding GmbH

SUPERVISORY BOARD
(Aufsichtsrat)

Hans HOFINGER
Chairman

Management Board
Volksbank-Quadrat Bank AG
Österreichischer Genossenschaftsverband (Schulze-Delitzsch) (Chairman)

Supervisory Board
Investkredit Bank AG (Chairman)
Volksbanken-Beteiligungsgesellschaft m.b.H.
Volksbank International AG

Advisory Council
Volksbank Akademie (Association)

Executive Committee
Vice President of Confédération Internationale des Banques Populaires (Association)

Other
President of Kuratorium zur Förderung der Wirtschaftsuniversität Wien
Association „Netzwerk von Christen“ zur Unterstützung der Global Marshall Plan Initiative

Rainer KUHNLE
First Deputy Chairman

Management Board
VB Wien Beteiligung eGen
Volksbank Krems-Zwettl Aktiengesellschaft
Verwaltungsgenossenschaft der Volksbank Krems-Zwettl registrierte Genossenschaft mit beschränkter Haftung
Volksbanken Holding eingetragene Genossenschaft (e.Gen.) (Chairman)

Supervisory Board
Investkredit Bank AG
Volksbank Wien AG

	Managing Director VB – REAL Volksbank Krems-Zwettl Immobilien- und Vermögenstreuhandgesellschaft m.b.H.
Franz FRISCHLING Second Deputy Chairman	**Management Board** Volksbank Vöcklamarkt-Mondsee registrierte Genossenschaft mit beschränkter Haftung (Chairman) Volksbanken Holding eingetragene Genossenschaft (e.Gen.) **Supervisory Board** ARS Vermögensverwaltung GmbH (Chairman) Investkredit Bank AG
Members:	
Harald BERGER	**Management Board** Volksbank Südburgenland registrierte Genossenschaft mit beschränkter Haftung (Chairman) Volksbanken Holding eingetragene Genossenschaft (e.Gen.) VB Wien Beteiligung eG **Supervisory Board** Volksbank Wien AG Volksbanken-Beteiligungsgesellschaft m.b.H. Volksbank-Quadrat Bank AG Schulze-Delitzsch-Haftungsgenossenschaft registrierte Genossenschaft mit beschränkter Haftung
Thomas BOCK	**Management Board** VOLKSBANK VORARLBERG e.Gen. (Chairman) **Supervisory Board** Volksbank International AG Volksbank-Quadrat Bank AG Volksbanken-Beteiligungsgesellschaften m.b.H. **Managing Director** Volksbank Vorarlberg Anlagen-Leasing GmbH Volksbank Vorarlberg Marketing und Beteiligungs-GmbH Volksbank Vorarlberg Privat-Leasing GmbH Volksbank Vorarlberg Versicherungs-Makler GmbH **Board of Directors („Verwaltungsrat“)** JML Holding AG, Zug (Switzerland) JML AG, Zug (Switzerland) Volksbank AG in Schaan (Liechtenstein, 100 per cent subsidiary of Volksbank Vorarlberg e.Gen.)

	Volksbank AG, St. Margarethen (Switzerland, 100 per cent subsidiary of Volksbank Vorarlberg e.Gen.)
Hermann EHINGER	delegated by the Staff Council to the Supervisory Board
Ilse HABERLEITNER	delegated by the Staff Council to the Supervisory Board
Erich HACKL	**Management Board** Allgemeine Bausparkasse registrierte Genossenschaft mit beschränkter Haftung (Chairman) **Supervisory Board** Volksbanken-Beteiligungsgesellschaft m.b.H. IMMO-BANK Aktiengesellschaft (Chairman) Volksbank-Quadrat Bank AG Schulze-Delitzsch-Haftungsgenossenschaft registrierte Genossenschaft mit beschränkter Haftung Schulze-Delitzsch Fakt e.Gen. Schulze-Delitzsch OÖ e.Gen. Verwaltungsgenossenschaft der IMMO-BANK eG Verwaltungsgenossenschaft der Volksbank Wien e.Gen.
Josef HEIDEGGER	delegated by the Staff Council to the Supervisory Board
Wolfgang KIRSCH	**Management Board** DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main (Chairman) **Supervisory Board** Bausparkasse Schwäbisch Hall AG (Chairman) R + V Versicherung AG (Chairman) Union Asset Management Holding AG (Chairman) Südzucker AG Mannheim/Ochsenfurt **Board of Directors (“Verwaltungsrat”)** Banco Cooperativo Español S.A. Liquiditäts-Konsortialbank GmbH, Frankfurt am Main Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR), Berlin
Wolfgang KÖHLER	**Management Board** DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main **Supervisory Board** DVB Bank SE, Frankfurt am Main R + V Versicherung AG, Wiesbaden

	DZ BANK Polska S.A. (Chairman) **Board of Directors ("Verwaltungsrat")** DZ PRIVATBANK S.A., Luxembourg DZ PRIVATBANK (Schweiz) AG, Zurich
Hans LANG	delegated by the Staff Council to the Supervisory Board
Jochen MESSEMER	**Management Board** ERGO Versicherungsgruppe AG, Düsseldorf ERGO International AG, Düsseldorf (Chairman) **Supervisory Board** D.A.S. Allgemeine Rechtsschutz-Versicherungs-AG, München MediClin AG, Frankfurt **Board of Directors („Verwaltungsrat")** ERGO GRUBU HOLDING A.S., Istanbul (Chairman) **Other** Außenwirtschaftsbeirat beim Bundesminister für Wirtschaft und Technologie, Berlin Außenwirtschaftsausschuss der Industrie und Handelskammer, Düsseldorf Gesellschaft der Freunde und Förderer der Tonhalle Düsseldorf e.V. AIESEC, Düsseldorf Gesamtverband der Deutschen Versicherungswirtschaft e.V., Berlin Diözesankirchensteuerrat des Erzbistums, Köln Deutscher Verein für Versicherungswissenschaft e.V., Berlin
Franz NEBEL	**Management Board** REWE International AG Volksbanken Holding eingetragene Genossenschaft (e.Gen.) **Supervisory Board** Adeg Österreich Handelsaktiengesellschaft Euro-Billa Holding Aktiengesellschaft Merkur Warenhandels-Aktiengesellschaft BIPA Parfumerien G.m.b.H. REWE International Lager- und Transportgesellschaft m.b.H. REWE International Dienstleistungsgesellschaft m.b.H. **Managing Director** ALTRIX Immobilien GmbH

	BML-REWE Einkaufsgesellschaft m.b.H. Marjan & Co. Gesellschaft m.b.H. Philipp Haas & Söhne Handelsgesellschaft m.b.H.
Anton PAUSCHENWEIN	**Management Board** Volksbank Niederösterreich Süd eG (Chairman) Volksbanken Holding eingetragene Genossenschaft (e.Gen.) (Deputy Chairman) Rotary Club Wiener Neustadt Verein zur Förderung des Regional-Innovations-Zentrum NÖ-SÜD **Supervisory Board** NÖ Beteiligungsfinanzierungen GmbH NÖ Bürgschaften GmbH Business Messen Wiener Neustadt - Genossenschaft für Wirtschaftsförderung registrierte Genossenschaft mit beschränkter Haftung VB Wien Beteiligung eG
Michaela POKORNY	delegated by the Staff Council to the Supervisory Board
Matthäus THUN-HOHENSTEIN	delegated by the Staff Council to the Supervisory Board
Edwin REITER	**Management Board** VOLKSBANK OBERKÄRNTEN registrierte Genossenschaft mit beschränkter Haftung (Chairman) Volksbanken Holding eingetragene Genossenschaft (e.Gen.) **Supervisory Board** Gabor Gesellschaft m.b.H. Bad Kleinkirchheimer Bergbahnen Holding AG
Christian WERNER	delegated by the Staff Council to the Supervisory Board
Walter ZANDANELL	**Management Board** Volksbank Salzburg eG (Chairman) Schulze-Delitzsch Privatstiftung (Chairman) Volksbanken Holding eingetragene Genossenschaft (e.Gen.) **Supervisory Board** ARZ Allgemeines Rechenzentrum GmbH Volksbanken-Beteiligungsgesellschaft m.b.H. Volksbank-Quadrat Bank AG Schulze-Delitzsch-Haftungsgenossenschaft registrierte Genossenschaft mit beschränkter Haftung

Volksbank Graz-Bruck eG

Advisory Council
ARZ Allgemeines Rechenzentrum GmbH

State Commissioners (Staatskommissäre)

Viktor LEBLOCH
Appointed as of 1 June 1995

Heinrich LORENZ
Appointed as of 1 August 2010

ADVISORY COUNCIL
(Beirat)

Werner EIDHERR
Chairman of the Advisory Council

President of Österreichischer Genossenschaftsverband (Schulze-Delitzsch) (Association)
Supervisory Board
Investkredit Bank AG
Volksbanken-Beteiligungsgesellschaft m.b.H.
Volksbank-Quadrat Bank AG
Schulze-Delitzsch-Haftungsgenossenschaft registrierte Genossenschaft mit beschränkter Haftung

Johannes JELENIK
Deputy Chairman of the Advisory Council

Management Board
Volksbank Kärnten Süd e.Gen.

Supervisory Board
Volksbank-Quadrat Bank AG
Volksbanken-Beteiligungsgesellschaft m.b.H.

Managing Director
VB Kärnten Süd Leasing GmbH
VB Realitäten Gesellschaft m.b.H.
VB Buchführung GmbH

Johannes FLEISCHER

Management Board
Volksbank Weinviertel e.Gen. (Chairman)

Hermann GEISSLER

Management Board
GAJA Mittelstandsfinanzierungs AG
APK Holding Privatstiftung
Privatstiftung zur Bärenhöhle
Selah Privatstiftung

	BONARTES Privatstiftung
	Supervisory Board Volksbank Wien AG KARNALI Projektentwicklung AG (Chairman)
	Managing Director WAVER Beteiligungs GmbH Galerie Bonartes GmbH
Franz KNOR	**Management Board** Volksbank Südburgenland registrierte Genossenschaft mit beschränkter Haftung
Michael PESCHKA	**Management Board** Volksbank Eferding-Grieskirchen registrierte Genossenschaft mit beschränkter Haftung (Chairman)
Gerhard REINER	**Management Board** Volksbank Graz-Bruck e.Gen. (Chairman)
	Supervisory Board Volksbank, Gewerbe- und Handelsbank Kärnten Aktiengesellschaft Volksbank Wien AG
Wolfgang SCHAUER	**Management Board** Volksbank Kufstein eG (Chairman)
	Managing Director Kufstein unlimited Festival GmbH
Othmar SCHMID	**Management Board** Österreichische Apothekerbank eG
	Supervisory Board Schulze-Delitzsch Ärzte und Freie Berufe e.Gen.
	Managing Director APO-Holding Gesellschaft m.b.H.
Gerhard SCHWAIGER	**Management Board** Volksbank Tirol Innsbruck-Schwaz AG (Chairman) HAGEBANK TIROL Holding, eingetragene Genossenschaft
	Supervisory Board ARZ Allgemeines Rechenzentrum GmbH
	Managing Director

	Meinhardgarage Gesellschaft m.b.H. Volksbank Immobilien Ges.m.b.H. Volksbank Tirol Innsbruck-Schwaz Versicherungsservice GmbH
Claudius SEIDL	**Management Board** VR-Bank Rottal-Inn eG **Supervisory Board** Raiffeisen-Handels-GmbH Rottal (Chairman)
Peter SEKOT	**Management Board** VOLKSBANK MARCHFELD e.Gen. (Deputy Chairman) **Supervisory Board** Volksbanken-Beteiligungsgesellschaft m.b.H. Schulze-Delitzsch-Haftungsgenossenschaft registrierte Genossenschaft mit beschränkter Haftung Volksbank-Quadrat Bank AG VB Wien Beteiligung eG
Bernd SPOHN	**Management Board** Österreichischer Genossenschaftsverband (Schulze-Delitzsch) (Deputy Chairman) Vereinigung österreichischer Revisionsverbände FOG Forschungsverein für Genossenschaftswesen der Universität Wien (Chairman) **Supervisory Board** Volksbanken – Versicherungsdienst – Gesellschaft m.b.H. **Managing Director** TREUGENO Steuerberatungs- und Wirtschaftsprüfungsgesellschaft mbH
Helmut STIEB	**Management Board** Volksbank Vöcklabruck-Gmunden e.Gen.
Sonja ZWAZL	**President** of the Lower Austrian Economic Chamber **Management Board** RAIFFEISEN-HOLDING NIEDERÖSTERREICH-WIEN registrierte Genossenschaft mit beschränkter Haftung **Supervisory Board** NÖ Bürgschaften GmbH NÖ Kulturwirtschaft GmbH WIENER STÄDTISCHE VERSICHERUNG AG

Vienna Insurance Group

State Advisory Board
WIENER STÄDTISCHE VERSICHERUNG AG
Vienna Insurance Group

The business address for all members of the Management Board, the Supervisory Board and the Advisory Council is Kolingasse 14-16, A-1090 Vienna, Austria.

Conflicts of interest

VBAG is not aware of any potential conflict of interest between the duties to VBAG by the persons listed above and his or her private duties and/or other duties. There are no family ties between members of the Management Board and the Supervisory Board.

3.7 Share Capital

VBAG's issued share capital amounts to EUR 311,095,411.82 and is divided into 42,791,666 bearer shares with a nominal value of EUR 7.27 each, as of the date of this Prospectus.

In April 2009, VBAG has issued participation capital securities in an aggregate nominal amount of EUR 1,000,000,000 to the Republic of Austria in accordance with the provisions of an agreement in principle (i.e. the *Grundsatzvereinbarung* as described under "3.9 Material Contracts". The participation capital securities are perpetual and do not have a fixed maturity. The participation capital securities may be repaid only in accordance with a procedure resembling a share capital reduction or redemption of the participation capital pursuant to the Austrian Banking Act (*Bankwesengesetz*) or if capital in the amount redeemed of at least the same quality is placed. The participation capital bears a dividend of 9.3 % p.a. within the first full five years which increases thereafter. Dividend payments are conditional upon sufficient annual profits of the Issuer. The Republic of Austria has the option to convert its participation capital securities into ordinary shares of the Issuer; this right is subject to the prior consent of the Issuer save for certain exceptions. The Republic of Austria has granted a pre-emption right to the Issuer according to which the Issuer may either itself acquire or nominate a third party to acquire the participation capital securities in case of a contemplated sale by the Republic of Austria. Furthermore, the Issuer has been granted a call option by the Republic of Austria according to which the Issuer itself or a third party may acquire the participation capital securities from the Republic.

Shareholder structure

VBAG's shareholder structure as at 30 May 2011:

Shareholder	**Percentage of share capital (rounded)**
Österreichischer Volksbankenverbund including Volksbanken Holding e.Gen.	60.8
DZ BANK group	23.4
Raiffeisen Zentralbank Österreich Aktiengesellschaft	5.7
ERGO group (Victoria insurance)	9.4
Others	0.6

(Source: Internal data of the Issuer. Percentages are rounded. Due to rounding the sum of these percentages is 99,9%.)

Due to a stake of 60.8 % in VBAG, Österreichischer Volksbankenverbund including Volksbanken-Holding e. Gen. has significant influence in VBAG. The shares in Volksbanken Holding e.Gen. are held by 59 (regional) Austrian Volksbanken (altogether 95.17 %), Österreichischer Genossenschaftsverband (Schulze-Delitzsch) (1.15 %), Volksbanken-Beteiligungsgesellschaft m.b.H. (0.92 %), nine goods co-operative societies (*Warengenossenschaften*) (altogether 0.54 %), and Allgemeine Bausparkasse registrierte Genossenschaft mit beschränkter Haftung (2.22 %). Therefore not all 62 regional Volksbanken have a direct ownership with the Volksbanken-Holding e.Gen.

Other shareholdings in VBAG are direct participations.

3.8 Financial information concerning VBAG

Historical financial information

The audited consolidated annual financial statements of VBAG for the fiscal years ended on 31 December 2009 and 31 December 2010, in each case with the audit report thereon, are incorporated by reference in this Prospectus.

Extracts from the audited consolidated annual financial statements and the audited reports of 2009 and 2010 are included below without material adjustments.

Consolidated Balance Sheet of VBAG (for the years ended 31 December 2010 and 31 December 2009 according to IFRS)

	For the year ended 31 December	
in EUR thousand	**2010 audited**	**2009 audited**
ASSETS		
Liquid funds	1,982,446	3,008,042
Loans and advances to credit institutions (gross)	6,431,879	6,795,291
Loans and advances to customers (gross)	23,614,938	24,133,518
Risk provisions (-)	-1,522,532	-1,233,691
Trading assets	2,163,480	1,764,095
Financial investments	8,993,767	9,410,642
Assets for operating lease	334,771	331,424
Companies measured at equity	72,619	70,887
Participations	717,920	634,992
Intangible assets	125,340	127,030
Tangible fixed assets	248,090	247,871
Tax assets	210,144	193,723
Other assets	1,372,512	1,491,838
Assets of the disposal group	1,719,470	2,169,929
Total Assets	**46,464,844**	**49,145,593**
LIABILITIES AND EQUITY		
Amounts owed to credit institutions	14,377,129	15,664,943
Amounts owed to customers	7,311,931	7,466,565
Debts evidenced by certificates	16,121,510	17,328,664
Trading liabilities	1,457,430	1,236,911
Provisions	186,147	179,636
Tax liabilities	92,373	62,424
Other liabilities	1,729,266	1,418,875
Liabilities of the disposal group	1,267,024	1,682,878
Subordinated liabilities	1,863,924	1,983,383
Equity	2,058,109	2,121,315
Shareholders' equity	1,192,694	1,178,072
Non-controlling interest	865,415	943,243

Total Liabilites and Equity	**46,464,844**	**49,145,593**

(Source: audited consolidated financial statements of VBAG for the financial years ended 31 December 2009 (contained in the Annual Report 2009) and 31 December 2010 (contained in the Annual Report 2010))

Consolidated Income Statement of VBAG for the business years 2010 and 2009

	For the year ended 31 December	
In EUR thousand	**2010 audited**	**2009 audited**
Interest and similar income and expenses	771,978	632,573
Income from companies measured at equity	4,280	-36,055
Net interest income	776,259	596,519
Risk provisions	-364,308	-851,748
Net fee and commission income	166,906	200,771
Net trading income	39,655	63,143
General administrative expenses	-551,126	-538,487
Other operating result	-21,592	21,135
Income from financial investments	42,788	-253,498
Income from the disposal group	2,243	-181,288
Result before taxes	**90,825**	**-943,453**
Income taxes	-31,008	-215,408
Income taxes of the disposal group	-3,332	35,817
Result after taxes	**56,484**	**-1,123,043**
Result attributable to shareholders of the parent company (Consolidated net result)	55,421	-1,084,272
Result attributable to non-controlling interest	1,063	-38,771

(Source: audited consolidated financial statements of VBAG for the financial years ended 31 December 2009 (contained in the Annual Report 2009) and 31 December 2010 (contained in the Annual Report 2010))

Balance Sheet of VBAG (stand-alone for the years ended 31 December 2010 and 31 December 2009)

ASSETS	**For the year ended 31 December**	
In EUR	**2010 audited**	**2009 audited**
1. Cash in hand, balances with central banks	142,508,807.29	790,232,671.56
2. Debt instruments issued by public bodies and similar securities admitted for refinancing at the central bank	1,438,156,098.28	1,471,129,823.61
3. Loans and advances to credit institutions	14,471,199,979.72	16,536,231,899.11
4. Loans and advances to customers	5,156,194,570.73	3,635,642,188.76
5. Debt securities and other fixed-income	5,175,648,168.88	5,764,841,711.34
6.Shares and other variable yield-securities	754,972,702.23	637,217,287.41
7.Investments in other companies	72,257,721.31	68,421,515.30

8.Investments in affiliates	2,180,332,594.63	2,146,311,353.50
9.Intangible assets	7,630,666.81	4,628,258.65
10.Tangible fixed assets	10,818,189.04	6,162,343.46
11.Treasury stocks	12,330,909.90	12,979,249.08
12.Other assets	2,727,867,288.30	2,959,963,232.85
13.Deferred items	356,741,414.22	365,150,366.19
Total assets	**32,506,659,111.34**	**34,398,911,900.82**
Off-balance-sheet items		
Assets denominated in foreign currencies	10,888,767,452.46	9,888,134,893.25

LIABLIITIES AND EQUITY	**For the year ended 31 December**	
In EUR	**2010 audited**	**2009 audited**
1. Amounts owned to credit institutions	8,851,109,715.81	9,833,353,502.04
2. Amounts owned to customers	1,645,686,083.31	1,779,974,076.64
3. Debts evidenced by certificates	15,901,082,173.06	16,685,672,439.78
4. Other liabilities	2,843,424,497.57	2,813,239,196.98
5. Deferred items	7,150,276.90	9,468,484.83
6. Provisions	133,550,714.57	117,515,113.35
7. Subordinated liabilities	548,380,532.33	563,380,532.33
8. Supplementary capital	568,800,000.00	568,800,000.00
9. Participation capital 2008	500,000,000.00	500,000,000.00
10. Subscribed capital	1,345,173,065.29	1,345,173,065.29
11. Capital reserves	0.00	298,695.34
12. Retained earnings	17,960,879.19	18,609,218.37
13. Liability reserve acc. to sec. 23 (6) Austrian Banking Act	144,341,173.31	163,427,575.87
14. Net profit	0.00	0.00
Total liabilities	**32,506,659,111.34**	**34,398,911,900,82**
Off-balance sheet items		
1. Contingent liabilities		
liabilities from guarantees and guarantees from collateral	3,683,206,655.92	4,184,038,045.90
2. Credit risks	4,940,612,551.96	6,232,052,000.00
Of which liabilities from repurchasing transactions	9,372,551.96	0.00
3. Eligible qualifying capital acc. to sec. 23 (1) Austrian Banking Act	2,807,347,934.46	2,858,857,227.37
4. Capital requirement acc. to sec. 22 (1) Austrian Banking Act	1,006,994,638.05	1,039,647,258.10
5. Liabilites denominated in foreign currencies	3,339,842,112.34	3,820,023,763.46

(Source: audited stand-alone financial statements of VBAG for the financial years ended 31 December 2009 (contained in the Annual Report 2009) and 31 December 2010 (contained in the Annual Report 2010))

Income Statement of VBAG (stand-alone for the business years 2010 and 2009)

	For the year ended 31 December	
In EUR	**2010 audited**	**2009 audited**
1. Interest receivable and similar income	832,222,852.18	925,381,428.58
2. Interest payable and similar expenses	-854,239,831.51	-1,073,319,723.26
I. Net interest income	**-22,016,979.33**	**-147,938,294.68**
3. Income from securities and investments	28,033,067.48	150,725,434.25
4. Fee and commission income	87,710,854.93	62,522,775.95
5. Fee and commission expenses	-22,319,773.17	-24,195,145.51
6. Net trading income	31,422,753.15	124,681,530.63
7. Other operating income	63,383.48	105,016.69
II. Operating income	**102,893,306.54**	**165,901,317.33**
8. General administrative expenses	-140,712,473.12	-129,611,195.52
9. Value adjustments on assets included under items 9 and 10	-2,731,922.92	-2,289,342.34
10. Other operating expenses	-240,848.38	-301,156.87
III. Operating Expenses	**-143,685,244.42**	**-132,201,694.73**
IV. Operating Result	**-40,791,937.88**	**33,699,622.60**
11. Value adjustments for loans, advances and allocations to reserves for contingent liabilities and for credit risks	-72,016,913.05	-94,547,828.78
12. Income from the release of value adjustments for loans, advances and reserves for contingent liabilities and for credit risks	39,512,013.03	59,084,465.53
13. Value adjustments for and sales losses securities valued as financial investments in affiliates	-79,297,468.48	-806,652,721.85
14. Income from value for and sales revenue from securities valued as financial investments as well as from, participations and investments in affiliates	120,084,709.26	125,803,211.45
V. Result from ordinary operations	**-32,509,597.12**	**-682,613,251.05**
15. Income taxes	12,521,849.65	-109,828,674.30
16. Other taxes unless reported under item 15	-45,689.61	918,832.79
VI. Annual results after taxes	**-20,033,437.08**	**-791,523,092.56**
17. Changes in reserves	20,033,437.08	791,233,931.82
VII. Annual Result	**0.00**	**-289,160.74**
18. Profit carried forward	0.00	289,160.74
VIII. Net Profit	**0.00**	**0.00**

(Source: audited stand-alone financial statements of VBAG for the financial years ended 31 December 2009 (contained in the Annual Report 2009) and 31 December 2010 (contained in the Annual Report 2010))

Consolidated Balance Sheet of VBAG (as per 31 March 2011 and 31 December 2010)

in EUR thousand	**Three months ended 31 March 2011**	**Year ended 31 December 2010**
	(Unaudited)	**(Audited)**
ASSETS		
Liquid funds	2,221,741	1,982,446
Loans and advances to credit institutions (gross)	5,378,014	6,431,879
Loans and advances to customers (gross)	23,777,324	23,614,938
Risk provisions (-)	-1,530,832	-1,522,532
Trading assets	2,181,897	2,163,480
Financial investments	8,946,680	8,993,767
Assets for operating lease	228,229	334,771
Companies measured at equity	71,141	72,619
Participations	718,092	717,920
Intangible assets	124,182	125,340
Tangible fixed assets	245,033	248,090
Tax assets	204,528	210,144
Other assets	1,505,755	1,372,512
Assets of the disposal group	0	1,719,470
Total Assets	**44,071,783**	**46,464,844**
LIABLIITIES AND EQUITY		
Amounts owed to credit institutions	14,424,929	14,377,129
Amounts owed to customers	7,439,317	7,311,931
Debts evidenced by certificates	15,240,017	16,121,510
Trading liabilities	1,145,707	1,457,430
Provisions	177,333	186,147
Tax liabilities	88,891	92,373
Other liabilities	1,669,084	1,729,266
Liabilities of the disposal group	0	1,267,024
Subordinated liabilities	1,851,156	1,863,924
Equity	2,035,350	2,058,109
Shareholders' equity	1,290,287	1,192,694
Non-controlling interest	745,063	865,415
Total Liabilites and Equity	**44,071,783**	**46,464,844**

(Source: Unaudited consolidated interim financial statements for the first quarter ended 31 March 2011 - Interim Report First Quarter 2011)

Consolidated Income Statement of VBAG for the for the first quarter ended 31 March 2011 and 31 March 2010

In EUR thousand	**Three months ended 31 March 2011 (unaudited)**	**Three months ended 31 March 2010 restated and unaudited**
Interest and similar income and expenses	184,569	192,070
Income from companies measured at equity	1,938	447
Net interest income	186,507	192,517
Risk provisions	-66,372	-106,583
Net fee and commission income	41,550	43,054
Net trading income	7,347	1,974
General administrative expenses	-140,918	-135,830
Other operating result	4,002	8,207
Income from financial investments	8,465	10,461
Income from the disposal group	0	7,785
Result before taxes	**40,582**	**21,586**
Income taxes	-5,121	-3,311
Income taxes of the disposal group	0	1,690
Result after taxes	**35,461**	**19,965**
Result attributable to shareholders of the parent company (Consolidated net income/loss)	31,579	7,371
Result attributable to non-controlling interest	3,882	12,594

(Source: Unaudited consolidated interim financial statements for the first quarter ended 31 March 2011 - Interim Report First Quarter 2011)

Auditors' Report

The auditors' reports on the consolidated financial statements as of 31 December 2010 and 31 December 2009 are incorporated by reference into this Prospectus.

Material changes in the financial position of VBAG

Save as disclosed in this chapter and in the chapter "3. Description of the Issuer - Recent developments" there have been no further significant or material adverse changes in the financial position of VBAG Group since 31 December 2010, being the date of the latest audited published financial statements of VBAG.

For details in connection with recent developments of the international financial markets and restructuring of VBAG, in particular the sale of certain subsidiaries, please refer to "3. Description of the Issuer – 3.1 Business history and business development of VBAG - Recent developments" and "3.5 Trend information".

3.9 Legal and arbitration proceedings

As a result of official tax audits, two fully consolidated subsidiaries of VBAG were ordered to pay corporate tax for previous years. VBAG has filed appeals against these orders. There is a risk that VBAG's appeals will not prevail. As of spring 2011, the total tax payments involved amounted to approximately EUR 18.9 million (including interest for suspending the tax payment).

State aid: Commission opens investigation into aid granted to Austrian bank VBAG: According to an EU Press Release[2] dated 9 December 2011, the European Commission has opened under EU state aid rules an in-depth investigation into several support measures that Austria had granted to VBAG in 2009. The European Commission believes that VBAG is unable to implement the restructuring plan which it has presented in autumn 2010. Furthermore, the Commission had doubts that the plan would enable VBAG to become viable and that it sufficiently addressed the distortion of competition brought about by the state support. The Commission has serious doubts that the state aid for VBAG can be approved under EU State aid rules. A new, further reaching restructuring plan should be presented as soon as possible.

In addition to the proceedings described above, VBAG is involved in various proceedings relating to its business activity on a regular basis, which it does not believe will have a material impact on its economic position.

Save as disclosed in this chapter "Legal and arbitration proceedings", neither VBAG nor any of its subsidiaries are or have been involved in any legal or arbitration proceedings which may have or have had during the twelve months prior to the date of this Prospectus, a significant effect on the financial position or the profitability of VBAG or its subsidiaries. VBAG is not aware of any such proceedings pending or threatening.

3.10 Material contracts

In a dealer agreement (the "Dealer Agreement") dated on or around 31 May 2011, VBAG has agreed with DZ BANK a basis upon which the Dealers (as defined therein and such definition including VBAG) or one of them may from time to time agree to purchase Notes.

The Issuer and the Republic of Austria signed certain framework agreements on issues of publicly guaranteed bonds. Under these framework agreements, the Issuer is entitled to issue bonds that will be guaranteed by the Republic of Austria (pursuant to section 1 paragraph 4 of the Interbank Market Support Act). The guarantee of the Republic of Austria is explicit, unconditional, irrevocable and unsubordinated, and it warrants due and timely payment. The Issuer has issued three series of bonds guaranteed by the Republic of Austria with a total nominal amount of EUR 3 billion (EUR 1 billion each).

In March 2009, VBAG signed an agreement in principle (*Grundsatzvereinbarung*) (the "Grundsatzvereinbarung") with the Republic of Austria for the subscription of participation capital (which currently qualifies as tier 1 capital according to the Austrian Banking Act) by the Republic of Austria. In accordance to the Grundsatzvereinbarung, VBAG has issued participation capital securities in an aggregate nominal amount of EUR 1,000,000,000 to the Republic of Austria. The Grundsatzvereinbarung contains certain covenants and undertakings in connection with the issue of the participation capital securities and in connection with the conduct of business of VBAG, which are in force as long as the Republic of Austria holds such participation capital securities. Provided that the Issuer decides to make payment on these participation capital securities, holders of such participation capital securities participate in the annual profit (*Jahresgewinn*) of the Issuer.

Save as disclosed in this chapter "Material contracts", VBAG is not party to any material contracts that are entered into in its course of business and which could result in any member of the Group being under an obligation or entitlement that is material to VBAG's ability to meet its obligations to Noteholders in respect of the Notes being issued.

3.11 Documents on display

The documents on display are listed under "General Information".

[2] http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1522&format=HTML&aged=0&language=DE&guiLanguage=en