



# Business Report 2005

# VKB-Bank in brief



VKB-Bank is a market-oriented private-enterprise regional bank with a managed on sound commercial principles.

Founded in 1873 as a cooperative, VKB-Bank has been a public limited liability company since 1981. The sole shareholder is the Volkskredit Verwaltungsgenossenschaft, which is owned by the 34,000 members of the cooperative.

At VKB-Bank, a staff of 557 employees in 45 branches handle 275,000 customer accounts. Behind these accounts are people. It is on this that the Bank's motto is based: for me as a person.

In recognition of its activities in support of the people and economy of Upper Austria, in 1983 VKB-Bank was granted the right to bear the provincial coat of arms – an award that constitutes an obligation.

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*Chief Executive Dr. Gernot Krenner (left in photo) and  
Dr. Albert Wagner lead the VKB-Bank as the management board.*

# Dear business partner!

For years, many people have been talking about small companies fading away. Volkskreditbank clearly refuses such a gloomy destiny for small and medium-sized companies. And this for a good reason. VKB-Bank has been financing small to medium-sized companies in Upper Austria for more than 130 years – and it has worked well for us. Growth, jobs, taxes – the small ones make the biggest contribution in every field. Whoever is flexible, who can adjust quickly and has the right bank at his side will also find his markets despite a tougher competition.

VKB-Bank is the only independent regional bank in Upper Austria and relies on flat hierarchies and fast decisions. In order to remain also "the right bank" for small companies in the so structured economy of Upper Austria, Volkskreditbank has consistently adjusted to its business partners. While the commercial business is largely centralized in the credit industry, VKB-Bank gives its branches much scope for decision-making. Those who work and live in the neighbourhood of their customers are simply better informed.

This is why the handshake quality of its service advisers is so very important for the local regional bank – quite in its own interest. Being locally available anytime

means promises have to be kept. No matter whether made orally or in writing. Strictly speaking, customers see their branch manager as being VKB-Bank. On the market itself, all 45 branches act as individual VKB-Banks with comprehensive competences – this is proximity to customers practiced by a decentralized organisation.

Naturally, the local service adviser is also the main contact person at the annual business talks about the Basel II evaluation. For a regional bank, which is present all across Upper Austria and has approx. 560 employees, the new credit rating is achieved much more easily. Auditors do not arrive from Linz, Vienna or Munich: the VKB service adviser knows his customers due to constant communication in the direct neighbourhood.

VKB-Bank is Austria's best funded bank. This top position, which was confirmed by a financial journal of the Financial Times, is the basis of the traditionally cultivated independence because only independence ensures the necessary corporate freedom of action. Therefore, VKB-Bank can rightly call itself the only independent regional bank of Upper Austria. It is not connected to any Viennese central institute, does not belong to any public institution or other banks but to its customers.

With best wishes



Dr. Gernot Krenner, Director General



Dr. Albert Wagner, Member of the Board

# Boards and Officers

## **SUPERVISORY BOARD**

**DKFM. DR. JOHANNES BRANDL**  
Chief executive (rt.) of the BBAG Österreichische Brau-Beteiligungs-AG, Linz,  
Chairman

**KURT KAUN**  
Entrepreneur, St. Florian,  
Vice- Chairman

**CHRISTINE AMMERER**  
Entrepreneur, Ried im Innkreis

**DR. FRANZ GÜTLBAUER**  
Lawyer, Wels

**DR. CHRISTIAN HOFER**  
Director of the Upper Austrian  
chamber of commerce, Linz

**MAG. MATTHÄUS SCHOBESBERGER**  
Entrepreneur, Linz

**MAG. GÜNTHER SINGER**  
Chief executive of LIWEST, Linz

**MAG. DR. RUDOLF TRAUNER**  
Entrepreneur, President of the Upper  
Austrian chamber of commerce, Linz

*Employee representatives on the  
supervisory board:*

**ANDREAS BERER**  
**ELISABETH GRESSLEHNER**  
**KARL HUBER**  
**WERNER REITETSCHLÄGER**

*State Commissioners:*

**MAG. ELISABETH VITZTHUM**  
State commissioner

**MAG. RUDOLF BERGER**  
Deputy state commissioner

## **MANAGEMENT BOARD**

**DR. GERNOT KRENNER**  
Chief executive, Chairman

**DR. ALBERT WAGNER**  
Member of the Board

## **FIELD DIRECTORS**

**DR. ADAM SCHWEBL**

**MAG. ANDREA SEIF**

**MAG. CHRISTIAN SITTENTHALER**

**MAG. JOHANN WIMMER**

## **OFFICERS**

**FRANZ BREITENEDER**

**DR. NORBERT FREILINGER**

**MAG. MANFRED PAMMER**

**DR. HARALD SEMPER**

**DR. WOLFGANG TRAUNMÜLLER**

**MAG. WERNER WAWRA**

**MAG. CHRISTOPH WURM**

## **BRANCH MANAGERS**

**ALFRED ATTENERER**  
Linz-Urfahr

**KARL BRAMBERGER**  
Steyr

**ING. JOSEF EDLINGER**  
St. Florian

**HERBERT GUMPINGER**  
Ried

**MAG. KONRAD HINTERBERGER**  
Leonding

**MAG. FRANZ KELLERMAYR**  
Wels

**HERBERT KLEINDESSNER**  
Linz-Neue Welt

**KARL KRONLACHNER**  
Vöcklabruck

**MAG. MARTIN MOSER**  
Client Center Linz

**MAG. HARALD NADERER**  
Linz, Domgasse

**WOLFGANG PLASSER**  
Gmunden

**HERBERT RAFFELSBERGER**  
Kirchdorf

**HELMUTH RECHBERGER**  
Commercial clients

**MAXIMILIAN SCHACHNER**  
Perg

**JOHANN SPICKER**  
Braunau

**DR. LEOPOLD TRÖSTL**  
Bad Ischl

**HANS WOHLMACHER, MBA**  
Grieskirchen

## ORGANIZATION CHART

<i>Dr. Krenner</i>		<b>The Board</b>		<i>Dr. Wagner</i>	
<b>SUPERVISION</b>	<i>Mag. Wurm</i>	<b>HUMAN RESOURCES</b>	<i>Dr. Freilinger</i>	<b>BRANCH OFFICES</b>	
<b>Board Secretariat</b>	<i>Mag. Versic</i>	<b>Development</b>	<i>Dr. Freilinger</i>		
<b>Controlling</b>	<i>Dr. Brummeier</i>	<b>Administration</b>	<i>Penn</i>		
<b>Risk Management</b>	<i>Mag. Wurm</i>				
<b>Securities Audit</b>	<i>Mag. Kellner</i>				
<b>OPERATIONS</b>	<i>Mag. Wimmer</i>	<b>LOAN DIVISION</b>	<i>Mag. Seif</i>	<b>CORPORATE CLIENTS</b>	<i>Dr. Schwebl</i>
<b>Treasury</b>	<i>Dr. Strehle</i>	<b>Examination</b>	<i>Mag. Riegler</i>	<b>Corporate Client Products</b>	<i>Dr. Modl</i>
<b>Organization</b>	<i>Mag. Horvath</i>	<b>Monitoring</b>	<i>Dr. Graf</i>	<b>State Grant Consulting</b>	<i>Dr. Traunmüller</i>
<b>Accounting</b>	<i>Mag. Greblehner</i>	<b>Legal Affairs</b>	<i>Dr. Forsthuber</i>	<b>Leasing and Project Financing</b>	<i>Breiteneder</i>
<b>Payment Transactions</b>	<i>Linskeseder</i>	<b>Administration</b>	<i>Kastner</i>	<b>Foreign Affairs</b>	<i>Török</i>
<b>Facility Management</b>	<i>Greinstetter</i>				
<b>PUBLIC RELATIONS</b>	<i>Dr. Semper</i>	<b>INTERNAL AUDIT</b>	<i>Hofer, MBA</i>	<b>VIP CLIENTS</b>	<i>Rechberger</i>
				<b>MARKETING</b>	<i>Mag. Wawra</i>
				<b>Advertising</b>	<i>Mag. Wawra</i>
				<b>Distribution</b>	<i>Mag. Gerstorfer</i>
				<b>Customer Relationship</b>	<i>Mag. Nußböck</i>

# Operating Report

Last year, the international economic climate developed relatively well, whereas growth in Europe was again weaker than in the US and Asia. Due to the good economic situation, interest rates were raised several times in the United States, whereas in the Eurozone interest rates rose only slightly at the end of the year. At the money markets, interest rates moved accordingly.

In 2005, the dollar regained strength on the currency markets. Within a year it appreciated significantly against the euro, yen and Swiss francs. On the other hand, the euro hardly changed against the yen and Swiss francs. Last year, stock markets basically continued the upward trend observed since 2003, whereas the markets in the US performed comparatively weak. The Vienna exchange could celebrate a particularly strong upturn. Especially to be emphasized is also the steep rise in the crude oil price which, however, had altogether a lesser impact on the economy than had been feared. Excessively high rises in energy costs in long-term comparison could be felt significantly with regard to the general price development which continued to show an upward drift in Austria last year.

To a large extent, the local economy can satisfactorily look back on 2005. In contrast to many other countries of the Eurozone, the Austrian business location could enhance its attractiveness. A bitter pill, however, was a record high of insolvencies which, on the other hand, is contrasted by a multitude of newly

founded companies. In comparison with other federal states, Upper Austria in particular could further secure its very good position in terms of economic momentum and jobs.

## GENERAL BUSINESS DEVELOPMENT

For VKB-Bank, fiscal 2005 was quite satisfactory again. Total assets, liabilities and equity rose by 2,9 percent to EUR 2,027.3 million, exceeding the EUR 2 billion milestone for the first time. Primary market business – loans to customers and customer deposits – showed an increase of over 2.6 percent to EUR 2,991.4 million. The continuity of growth which dominated the past years could thus be pursued in 2005.

## LOANS

Primary loans increased by 2.5 percent, somewhat less than in the previous year, to EUR 1,466.6 million. The increase is primarily due to a rise in instalment loans and regular loans, whereas there was again a volume reduction in foreign currency loans of little less than one percent which was in no way unintentional. Business considerations concerning this matter go in the direction of advising customers to be careful with this kind of credit which is exposed to a heightened risk. Credit volume of subsidised trade and agricultural loans also fell slightly by approx. 0.2 percent. There was a very strong rise in liability with a volume increase of approx. 96 percent.

## DEPOSITS

In 2005, savings certificates amounting to EUR 161.5 million were issued. As the alternative so-called „Ertragsanlage“ – bonds still proved very popular with customers in the past year, there was an issue of five such products with a total volume of approx. EUR 35 million. Added to this range was the launch of a financial investment, a product with a maturity of four years and a gradual increase of interest rates.

Total primary funds volume grew by 2.7 percent to EUR 1,524.8 million with high increases in mainly current account and foreign currency deposits, although the latter only play a small part with regard to total deposits.

## EQUITY

Eligible capital for the purpose of the Austrian Banking Act rose in 2005 by a further EUR 17.1 million, or 8.0 percent to EUR 231.2 million, so in this field we could also tie in with the constant growth so far. With regard to the eligible total, equity amounted already to more than 14 percent. Thus, as in the past, the statutory minimum requirements were more than satisfied. High-quality tier 1 capital, which continued to grow and amounted to EUR 205.1 million in 2005, now accounts for around 12.5 percent of the eligible total. Supplementary capital also rose and amounted to EUR 26.1 million at the end of 2005.

## EARNINGS

Operating profit could be increased to approx. EUR 26 million. This corresponds to a rise of approx. 5.9 percent. In detail, operating income rose by 3.8 percent to EUR 80.2 million and operating expenditure by 2.8 percent to EUR 54.3 million. Though the cost-income-ratio decreased from 68.3 percent previously to now 67.7 percent, the permanent lowering of this figure remains an objective for the coming years for the achievement of which further measures will become necessary in terms of costs and income.

The ratio of operating profit to total assets shows clearly that the VKB-Bank continues to have a considerable lead over the average Austrian banking institution. After a slight decline in the last years, this ratio rose again in 2005 and amounted to 1.28 percent in the period under review compared to 1.24 percent in the previous year.

The profit from ordinary activities (POA) grew strongly again by 9.5 percent to EUR 21.2 million. The charge for taxation amounted to EUR 6.3 million compared to EUR 5.8 million the previous year. VKB-Bank's profit after tax in 2005 amounted to EUR 14.9 million. Looking at POA in relation to average total assets of 2004 and 2005 (return on assets before tax) it becomes apparent that in the year under review compared to the previous year an increase from 0.99 percent to 1.06 percent was achieved.





If POA is put in relation to average equity of the last two years (return on equity before tax) there is also a slight increase to 10.69 percent.

After transfers to reserves of EUR 12.5 million, unappropriated net profit for the year was approximately EUR 2.4 million, of which it is proposed to distribute EUR 550,000 as a dividend.

#### **CORPORATE CLIENTS**

In order to experience customer proximity even more consistently and to fulfil customers' expectations even more efficiently, there was some organizational restructuring at the beginning of 2005 regarding corporate customers (and also private customers). In the year under review, VKB-Bank also extended its target market into the bordering Bavarian area and in addition intensified market cultivation in the west of Lower Austria and in the Salzkammergut of Styria. On the whole, approximately 20 percent more new clients could be acquired and thus the good status at companies of the commercial economy could be further enhanced. Meanwhile, VKB-Bank has a business relationship with approx. a quarter of the top 250 companies of Upper Austria. Customers with activities abroad have used VKB-Bank more frequently in 2005 for their document business. Thus, the volume grew by approx. 35 percent, the amount by about 19 percent. The increase in foreign guarantees was also remarkable.

Key indicators	2005	2004	2003
Own funds ratio %	14,07	13,84	13,29
Core capital ratio %	12,48	12,30	11,96
Profit from operating activities in % of average consolidated assets	1,28	1,24	1,26
Return on equity (before tax) %	10,69	10,49	7,70
Return on equity (after tax) %	7,50	7,35	5,58
Return on assets (before tax) %	1,06	0,99	0,70
Cost-Income-Ratio %	67,65	68,28	68,20
Employees	557	563	570
Branch offices	45	45	45

The number of customers using the export financial offer rose by 17 percent. In terms of volume, however, there was a slight reduction of used export credits of approx. 5 percent compared to 2004.

In 2005, a special emphasis was placed on the subject matter of company transitions, which found an interested audience during numerous regional events.

### SECURITIES

In 2005, the situation in Europe in terms of interest rates made the investors feel partly insecure and led to a stronger demand for money market products and structured bonds. At the local exchange, investors were spoiled with generous capital gains. This business environment enabled VKB-Bank to record significant increases in the volume and value of secu-

rities turned over. For the first time, the volume kept for customers inclusive own issues exceeded EUR 1 billion. In the segment Fund Savings Plans, which greatly gained importance in the last years, an increase of approx. 45 percent could be achieved in 2005 regarding contract conclusions, whereas especially the product for retirement planning "ESPA Vorsorge Classic", which is also offered by VKB-Bank, gathered momentum. VKB-Bank products "VKB-Anlage-Mix im Trend, -Dynamik and -Classic" also developed very well in terms of performance and volume.

### RESIDENTIAL SERVICE

The residential service year 2005 was quite successful again. Total lending increased by 7.7 percent to EUR 462.9 million. Thus, the residential service part of total volume grew to 29.9 percent. The altogether very positive trend is due to a long lasting and consistent realization of the residential market presence. VKB-Bank will probably be able to continue this pleasant development in 2006. Financing new buildings as well as offers to finance redevelopments will thereby form the main points.

### PAYMENT TRANSACTIONS

In the course of a promotion during the holiday period 2005, VKB-Bank issued the 10,000th MasterCard. The pilot operation of the Maestro Traveller card, which was introduced in VKB-Bank as one of only few banks,

went live last year. Last but not least due to the fact that the so-called phishing attacks also became more of an issue in Austria in the previous year, VKB-Bank implemented an own insurance solution to provide insurance protection, as before against loss or theft of cards for cashless payments.

Customers increasingly used our payment products ELBA-internet, ELBA-business and ELBA-basic. Meanwhile there are more than 16,000 users, which is a growth rate of approx. 17 percent compared to the previous year. Newly added to the ELBA family was ELBA-multicash, a software especially suited for international firms, with the help of which local and international foreign payments can be settled particularly fast in the corresponding country format. Despite more complicated general conditions due to EU guidelines, income from foreign payment transactions increased slightly by approx. 3 percent.

## **STAFF**

In order to live up to expectations of being an advisory bank, 43 out of 50 new employees in 2005 were established in the field of customer advice. Moreover, considerable amounts were invested again in the training and further education of staff. So internally, 135 different training measures in total were offered and in addition, employees attended external seminars as needed. Beside imparting the respective specialist know-

how, personal and social skills were trained. Special emphasis was placed on securing the transfer to make sure that things learnt are also put into practice. In order to guarantee an ideal filling of executive positions within the institute, employees are prepared timely for their future roles by means of leadership trainings.

Within the scope of further education, VKB-Bank could also make use of its spatial advantages: the relative short distances in Upper Austria allow offering more individual trainings at our headquarters or locally at the branches. In addition to the offered seminars and the individual trainings, team related training and further education measures complete the offer.

At 557 employees, the average staffing level was again slightly below that of last year. So the trend of the last years concerning the slight but steady drop of employees continued.

## **ORGANISATION**

Investments in IT measures and related activities were raised by exactly one third to approximately EUR 3.2 million.

A project launched in mid-2004 concerning security processes was just short of its successful conclusion at the end of 2005. The project objective was optimizing the procedures in order to increase efficiency and to reduce costs at the same time.

A further project was launched in 2005 with the objective of developing benchmarks and standardized, economic work processes in the saving and giro fields. This project is expected to be concluded in the current year.

### **CONSTRUCTIONAL ACTIVITIES**

Last but not least due to the current modernization of the branch network, there were building investments amounting to approx. EUR 4 million in 2005. Beside the location Haid, the customer centre Linz at the headquarters of VKB-Bank was renewed. In the course of these constructional measures the securities centre was also designed completely new and now offers even better opportunities for customer care and for events. Furthermore, a new branch was opened in Bad Ischl-Pfandl and the branch Gmunden-SEP was transferred.

All rebuildings and new buildings were settled according to the proven 3 zone concept (machine, service, and advisory department). This way, we support the trend to provide employees with more time to advise customers professionally by automatization and standardization of routine activities.

### **MARKETING**

In 2005, the organizational unit Marketing was integrated in many new activities of VKB-Bank. For instance,

within the scope of a long-term sponsoring cooperation, one of the world's best professional female mountaineers, Gerlinde Kaltenbrunner from Upper Austria, could be won as a representative. One was also very creative in developing new markets in the bordering Bavarian area.

VKB-Marketing also supervised and organized about a hundred events in 2005 – from big events with approx. 1,200 guests and regional event series to sporting events such as the VKB mountain jog cup. The single branches of VKB-Bank were also supported in many different ways, for example in the course of rebuildings or individual customer activities.

There was an increase in the promising so-called personalized Internet in a triple-digit percentage range. In 2005, the customer newspaper "Für mich" (For me) came on the market with a total of four editions with a print run of 30,000 each.

### **THE GROUP**

The group's participating interests in 2005 remained restricted to the banking sector. Accordingly, the aim is unchanged that participating interests should offer the best possible support for and complement to the core banking activities while activities in other sectors of the economy are basically ignored.

The notes to the financial statements list the affiliated and other enterprises in which the Volkskredit

Verwaltungsgenossenschaft directly or indirectly held at least 20 percent of the shares. With regard to the cash flow statement we also refer you to the respective list in the notes to the financial statements.

The financial statements of the VKB group show that total assets and equity and liabilities rose by EUR 57.3 million, or 2.8 percent to EUR 2,095.9 million. Operating profit amounted to EUR 27.8 million in 2005.

## GENERAL OUTLOOK

The economic outlook for 2005 is still dominated considerably by the movement of energy prices. The global economy could slow down if the oil price rose again to new heights. The development of the euro also holds forecast risks. A strongly rising euro could reduce the competitiveness of the countries in the Eurozone and could dampen their growth prospects. Unemployment in Austria, which in fact is still low on an international scale but constantly growing of late, has become a focus of attention. There will probably not be a significant easing of the situation in 2006. The economic catching-up process in middle and east European countries is assumed to continue to be beneficial in terms of growth. Austrian companies in particular look for their markets in these countries, too, and find them there.

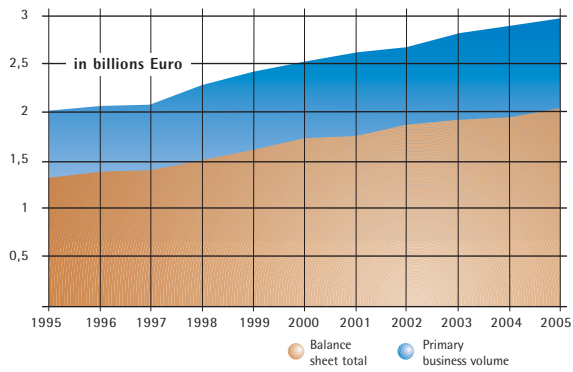
VKB-Bank and thus the VKB group are striving to continue the sound and consistent growth track.

10 Year Comparison	2005	1995
Total assets (mill. €)	2.027,3	1.347,2
Business volume (mill. €)	2.991,4	2.016,5
Loans to clients (mill. €)	1.466,6	855,3
Deposits (mill. €)	1.524,8	1.161,2
Clients securities (mill. €)	886,8	363,7
Own funds (mill. €)	231,2	100,9
Operating result (mill. €)	26,0	19,9

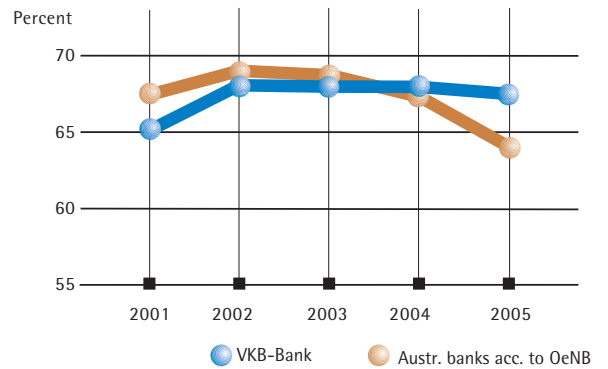
The focus is on both the consistent use of potentials in order to increase efficiency and on optimizing the care for existing customers, along with the acquisition of new customers in profit generating business fields. This goal is also followed in the current year by continuing the activities started in 2005 and not only in the home federal state Upper Austria but also in the bordering areas Styria, Lower Austria and Bavaria.

As to the business fields in which VKB-Bank sees its core competences, there will be trust in proven recipes in the current year and the clients will be cared for in all respects and in the best possible way according to the principles of a full-service bank. The bank will especially concentrate on addressing young customers by means of advertising measures as well as by offering interesting products to this target group.

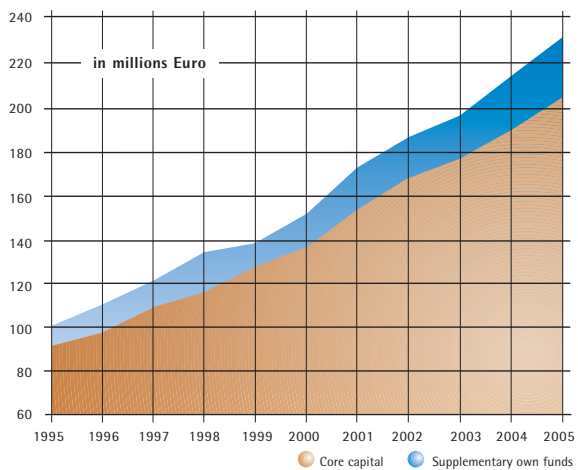
### BUSINESS VOLUME



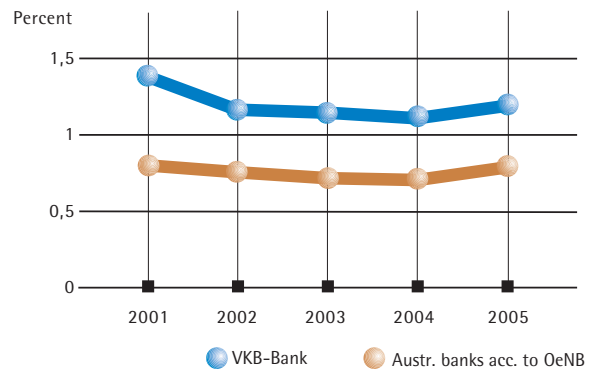
### COST-INCOME-RATIO



### OWN FUNDS



### OPERATING RESULT/BALANCE SHEET TOTAL



# Risk Report

## **OVERALL BANK RISK MANAGEMENT**

As part of the measures to secure business success in the long term, VKB-Bank risk management covers all business sector risks and includes the overall management control of all risks at bank and group level. The responsibility for identifying, measuring, evaluating, managing and monitoring the individual types of risk have been assigned to specific organizational units. The Risk Management unit is responsible for the overall management and monitoring of all bank risks and for the coordination of risk policy.

Risk management is a holistic process and for this reason it forms part of all planning, control and monitoring processes. The ability to identify, quantify, monitor and control all its risks is regarded by the VKB-Bank as a decisive competitive factor. Thanks to its exceptionally strong capital base, the bank also benefits from a greatly enhanced risk bearing capacity.

## **OPERATIONAL RISKS**

Operational risks cannot be totally excluded in the banking business: they include possible losses arising from the inadequacy or failure of systems, internal processes or staff and as a result of external events.

The management of its own operational risks is the responsibility of all organizational units and is hence a line management function of VKB-Bank. VKB-Bank so far has taken organizational and techni-

cal measures in order to minimize such risks: limit and competence regulations, internal control systems and process independent checks of the internal audit guarantee a high security standard. In addition, the Organization unit has been given responsibility for coordination. In order to identify existing and documented operational risks and thus to optimize risk management and decrease such risks, a web-based bank-standardized loss database is in use.

Furthermore, on the basis of a risk assessment, specific areas of risk were localized which were subsequently prioritized, and for the reduction of which respective measures were taken.

## **CREDIT RISKS**

The credit risk on business with private and commercial customers, banks and local government authorities, federal provinces and countries constitutes a major risk for the bank. Compact bodies of rules contain the guidelines for the appraisal of creditworthiness, lending practice and credit management.

Furthermore, the credit business is subject to a limit structure, authorized by the board. The risk content of lending operations is paid the respective attention last but not least by means of credit approval procedures and double checking by a second person. The principal responsibility for managing credit risks at VKB-Bank lies with the Credit Management unit,

which is organizationally separated from Lending. In addition to managing the individual credit risks, it also monitors and controls the overall risk on the loan portfolio.

The bank's credit risk management has developed in line with national and international requirements. The management of credit risks is based on a rating that conforms to Basel II. In 2005, preliminary checks of the system were made through the supervision of the financial market and the Austrian National Bank. This rating system is subject to a constant validation process. After the bank's internal rating, credit customers are divided into creditworthiness categories in order to assess and measure the credit default risk. Creditworthiness criteria are both hard and soft facts. In addition, a check is made of the intrinsic value of the collateral for lending. These constitute the fundamental variables used when granting loans, managing credit and calculating the risk element included in the customer's cost of borrowing.

The risk policy of VKB-Bank in 2005 was also a sound one which resulted in a favourable development of the credit risk. Loan losses were again below 0.4 percent of the lending volume.

In 2006, a further increase in efficiency of the credit management is aimed at. Back office activities will be bundled at headquarters without affecting customer proximity. The required IT system will be

improved in this regard. Adjustments of different competence systems on risk-oriented foundations are also planned for the current year.

#### **MARKET RISKS**

Market risks include possible losses resulting from price changes to which the bank is exposed as a result of its position in the money and capital markets. At VKB-Bank, these are the bank book and the trading book positions. VKB-Bank maintains a small securities trading book.

Based on the minimum requirements in force in Germany, the bank has implemented an organizational and spatial separation of trading and settlement coupled with appropriate management controls. The Treasury unit manages currency, interest rate and liquidity risks, while monitoring is the responsibility of "Risk Management". The Board of Directors is informed at regular meetings about the market value of the relevant transactions, and appropriate measures to limit market risk using scenario techniques are appraised. In addition, the market risks are subject to defined principles for the bank's own investments and a limit structure approved by the Board of Directors.

#### **Interest rate risk**

A monthly interest maturities statement forms the basis for decisions on balance sheet structure

management. The annual average for the risk indicator required by the Austrian National Bank, the "present value change in the event of a 200 basis point interest rate shock as a percentage of eligible capital" amounted to 3.43 percent in 2005.

VKB-Bank uses derivative financial instruments to hedge interest rate risks. Interest rate swaps are used to hedge individual customer positions and to hedge cash flows. In addition, there are securities index options and interest rate options.

#### **Foreign currency risk**

As of the end of 2005, assets in foreign currencies amounted to 11.4 percent of total assets. Foreign currency receivables and payables for banks and customers are mainly covered by custody business. Forward currency transactions and FX swaps are used for up to 30 percent of the funding volume.

#### **Stock price risk**

VKB-Bank's equity portfolio is relatively insignificant and limited to a maximum of 5 percent of total own investment. In addition, the risk on any individual investment is kept to a minimum by volume limits.

#### **Liquidity risk**

The liquidity risks are managed within the framework of compliance with the liquidity requirements. VKB-

Bank's liquidity situation is characterized by a high customer cash ratio and is managed as part of the short and medium term budgetary control process, taking into account a variety of scenarios. Liquidity spikes are neutralized using the interbank market and ECB tenders.

# Notes to the financial statements, VKB-Bank

Totals of rounded amounts may be affected by rounding differences caused by software.

## STATUTORY REGULATIONS

The 2005 financial statements of Volkskreditbank AG (VKB-Bank) have been drawn up on the basis of the Austrian Commercial Code (HGB) and in accordance with the provisions of the Austrian Banking Act (BWG). The layout of the balance sheet and the income statement is based on Forms 1 and 2 of the Schedule 2 to section 43 of the Banking Act.

## ACCOUNTING AND VALUATION POLICIES

The financial statements have been prepared in accordance with generally accepted accounting practices and the general requirement to communicate as true and fair a view as possible of the company's assets, finances and earnings.

Assets and liabilities in foreign currencies have been converted at the mean buying or selling rate, as applicable. Forward currency transactions have been converted at the forward rate ruling on the balance sheet date. Securities intended to be of permanent use to the business and securities held as current-assets have been valued strictly at the lower of cost or market value.

Recognisable credit risks have been taken into account in the form of specific valuation allowances and provisions. Specific valuation allowances for certain elements of risk positions have been formed on the basis of aggregated group characteristics.

Investments have been recognised at acquisition cost. Where this value is higher than the value at the balance sheet date, impairment writedowns have been applied. Land and buildings, intangible assets and plant and office equipment have been recognised at cost of acquisition or construction and, if subject to wear and tear, reduced by scheduled depreciation. Low value assets have been fully written off in the year of acquisition. Issue costs and discounts have been expensed in the year of issue.

Depreciation rates for immovable assets were between 2.0 percent and 3.0 percent, and for movable assets between 5.0 percent and 33.3 percent. For intangible assets, amortisation rates of bet-

ween 1.3 percent and 33.3 percent have been applied. Unscheduled depreciation has been applied to the extent that inclusion of the assets at a lower value was necessary or permissible under special tax provisions.

Provisions for severance payments at balance sheet date have for the first time been determined in accordance with the principles of investment mathematics, using an interest rate of 4.0 percent. The provisions for pension obligations have been determined in accordance with actuarial principles, using an interest rate of 4.0 percent and the Pagler & Pagler mortality tables. Both severance payment and the pension provisions are consistent with the applicable Statements of the Austrian Chamber of Accountants and Tax Consultants. The provision for long-service bonuses has been calculated using actuarial principles (standard entry age method), applying an interest rate of 4.0 percent. There was no shortfall in cover as of the balance sheet date. The calculation of the severance payment provision is based on the expected pensionable age. Pension and long-service bonus provisions have been calculated on the basis of the current pensionable age as established by the pension reform adopted in 2003.

Other provisions have been based on the amounts of the expected claims. Provision has thus been made for all recognisable risks and liabilities whose amount is as yet uncertain. Provision has also been made for potential losses on pending transactions.

Liabilities have been recognised in the amounts payable, applying the accounting principle of prudence.

The parent company for the consolidated financial statements is Volkskredit Verwaltungsgenossenschaft reg. Genossenschaft m.b.H. based in Linz. The consolidated financial statements of Volkskredit Verwaltungsgenossenschaft have been deposited with the Company Register in Linz.

**Receivables from banks and customers not due at call, by residual maturity:**

	31.12.2004	31.12.2005
Up to three months	169,5 Mio	142,4 Mio
Between three months and one year	137,3 Mio	113,3 Mio
Between one and five years	319,9 Mio	366,4 Mio
Over five years	387,5 Mio	431,5 Mio

**Liabilities to banks and customers not due at call, by residual maturity:**

	31.12.2004	31.12.2005
Up to three months	306,9 Mio	269,4 Mio
Between three months and one year	458,6 Mio	466,7 Mio
Between one and five years	402,7 Mio	383,3 Mio
Over five years	121,9 Mio	121,4 Mio

**The following balance sheet items include receivables and liabilities both against associated enterprises and against enterprises in which participating interests were held:**

	Associated enterprises		Participating interests	
	31.12.2004	31.12.2005	31.12.2004	31.12.2005
Receivables from banks	0,0 Mio	0,0 Mio	1,0 Mio	4,4 Mio
Customer receivables	108,0 Mio	116,8 Mio	0,7 Mio	0,2 Mio
Liabilities to banks	0,0 Mio	0,0 Mio	13,7 Mio	14,2 Mio
Liabilities to customers	8,0 Mio	14,9 Mio	1,7 Mio	4,0 Mio
Liabilities evidenced by certificates	0,2 Mio	0,1 Mio	0,0 Mio	0,0 Mio

**Securities admitted to stock exchange trading in listed and unlisted securities pursuant to section 64(1)(10) BWG:**

	Listed		Unlisted	
	31.12.2004	31.12.2005	31.12.2004	31.12.2005
Bonds and other fixed income securities	276,6 Mio	269,7 Mio	0,0 Mio	0,0 Mio
Equities and other variable rate securities	18,9 Mio	10,0 Mio	0,0 Mio	0,0 Mio
Participating interests	0,0 Mio	0,0 Mio	0,0 Mio	0,0 Mio
Shares in associates	0,0 Mio	0,0 Mio	0,0 Mio	0,0 Mio

**Securities admitted to stock exchange trading pursuant to section 64(1)(11) BWG:**

	Financial assets		Trading portfolio	
	31.12.2004	31.12.2005	31.12.2004	31.12.2005
Bonds and other fixed income securities	275,9 Mio	269,2 Mio	0,7 Mio	0,5 Mio
Equities and other variable-rate securities	18,9 Mio	10,0 Mio	0,0 Mio	0,0 Mio



## NOTES TO THE BALANCE SHEET

(All amounts are shown in euro; the amounts for the previous year are shown in brackets)

The details of associated companies pursuant to section 238 (2) HGB are shown separately. The value of land included in land and buildings amounted to EUR 6.6 million (2004: EUR 5.1 million) at balance sheet date. The impairment writedowns to fixed assets in financial 2005 amounted to EUR 0.2 million (2004: nil).

Debt securities and other fixed income securities with a nominal value of EUR 37.2 million (2003: EUR 65.1 million) fall due for payment in 2006.

The securities trading book as of 31 December 2005 contained securities amounting to EUR 4.5 million (2004: EUR 5.6 million).

The difference between acquisition costs and higher market value at balance sheet date amounted to EUR 1,000 (2004: EUR 1,100) for securities admitted to stock exchange trading and not qualifying as financial assets.

Assets at balance sheet date included subordinated assets amounting to EUR 11.2 million (2004: EUR 10.8 million). This figure includes supplementary capital issued by VKB-Bank of EUR 187,600 (2004: EUR 66,600). In accordance with section 23(2) BWG, equity was correspondingly reduced by this amount.

As at balance sheet date, VKB-Bank held no subordinated assets (2004: nil) relating to associated enterprises or enterprises in which the company had a participating interest.

In 2005 write-ups permissible under section 208 (2) HGB that were not recognised for tax reasons amounted to EUR 11.9 million (2004: EUR 9.9 million). The future tax charge relating to this increase in value amounts to EUR 3.0 million (2004: EUR 2.5 million).

The fixed assets movement schedule is shown separately. The pension provisions disclosed in the balance sheet correspond to the commercially prudent provisions under Statements KFS-RL 2 and 3 of the Austrian Chamber of Accountants and Tax Consultants. The rate of interest used is 4.0 (2004: 3.5) percent. For the purposes of better comparison with enterprises that have transferred their pension obligations to external pension funds, an appropriate notional transfer was assumed: the corresponding reduction in interest income amounted to EUR 0.8 million (2004: EUR 1.0 million).

The severance payment provision of EUR 8.7 million (2004: EUR 7.7 million) was calculated using investment mathematics and an interest rate of 4.0 percent (2004: 5.0 percent), and applying the standard entry age method. Other provisions consisted in the main of provisions for performance-related remuneration, unconsumed vacation entitlements, guaran-

tees, long-service bonuses and other banking risks. Subscribed share capital consisted exclusively of bearer stock, divided into 300,000 no par value shares. Details of reserves and their movements are shown in a separate schedule.

The liabilities of VKB-Bank included EUR 3.1 million (2004: EUR 3.1 million) of subordinated supplementary capital. This supplementary capital was issued in 1989 as an undated capital loan redeemable on notice by either party. The current rate of interest is 2.875 percent (variable). The conditions for subordination are governed by section 45 (4) BWG. The expense of this subordinated liability in 2005 amounted to EUR 0.1 million (2004: EUR 0.1 million).

At balance sheet date there was staff participation in the form of undisclosed interests amounting to EUR 1.3 million (2004: EUR 1.1 million).

Contingent liabilities included letters of credit amounting to EUR 1.2 million (2004: EUR 2.7 million) and liabilities under guarantees and assets pledged as collateral of EUR 122.4 million (2004: EUR 107.6 million). In addition, there was a commitment based on the Bank's membership of the Banks and Bankers Deposits Insurance Scheme as required under section 93 BWG. The annual contribution in case of a possible claim is limited to 0.83 percent of the calculation basis according to section 22 (2) BWG; this is in accordance with section 93a (1) BWG.

An upper limit of EUR 13.6 million (2004: EUR 12.8 million) is thereby calculated for the VKB-Bank. The credit risk item shows credit lines not taken up totaling EUR 123.8 million (2004: EUR 93.2 million), liabilities under sale and repurchase agreements of EUR 2.1 million (2004: EUR 2.2 million) and loan commitments of EUR 180.6 million (2004: EUR 184.9 million).

At balance sheet date, the Bank was not involved in leasing business (2004: nil). The 2005 balance sheet included foreign currency items amounting to EUR 439.9 million (2004: EUR 398.5 million) in total. Of these, EUR 230.6 million (2004: EUR 231.6 million) were assets, and EUR 209.3 million (2004: EUR 166.9 million) liabilities.

VKB-Bank's derivative financial transactions not completed at the balance sheet date are shown in a separate schedule (amounts also valid for VKB Group).

An obligation of EUR 0.6 million (2004: EUR 0.5 million) for the following financial year results from the use of fixed assets not recognised in the financial statements. The total amount of such obligations for the next five years amounted to EUR 3.4 million (2004: EUR 2.8 million). At balance sheet date there were no obligations (2004: nil) to acquire fixed income securities.

Trustee account deposits in guarantee funds pursuant to section 230a of the Austrian Civil Code amounted to EUR 7.6 million (2004: EUR 9.4 million).

Securities for margin cover and shortfall collateral amounted to EUR 1.4 million (2004: EUR 1.4 million). Of the bonds issued by public authorities, EUR 39.7 million (2004: EUR 47.3 million) served to secure loans granted by the Austrian National Bank, and securities to the value of EUR 1.9 million (2004: EUR 1.9 million) were pledged as collateral for securities transactions. It sums up earnings to the value of EUR 4.2 million (2004: EUR 5.6 million). It sums up costs to the value of EUR 6.6 million (2004: EUR 6.6 million).

#### **NOTES TO THE INCOME STATEMENT**

In accordance with the Austrian Financial Reporting (Amendments) Act 2004, personnel expenses now include all expenses for severance payments and contributions to the employees' severance pay and pensions fund as an aggregate amount. Total expense in connection with the old severance payment system amounted to EUR 1.5 million (2004: EUR 1.4 million). In the year under review, EUR 46,600 (2004: EUR 28,900) was transferred to the employees' severance pay and pensions fund.

There were earnings to the value of EUR 1.1 million (2004: nil) arising from the valuation and disposal of participating interests.

Changes in untaxed reserves led to an increase in the assessment basis for taxes on income and profits of EUR 1.0 million (2004: reduction of EUR 0.2 million).

Deferred tax assets under section 198 (10) HGB not disclosed separately in the balance sheet amounted to EUR 1.7 million (2004: EUR 2.2 million). Since 13th December 2005, VKB-Bank has been the leading corporation of a tax group according to section 9 of Corporation Income Tax Law. Profit and loss transfer agreements concluded for consolidation so far are maintained. The existing turnover-tax consolidation between VKB-Bank and VKB-Vermietungs- und Beteiligungs-Gesellschaft m.b.H. remains unaffected by this change.

#### SUPPLEMENTARY INFORMATION

VKB-Bank employed an annual average of 557 salaried staff (2004: 563) and 17 non-salaried staff (2004: 16), including pro rated part-time employees. Loans to members of the Supervisory Board amounted to EUR 0.6 million (2004: EUR 3.1 million) at balance sheet date, of which EUR 0.1 million (2004: EUR 0.1 million) related to guarantees. The loans were on normal market conditions. In financial 2005, loans amounting to EUR 2.59 million (2004: EUR 27,800) were repaid.

No loans (2004: nil) were outstanding to members of the VKB-Bank Board of Directors at balance sheet date.

Expenses for severance payments and pensions to members of the Board of Directors amounted to EUR

0.4 million (2004: EUR 0.4 million) in the year under review. Expenses for severance payments and pensions to employees were EUR 2.9 million (2004: EUR 2.8 million). These amounts include interest elements of pension provisions of EUR 0.8 million (2004: EUR 1.0 million).

In 2005 the remuneration of the Supervisory Board amounted to EUR 32,600 (2004: EUR 32,400). The members of the VKB-Bank Board of Directors and the Supervisory Board are shown in a separate schedule.

#### PROPOSAL FOR THE DISTRIBUTION OF PROFITS

A proposal is to be laid before the Annual General Meeting for a dividend of EUR 550,000.- to be paid out of the unappropriated surplus of EUR 2,393,053.10, with EUR 1,800,000.- to be transferred to other revenue reserves and the remaining profit of EUR 43,053.10 to be carried forward to the new account.

BOARD OF DIRECTORS



Dr. Gernot Krenner



Dr. Albert Wagner

Linz, 3 March 2006

## Derivative financial transactions

	Nominal (EUR)				Market value (EUR)	
	Buy	Sell	Buy	Sell	31.12.2004	31.12.2005
	31.12.2004	31.12.2004	31.12.2005	31.12.2005		
<b>I. Exchange rate dependant deals</b>	<b>3,4 Mio</b>	<b>75,1 Mio</b>	<b>8,2 Mio</b>	<b>35,5 Mio</b>	<b>1,6 Mio</b>	<b>1,3 Mio</b>
Forward currency transactions	3,4 Mio	75,1 Mio	8,2 Mio	35,5 Mio	1,6 Mio	1,3 Mio
<b>II. Deals related to securities</b>	<b>37,3 Mio</b>	<b>0,0 Mio</b>	<b>37,3 Mio</b>	<b>0,0 Mio</b>	<b>2,3 Mio</b>	<b>5,3 Mio</b>
Security index options	37,3 Mio	0,0 Mio	37,3 Mio	0,0 Mio	2,3 Mio	5,3 Mio
<b>III. Interest rate deals</b>	<b>476,4 Mio</b>	<b>463,6 Mio</b>	<b>484,5 Mio</b>	<b>474,2 Mio</b>	<b>10,0 Mio</b>	<b>4,8 Mio</b>
Options	42,8 Mio	30,0 Mio	45,3 Mio	35,0 Mio	0,0 Mio	0,0 Mio
Interest rate swaps	433,6 Mio	433,6 Mio	439,2 Mio	439,2 Mio	10,0 Mio	4,8 Mio
<b>Total</b>	<b>517,1 Mio</b>	<b>538,7 Mio</b>	<b>530,0 Mio</b>	<b>509,7 Mio</b>	<b>13,9 Mio</b>	<b>11,4 Mio</b>

## Development of the reserves of the VKB-Bank

Reserves:	01.01.2005	Allocation	Transfers	Dissolution	31.12.2005
Capital reserves:					
a) bound	72.673	0	0	0	72.673
b) not bound	6.105.894	0	0	0	6.105.894
Profit reserves:					
a) statutory reserves	10.000.000	0	0	0	10.000.000
b) other reserves	95.273.666	14.450.000	0	0	109.723.666
Liabe reserves acc. to § 23 subsec. 6 of the banking statute	35.386.206	952.562	0	0	36.338.768
Untaxed reserves:					
a) Valuation reserves due to special depreciation:					
-) according to § 12 EStG 1988:					
Debtures and other non-fixed interest securities	5.010.458	0	0	21.509	4.988.949
Equity interests	1.375.770	0	0	0	1.375.770
Intangible assets	28.390	0	0	19.578	8.812
Fixed assets	3.233.422	0	0	57.925	3.175.497
Other assets	14.534	0	0	0	14.534
-) due to early depreciation:					
fixed assets	3.413.276	0	0	12.356	3.400.920
-) due to rental reserve:					
fixed assets	109.830	0	0	2.782	107.048
b) other untaxed reserves:					
-) Investment tax relief according to § 10 EStG 1988:	909.229	0	0	909.229	0
<b>Sum</b>	<b>160.933.348</b>	<b>15.402.562</b>	<b>0</b>	<b>1.023.378</b>	<b>175.312.531</b>

## Fixed Asset Development of the VKB-Bank

Position	Historical/ Manufact. cost	Accruals	Retirements	Transfers	Accumulated depreciation	Book values 31.12.2005	Book values 31.12.2004	Depreciation of the fiscal year
Debtures of public bodies and similar securities	52.599.652	19.013.000	17.615.499	0	1.092.108	52.905.045	51.484.733	177.000
Due from banks	2.180.185	0	0	0	0	2.180.185	2.180.185	0
Debts receivable from customers	1.083.900	1.785.935	0	0	115.260	2.754.575	1.000.000	31.360
Debtures and other fixed-interest securities	272.284.797	58.057.100	53.580.496	0	7.542.425	269.218.976	264.803.243	1.794.760
Shares and other non fixed-interest securities	42.664.200	2.519.521	252.512	52.684	7.252.330	37.731.563	35.473.385	97.866
Equity interests	6.258.123	1.712.117	145.800	0	100.435	7.724.005	6.157.687	0
Interests in affiliated companies	20.107.632	0	0	0	1.248.315	18.859.316	18.915.797	56.481
Intangible assets from fixed assets	684.867	47.127	414.612	0	132.907	184.476	173.242	35.871
Tangible assets -) property and buildings	41.063.893	3.094.442	846.844	0	16.927.844	26.383.648	25.227.388	1.175.219
-) furniture fittings	13.336.690	2.778.552	3.195.931	0	6.948.148	5.971.163	5.638.779	2.359.348
Other assets	812.325	73	0	0	67.932	744.465	744.392	0
<b>Total</b>	<b>453.076.264</b>	<b>89.007.867</b>	<b>76.051.694</b>	<b>52.684</b>	<b>41.427.704</b>	<b>424.657.417</b>	<b>411.798.831</b>	<b>5.727.905</b>

# Auditors' Report

Our audit didn't lead to any objections. In accordance with our audit the Annual Financial Statements meet the statutory regulations and convey as accurate a picture as possible of the assets, financial and earnings situation of the company in compliance with the Austrian generally accepted accounting principles. The annual report stands in compliance with the Annual Financial Statements.

Linz, 3 March 2006

KPMG Austria GmbH  
Wirtschaftsprüfungs- und  
Steuerberatungsgesellschaft

Mag. Rudolf Kraus

Auditor  
and Tax Consultant

Mag. Ernst Pichler

Auditor  
and Tax Consultant

**"Other assets" mainly contains the following important debentures:**

	31.12.2004	31.12.2005
Activated option contracts	2,4 Mio	5,6 Mio
Calculation of taxes	3,9 Mio	0,0 Mio
Fixed assets sales	1,2 Mio	0,3 Mio

**"Other" liabilities mainly contains the following important amounts:**

	31.12.2004	31.12.2005
Calculation of taxes	1,7 Mio	1,9 Mio
Calculation concerning staff	1,5 Mio	1,3 Mio
Fixed assets purchase	1,5 Mio	0,1 Mio
Staff participation	1,1 Mio	1,3 Mio
Obligations from deliveries and services	3,5 Mio	3,5 Mio
Passivated option rights	0,0 Mio	5,7 Mio
Liabilities concerning semi-retirements	0,0 Mio	1,6 Mio

**Equity interests of the VKB-Bank and the VKB-Group.**

The Volkskredit Verwaltungsgenossenschaft held interests of at least 20 % in the following companies as of 31.12.2005:

Name and place of company	C 1)	Capital Share			Capital 2)	Result 3)	Balance Date
		Total	Direct	Currency			
<b>A. Affiliated Companies</b>							
<b>1. Financial Institutions</b>							
Volkskreditbank AG, Linz	V	100 %	100 %	EUR	207.705.584	14.852.498	31.12.2005
VKB-Vermietungs- und Beteiligungs-Gesellschaft m.b.H., Linz 4)	V	100 %	-	EUR	11.151.940	753.729	30.09.2005
VKB Leasing Immobilienerrichtungs- und Verwaltungs-Gesellschaft m.b.H., Linz 4)	V	100 %	-	EUR	3.052.442	189.088	30.09.2005
VKB Leasing Projekterrichtungs-Gesellschaft m.b.H., Linz 4)	V	100 %	-	EUR	5.989.850	226.729	30.09.2005
CALG 456 Grundstückverwaltung Gesellschaft m.b.H., Wien	V	100 %	-	EUR	2.981.612	119.786	30.09.2005
VKB-Mobilien-Leasing Finanzierungs-Gesellschaft m.b.H., Linz	V	100 %	-	EUR	10.433.833	556.200	30.09.2005
VKB Gebäudeerrichtungs-Gesellschaft m.b.H., Linz 4)	V	100 %	-	EUR	1.497.150	144.736	30.09.2005
VKB Kommunalleasing Gesellschaft m.b.H., Linz 4)	V	100 %	-	EUR	1.658.050	-26.471	30.09.2005
VKB Leasing Gebäudeverwaltungs-Gesellschaft m.b.H., Linz 4)	V	100 %	-	EUR	529.799	31.348	30.09.2005
VKB Direktleasing Gesellschaft m.b.H., Linz 4)	V	100 %	-	EUR	1.370.267	-846.875	30.09.2005
Parkdeck Bad Hall Errichtungs- und Betriebsgesellschaft m.b.H., Linz	V	50 %	-	EUR	249.947	20.305	30.09.2005
VKB Leasing Projekterrichtungs-Gesellschaft m.b.H. & CoKG, Linz	V	100 %	-	EUR	99.968	-32.400	30.09.2005
Kinocenter Regau Errichtungs-Gesellschaft mbH, Linz 4)	V	100 %	-	EUR	140.000	-94.162	30.09.2005
<b>2. Others</b>							
VKB Geschäfts- und Ärztezentrum Wels Gesellschaft m.b.H., Linz	E	100 %	-	EUR	940.876	-19.180	30.09.2005
VKB Traunseegarage Gmunden Gesellschaft mbH., Linz 4)	E	90 %	-	EUR	760.973	155.699	30.09.2005
VKB-Immobilien GmbH Nfg & Co KG, Linz	E	100 %	-	EUR	406.608	129.236	30.09.2005
VKB Service spol. s. r. o., Budweis	N	100 %	-	KCS	1.006.000	83.000	31.12.2005
<b>B. Other Companies</b>							
<b>Financial Institutions</b>							
DIE ERSTE Leasing & VKB Immobilien Vermietungsgesellschaft m.b.H., Wien	E	50 %	-	EUR	68.500	24.896	31.12.2004

1) C = Method of Consolidation: V = Full Consolidation; E = Valuation "at equity"; N = according to paragraph 59 subsection 3 of the banking statute, in connection with paragraph 249 subsection 2 of the Commercial Code, responding paragraph 263 of the Commercial Code, not included in the Group Balance.

2) The mentioned share capital includes untaxed reserves.

3) Year end result = year end surplus or deficit before movement of reserves and use of results.

4) Member of VKB-Group, group taxation, VKB-Bank as group leader.

**Development of equity (VKB-Group, all amounts in .000 EUR)**

	Subscription capital	Stake held by external shareholders	Profit reserve	Group balance sheet profit	Total
Equity as of 1 January 2004	4.964	18	192.922	491	198.394
Profit distribution				-439	-439
Increase of capital	106				106
Net profit			13.782	459	14.241
Other changes			2		2
<b>Equity as of 31 December 2004</b>	<b>5.070</b>	<b>18</b>	<b>206.706</b>	<b>511</b>	<b>212.305</b>
Equity as of 1 January 2005	5.070	18	206.706	511	212.305
Profit distribution				-445	-445
Increase of capital	136				136
Net profit			15.194	391	15.585
Other changes			3		3
<b>Equity as of 31 December 2005</b>	<b>5.206</b>	<b>18</b>	<b>221.903</b>	<b>457</b>	<b>227.584</b>

# Notes to the financial statements, VKB Group

Totals of rounded amounts may be affected by rounding differences caused by software.

## STATUTORY REGULATIONS

The 2005 consolidated financial statements of Volkskredit Verwaltungsgenossenschaft reg. Gen. m.b.H. (VKB Group) have been drawn up on the basis of the Austrian Commercial Code (HGB) and in accordance with the provisions of the Austrian Banking Act (BWG). The layout of the balance sheet and the income statement is based on Forms 1 and 2 of the Schedule 2 to section 43 of the Banking Act.

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Recognisable credit risks have been taken into account in the form of specific valuation allowances and provisions. Specific valuation allowances for certain elements of risk positions have been formed on the basis of aggregated group characteristics.

Investments have been recognised at acquisition cost. Where this value is higher than the value at the balance sheet date, impairment writedowns have been applied. Shares in associated enterprises include interests included at equity. Land and buildings, intangible assets and plant and office equipment have been recognised at cost of acquisition or construction and, if subject to wear and tear, reduced by scheduled depreciation. Low value assets have been fully written off in the year of acquisition. Issue costs and discounts have been expensed in the year of issue.

Depreciation rates for immovable assets were between 2.0 percent and 3.0 percent, and for movable assets between 5.0 percent and 33.3 percent. For intangible assets, amortisation rates of between 1.3 percent and 33.3 percent have been applied. Unscheduled depreciation has been applied to the extent that inclusion of the assets at a lower value was necessary or permissible under special tax provisions.

Provisions for severance payments at balance sheet date have for the first time been determined in accordance with the principles of investment mathematics, using an interest rate of 4.0 percent. The provisions for pension obligations have been determined in accordance with actuarial principles, using an interest rate of 4.0 percent and the Pagler & Pagler mortality tables. Both severance payment and the pension provisions are consistent with the applicable Statements of the Austrian Chamber of Accountants and Tax Consultants. The provision for long-service bonuses has been calculated using actuarial principles (standard entry age method), applying an interest rate of 4.0 percent. There was no shortfall in cover as of the balance sheet date. The calculation of the severance payment provision is based on the expected pensionable age. Pension and long-service bonus provisions have been calculated on the basis of the current pensionable age as established by the pension reform adopted in 2003.

Other provisions have been based on the amounts of the expected claims. Provision has thus been made for all recognisable risks and liabilities whose amount is as yet uncertain. Provision has also been made for potential losses on pending transactions.

Liabilities have been recognised in the amounts payable, applying the accounting principle of prudence.

**Receivables from banks and customers not due at call, by residual maturity:**

	31.12.2004	31.12.2005
Up to three months	175,7 Mio	150,1 Mio
Between three months and one year	158,6 Mio	129,4 Mio
Between one and five years	374,9 Mio	427,4 Mio
Over five years	454,7 Mio	502,6 Mio

**Liabilities to banks and customers not due at call, by residual maturity:**

	31.12.2004	31.12.2005
Up to three months	304,7 Mio	267,6 Mio
Between three months and one year	458,5 Mio	466,6 Mio
Between one and five years	402,7 Mio	383,3 Mio
Over five years	121,9 Mio	130,2 Mio

**The following balance sheet items include receivables and liabilities both against associated enterprises and against enterprises in which participating interests were held:**

	Associated enterprises		Participating interests	
	31.12.2004	31.12.2005	31.12.2004	31.12.2005
Receivables from banks	0,0 Mio	0,0 Mio	1,0 Mio	3,6 Mio
Customer receivables	8,8 Mio	4,9 Mio	1,9 Mio	1,9 Mio
Liabilities to banks	0,0 Mio	0,0 Mio	13,7 Mio	14,2 Mio
Liabilities to customers	0,2 Mio	0,2 Mio	1,7 Mio	4,1 Mio
Liabilities evidenced by certificates	0,1 Mio	0,0 Mio	0,0 Mio	0,0 Mio

**Securities admitted to stock exchange trading in listed and unlisted securities pursuant to section 64(1)(10) BWG:**

	Listed		Unlisted	
	31.12.2004	31.12.2005	31.12.2004	31.12.2005
Bonds and other fixed income securities	276,6 Mio	269,7 Mio	0,0 Mio	0,0 Mio
Equities and other variable rate securities	18,9 Mio	10,0 Mio	0,0 Mio	0,0 Mio
Participating interests	0,0 Mio	0,0 Mio	0,0 Mio	0,0 Mio
Shares in associates	0,0 Mio	0,0 Mio	0,0 Mio	0,0 Mio

**Securities admitted to stock exchange trading pursuant to section 64(1)(11) BWG:**

	Financial assets		Trading portfolio	
	31.12.2004	31.12.2005	31.12.2004	31.12.2005
Bonds and other fixed income securities	275,9 Mio	269,2 Mio	0,7 Mio	0,5 Mio
Equities and other variable-rate securities	18,9 Mio	10,0 Mio	0,0 Mio	0,0 Mio

#### **SCOPE OF CONSOLIDATION**

The consolidated Group includes Volkskredit Verwaltungsgenossenschaft reg. Gen. m.b.H and 13 Austrian enterprises (2004: 13). One enterprise has not been included, on the grounds of immateriality. As of 31 December 2005, 4 enterprises (2004: 4) over which the Volkskredit Verwaltungsgenossenschaft exercised a controlling influence (associated enterprises) have been included in the consolidated financial statements at equity.

The separate list of holdings shows the enterprises included in consolidation and the basis of inclusion in accordance with section 265(2) HGB.

#### **BASIS OF CONSOLIDATION**

The consolidated financial statements of the Group have been prepared in accordance with the accounting and valuation policies of Volkskreditbank AG (VKB-Bank) using the book value method. The value of shares in subsidiaries has been offset against the value of the corresponding share of equity at the time of initial consolidation, which was 1 January 1995. Volkskredit Verwaltungsgenossenschaft was included in the consolidated financial statements for the first time as of 1 January 1998. VKB Leasing Gebäudeverwaltungs-Gesellschaft m.b.H. and Parkdeck Bad Hall Errichtungs- und Betriebsgesellschaft m.b.H. were fully consolidated for the first time as of 31 December 1999 and VKB Leasing ProjektErrichtungs-Gesellschaft m.b.H. & Co KG as of 31 December 2001. Gutsbetrieb Mistelbach Gesellschaft m.b.H. was included in consolidation following its merger with VKB-Bank in 2001. VKB Direktleasing Gesellschaft m.b.H., previously included at equity, was included in the consolidated group of companies in financial 2002. Kinocenter Regau Gesellschaft m.b.H. was formed in 2004 and, as a financial institution, also fully consolidated. For all other enterprises included after 1995, the date of acquisition was taken as the date of initial consolidation.

The interests in associated enterprises have been valued at equity using the book value method in accordance with section 264 HGB, on the basis of the enterprises' most recent available annual financial statements. The date of acquisition determined the date of initial consolidation.

A negative difference on consolidation of EUR 99.5 million (2004: EUR 99.5 million) and a positive difference of EUR 0.4 million (2004: EUR 0.4 million) have been set off against revenue reserves.

The assets and liabilities of the enterprises included in consolidation have been recognised in the consolidated balance sheet in accordance with the accounting and valuation policies described above.

Intercompany receivables and payables of the consolidated enterprises have been netted off, as have intercompany income and expenses, in particular interest. There were no material intercompany profits.

In contrast with the accounting and valuation policies applied in the parent company financial statements, in the consolidated financial statements leased assets held by leasing companies pursuant to section 59(6) BWG have disclosed in the individual receivables categories at the present value of the discounted leasing receivables.

## NOTES TO THE BALANCE SHEET

(All amounts are shown in euro; the amounts for the previous year are shown in brackets)

The details of associated companies pursuant to section 265 (2) HGB are shown separately. The value of land included in land and buildings amounted to EUR 6.8 million (2004: EUR 5.3 million) at balance sheet date. Impairment writedowns to fixed assets amounting to EUR 0.2 million were necessary in financial 2005 (2004: nil). Debt securities and other fixed income securities with a nominal value of EUR 37.2 million (2004: EUR 65.1 million) fall due for payment in 2006.

The securities trading book as of 31 December 2005 contained securities amounting to EUR 4.5 million (2004: EUR 5.6 million).

The difference between acquisition costs and higher market value at balance sheet date amounted to EUR 1,000 (2004: EUR 1,100) for securities admitted to stock exchange trading and not qualifying as financial assets.

Assets at balance sheet date included subordinated assets amounting to EUR 11.2 million (2004: EUR 10.8 million). This figure includes supplementary capital issued by VKB-Bank of EUR 187,600 (2004: EUR 66,600). In accordance with section 23(2) BWG, equity was correspondingly reduced by this amount. As at balance sheet date, VKB-Bank held no subordinated

assets (2004: nil) relating to associated enterprises or enterprises in which the company had a participating interest.

In 2005 write-ups permissible under section 208(2) HGB that were not recognised for tax reasons amounted to EUR 11.9 million (2004: EUR 9.9 million). The future tax charge relating to this increase in value amounts to EUR 3.0 million (2004: EUR 2.5 million). The fixed assets movement schedule is shown separately.

The pension provisions disclosed in the balance sheet correspond to the commercially prudent provisions under Statements KFS-RL 2 and 3 of the Austrian Chamber of Accountants and Tax Consultants. The rate of interest used is 4.0 percent (2004: 3.5 percent). For the purposes of better comparison with enterprises that have transferred their pension obligations to external pension funds, an appropriate notional transfer was assumed: the corresponding reduction in interest income amounted to EUR 0.8 million (2004: EUR 1.0 million).

The severance payment provision of EUR 8.7 million (2004: EUR 7.7 million) was calculated using investment mathematics and an interest rate of 4.0 percent (2004: 5.0 percent), and applying the standard entry age method. Other provisions consisted in the main of provisions for performance-related remuneration, unconsumed vacation entitlements, guarantees, long-service bonuses and other banking risks.





The subscribed capital concerns solely bearer shares amounting to a total of 5.2 (5.1) million Euro.

The liabilities of VKB-Bank included EUR 3.1 million (2004: EUR 3.1 million) of subordinated supplementary capital. This supplementary capital was issued in 1989 as an undated capital loan redeemable on notice by either party. The current rate of interest is 2.875 percent (variable). The conditions for subordination are governed by section 45(4) BWG. The expense of this subordinated liability in 2005 amounted to EUR 0.1 million (2004: EUR 0.1 million).

At balance sheet date there was staff participation in the form of undisclosed interests amounting to EUR 1.3 million (2004: EUR 1.1 million).

Contingent liabilities included letters of credit amounting to EUR 1.2 million (2004: EUR 2.7 million) and liabilities under guarantees and assets pledged as collateral of EUR 122.4 million (2003: EUR 107.6 million). In addition, there was a commitment based on the Bank's membership of the Banks and Bankers Deposits Insurance Scheme as required under section 93 BWG. The annual contribution in case of a possible claim is limited to 0.83 percent of the calculation basis according to section 22 (2) BWG; this is in accordance with section 93a (1) BWG. An upper limit of 13.6 (12.8) million Euro is thereby calculated for the VKB-Bank.

The credit risk item shows credit lines not taken up totalling EUR 123.8 million (2004: EUR 93.2 million), liabilities under sale and repurchase agreements of EUR 2.1 million (2004: EUR 2.2 million) and loan commitments of EUR 180.6 million (2004: EUR 184.9 million). At balance sheet date, leasing business amounted to EUR 172.1 million (2004: EUR 166.4 million). The 2005 balance sheet included foreign currency items amounting to EUR 439.9 million (2004: EUR 398.5 million) in total. Of these, EUR 230.6 million (2004: EUR 231.6 million) were assets, and EUR 209.3 million (2004: EUR 166.9 million) liabilities.

An obligation of EUR 0.4 million (2004: EUR 0.3 million) for the following financial year results from the use of fixed assets not recognised in the financial statements. The total amount of such obligations for the next five years amounted to EUR 2.2 million (2004: EUR 1.7 million). At balance sheet date there were no obligations (2004: nil) to acquire fixed income securities. Trustee account deposits in guarantee funds pursuant to section 230a of the Austrian Civil Code amounted to EUR 7.6 million (2004: EUR 9.4 million). Securities for margin cover and shortfall collateral amounted to EUR 1.4 million (2004: EUR 1.4 million). Of the bonds issued by public authorities, EUR 39.7 million (2004: EUR 47.3 million) served to secure loans granted by the Austrian National Bank, and securities to the value of EUR 1.9 million

(2004: EUR 1.9 million) were pledged as collateral for securities transactions. The schedule of derivative financial transactions not completed at balance sheet date shown for VKB-Bank is also valid for VKB Group. "Other assets" sums up earnings to the value of EUR 4.5 million (2004: EUR 5.7 million).

#### **NOTES TO THE INCOME STATEMENT**

In accordance with the Austrian Financial Reporting (Amendments) Act 2004, personnel expenses now include all expenses for severance payments and contributions to the employees' severance pay and pensions fund as an aggregate amount. Total expense in connection with the old severance payment system amounted to EUR 1.5 million (2004: EUR 1.4 million). In the year under review, EUR 46,600 (2004: EUR 28,900) was transferred to the employees' severance pay and pensions fund. Changes in untaxed reserves led to an increase in the assessment basis for taxes on income and profits of EUR 1.1 million (2004: reduction of EUR 0.2 million). Deferred tax assets under section 198 (10) HGB not disclosed separately in the balance sheet amounted to EUR 1.7 million (2004: EUR 2.2 million).

#### **SUPPLEMENTARY INFORMATION**

VKB-Group employed an annual average of 557 salaried staff (2004: 563) and 17 non-salaried staff

(2004: 16), including pro rated part-time employees. The members of the cooperative's Supervisory Board had outstanding loans of EUR 0.5 million (2004: EUR 2.8 million) as of balance sheet date. Guarantees issued amounted to EUR 0.1 million (2004: EUR 0.1 million). All loans were granted on normal market conditions. In financial 2005, loans of EUR 2.5 million (2004: EUR 5,900) were repaid.

At balance sheet date loans amounting to EUR 54,100 (2004: EUR 178,000) to the members of the cooperative's Board of Directors were outstanding. The liability reserve for this group amounted to EUR 8,700 (2004: EUR 8,700). Market interest rates were charged on the loans. In the year under review, loans

of EUR 123,900 (2004: 21,900) were repaid. The expenditure for compensation and retired pay for members of the executive board as well as officers amounted to EUR 0.4 million (2004: 0.4 million) in the fiscal year.

Compensation and retired pay for employees amounted to EUR 2.9 million (2004: EUR 2.8 million). The interest rate component for the retirement reserves is included in these figures and amounted to EUR 0.8 million (2004: EUR 1.0 million).

The earnings for active members of the executive committee amounted to EUR 5,500 (2004: EUR 5,400); compensation for the supervisory board equalled EUR 7,600 (2004: EUR 7,600).

Board of Directors Volkskredit Verwaltungsgenossenschaft  
registrierte Genossenschaft mit beschränkter Haftung

  
Kurt Kaun

  
Mag. Dr. Rudolf Trauner

  
Dr. Gernot Krenner

Board of Directors Volkskreditbank AG

  
Dr. Gernot Krenner

  
Dr. Albert Wagner

Linz, 10 March 2006

# Auditors' Report

Our audit didn't lead to any objections. In accordance with our audit the consolidated Annual Financial Statements meet the statutory regulations and convey as accurate a picture as possible of the assets and financial situation of the group as of 31 December 2005 as well as the earnings situation and cash flows of the group during the year of 2005, this in compliance with the Austrian generally accepted accounting principles. The group annual report stands in compliance with the consolidated Financial Statements.

Linz, 10 March 2006

Auditor:  
Mag. Rudolf Kraus  
Auditor  
and Tax Consultant

Bank Auditor:  
KPMG Austria GmbH  
Wirtschaftsprüfungs- und  
Steuerberatungsgesellschaft

Mag. Rudolf Kraus  
Auditor  
and Tax Consultant

Mag. Ernst Pichler  
Auditor  
and Tax Consultant

**Cash flow statement (all amounts in .000 EUR)**

	2005	2004
<b>Net income</b>	<b>15.511</b>	<b>14.542</b>
Non-cash items included in net income:		
Appreciation and appreciation in value in fixed assets	3.979	3.918
Appreciation and appreciation in value in securities and equity interests	2.098	884
Increase/decrease in provisions	5.547	9.260
Increase/decrease in risk provisioning	6.943	6.482
Gains/losses on disposals of fixed assets, securities and equity interests	-2.364	-3.533
Increase in non-cash taxes	3.078	860
Increase/decrease in operating assets and liabilities after adjustment for non-cash components		
Due from banks	-9.856	-2.649
Debts receivable from customers	-38.328	-43.270
Securities	-127	606
Other assets	1.158	4.058
Obligations towards banks	-1.075	-42.168
Obligations towards customers	32.923	28.634
Debts documented by certificates	219	32.217
Other liabilities	1.360	-3.447
Other changes	77	-298
<b>Cash flows from operating activities</b>	<b>21.143</b>	<b>6.096</b>
Proceeds from disposal of		
Investments	71.014	59.833
Fixed assets	859	1.391
Payments resulting from capital expenditure in		
Investments	-83.140	-59.338
Fixed assets	-8.601	-18.740
<b>Cash flows from investing activities</b>	<b>-19.867</b>	<b>-16.854</b>
Capital increase	136	106
Dividends paid	-445	-439
<b>Cash flows from investing activities</b>	<b>-309</b>	<b>-333</b>
<b>Cash and cash equivalents at end of previous period</b>	<b>17.287</b>	<b>28.377</b>
Cash flows from operating activities	21.143	6.096
Cash flows from investing activities	-19.867	-16.854
Cash flows from investing activities	-309	-333
<b>Cash flows from investing activities</b>	<b>18.253</b>	<b>17.287</b>
Payments for taxes, interest and dividends		
Income taxes paid	4.176	5.695
Interest received	102.703	97.831
Interest paid	44.133	43.331
Dividends received	1.134	884

**Fixed Asset Development of the VKB-Group**

Position	Historical/ Manufacturing cost	Accruals	Changes in assoc. comp.	Retirements	Transfers	Accumulated depreciation	Book values 31.12.2005	Book values 31.12.2004	Depreciation fiscal year
Debentures of public bodies and similar securities	52.599.652	19.013.000	0	17.615.499	0	1.092.108	52.905.045	51.484.733	177.000
Due from banks	2.180.185	0	0	0	0	0	2.180.185	2.180.185	0
Debts receivable from customers	1.083.900	1.785.935	0	0	0	115.260	2.754.575	1.000.000	31.360
Debentures and other fixed-interest securities	272.284.797	58.057.100	0	53.580.496	0	7.542.425	269.218.976	264.803.243	1.794.760
Shares and other non fixed-interest securities	42.664.200	2.519.521	0	252.512	52.684	7.252.330	37.731.563	35.473.385	97.866
Equity interests	6.808.983	1.712.117	-87.448	145.800	0	100.435	8.187.417	6.708.548	0
Interests in affiliated companies	2.009.480	0	110.056	0	0	56.481	2.063.056	2.009.480	56.481
Intangible assets from fixed assets	899.048	109.607	0	414.612	0	269.816	324.227	289.369	74.726
Tangible assets -) property and buildings	53.304.609	4.460.933	0	864.255	0	18.119.704	38.781.584	36.621.814	1.525.099
-) furniture fittings	13.477.793	4.060.190	0	3.197.195	0	7.076.688	7.264.101	5.669.718	2.378.864
Other assets	812.325	73	0	0	0	67.932	744.465	744.392	0
<b>Total</b>	<b>448.124.971</b>	<b>91.718.476</b>	<b>22.608</b>	<b>76.070.368</b>	<b>52.684</b>	<b>41.693.179</b>	<b>422.155.194</b>	<b>406.984.867</b>	<b>6.136.155</b>



# Report of the Supervisory Board

During financial 2005 the Supervisory Board received regular reports both in writing and orally from the Board of Directors about the state of the company's (Group's) affairs and about important business transactions.

The bookkeeping, the financial statements as of 31 December 2005 and the Board of Directors' operating review have been audited by the elected auditors, KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz. The auditors have confirmed that the financial statements comply with the statutory requirements and that the operating report is consistent with the financial statements. The Supervisory Board adopts the auditors' report.

The Supervisory Board confirms its agreement with the Board of Directors' operating report and approves the financial statements as of 31 December 2005, which are thereby adopted.

The auditors were invited to attend the meeting of the Financial Statements Committee of the Supervisory Board and the adoption of the financial statements by the Board.

The Supervisory Board adopts the Board of Directors' proposal for the distribution of profits.

The consolidated financial statements and the Group operating report of Volkskredit Verwaltungsgenossenschaft reg.Gen.m.b.H., Linz, for financial 2005 have been audited by KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, as banking auditors of Volkskreditbank AG, and an unqualified audit opinion has been granted.

The Supervisory Board confirms its agreement with the consolidated financial statements and the Group operating report of Volkskredit Verwaltungsgenossenschaft reg.Gen.m.b.H. for financial 2005 in accordance with the Austrian Banking Act (BWG).



Dkfm. Dr. Johannes Brandl  
Chairman

Linz, 24 April 2006

# VKB-Bank

Balance Sheet as of the 31<sup>st</sup> of December, 2005  
Income Statement for 2005

## Balance Sheet VKB-Bank ASSETS

	31.12.2005 Euro	31.12.2004 TS Euro
<b>1. Cash on hand, deposits with central banks</b>	18.253.027	17.287
<b>2. Debentures of public bodies that have been admitted for refinancing by the central bank</b>		
Debentures of public bodies and similar securities	54.419.735	42.037
<b>3. Due from banks</b>		
a) call money	11.412.964	8.979
b) other receivable debts	85.820.320	77.663
	97.233.284	86.642
<b>4. Debts receivable from customers</b>	1.466.575.859	1.430.620
<b>5. Debentures and other fixed-interest securities</b>		
a) from public issuers	2.091.161	0
b) from other issuers	275.187.828	285.138
	277.278.989	285.138
<b>6. Shares and other non-fixed interest securities</b>	38.796.856	36.048
<b>7. Equity interests</b>	7.724.005	6.158
including:		
in banks	5.552.733	4.564
<b>8. Interests in affiliated companies</b>	18.859.316	18.916
<b>9. Intangible assets</b>	184.476	173
<b>10. Fixed assets</b>	32.354.811	30.866
including:		
properties and buildings that are used by the bank within the framework of its own activities	20.267.120	20.362
<b>11. Other assets</b>	15.656.419	17.048
<b>12. Accrued and deferred items</b>	2.492	1
<b>Total assets</b>	<b>2.027.339.267</b>	<b>1.970.933</b>
<b>1. Foreign assets</b>	257.065.087	217.021

Balance Sheet VKB-Bank **LIABILITIES**

	31.12.2005 Euro	31.12.2004 TS Euro
<b>1. Obligations towards banks</b>		
a) at call	17.368.134	7.065
b) with fixed term or period of possible cancellation	210.154.456	227.576
	<b>227.522.590</b>	<b>234.641</b>
<b>2. Obligations towards customers</b>		
a) savings deposits	967.770.088	966.937
including:		
aa) at call	0	1
bb) with fixed term or period of notice	967.770.088	966.936
b) other liabilities	412.303.664	372.975
including:		
aa) at call	316.672.653	282.846
bb) with fixed term or period of notice	95.631.011	90.130
	<b>1.380.073.752</b>	<b>1.339.913</b>
<b>3. Debts documented by certificates</b>		
other debts documented by certificates	141.661.661	141.443
<b>4. Other liabilities</b>	18.311.216	11.204
<b>5. Accrued and deferred items</b>	999.326	899
<b>6. Reserves</b>		
a) reserves for compensation	8.713.087	7.659
b) reserves for pensions	24.207.400	23.793
c) provisions for taxation	2.985.862	860
d) other	12.047.084	14.106
	<b>47.953.433</b>	<b>46.418</b>
<b>7. Supplementary capital</b>	3.111.705	3.112
<b>8. Subscription capital</b>	30.000.000	30.000
<b>9. Capital reserves</b>		
a) bound	72.673	73
b) not bound	6.105.894	6.106
	<b>6.178.567</b>	<b>6.179</b>
<b>10. Profit reserves</b>		
a) statutory reserves	10.000.000	10.000
b) other reserves	109.723.666	95.274
	<b>119.723.666</b>	<b>105.274</b>
<b>11. Liable reserve in acc. with § 23 subsect. 6 of the banking statute</b>	36.338.768	35.386
<b>12. Balance sheet profit</b>	2.393.053	2.370
<b>13. Untaxed reserves</b>		
a) valuation reserve due to special depreciation	13.071.530	13.186
b) other untaxed reserves	0	909
	<b>13.071.530</b>	<b>14.095</b>
<b>Total liabilities</b>	<b>2.027.339.267</b>	<b>1.970.933</b>
<b>1. Contingent liabilities</b>		
Liabilities from guarantees or the ordering of collateral	123.620.210	110.337
<b>2. Credit risks</b>		
unused credit lines	123.775.456	93.195
promissory credits	180.622.601	184.938
obligations from pension business	2.144.000	2.180
	<b>306.542.057</b>	<b>280.313</b>
<b>3. Obligations from trust funds</b>	9.953.796	12.126
<b>4. Eligible own funds in acc. with § 23 subsec. 14 of the banking statute</b>	231.206.788	214.136
<b>5. Own funds requirement in acc. with § 22 subsec. 1</b>	131.442.713	123.822
points 1 and 4 of the banking statute	131.442.713	123.822
<b>6. Foreign liabilities</b>	153.140.739	126.641

## INCOME STATEMENT VKB-Bank

	2005 Euro	2004 TS Euro
<b>1. Interest and interest-related income</b>	96.012.617	95.498
including:		
from fixed-interest securities 14.575.440		15.562
<b>2. Interest and interest-related expenditure</b>	-40.438.696	-39.583
<b>I. NET INTEREST INCOME</b>	<b>55.573.922</b>	<b>55.915</b>
<b>3. Income from securities and equity interests</b>		
a) income from shares, other equity interests and non fixed-interest securities	1.381.347	1.146
b) income from equity interests	418.927	450
c) income from affiliated companies	500.000	300
	2.300.274	1.895
<b>4. Income from commissions</b>	17.104.919	15.518
<b>5. Commission expenses</b>	-874.047	-777
<b>6. Income/Expenses from financial transactions</b>	3.445.953	2.282
<b>7. Other operating income</b>	2.681.933	2.476
<b>II. OPERATING INCOME</b>	<b>80.232.953</b>	<b>77.309</b>
<b>8. Administrative expenditure</b>		
a) personnel expenditure	-34.773.328	-32.868
aa) wages and salaries -24.776.958		-23.328
bb) expenses on statutory social security expenditure and on payment of dependant charges and compulsory contributions -6.639.324		-6.320
cc) other social security expenditure -849.126		-899
dd) expenses for pension scheme and support -1.361.803		-1.293
ee) allocation of the pension reserve 395.914		400
ff) allocation of the compensation reserve -1.542.031		-1.429
b) other administrative expenditure (material expenses)	-14.747.868	-15.155
	-49.521.196	-48.024
<b>9. Valuation adjustments for assets as per positions 9 and 10</b>	-3.570.438	-3.545
<b>10. Other operating expenditure</b>	-1.188.036	-1.228
<b>III. OPERATING EXPENSES (Sum of positions 8 to 10)</b>	<b>-54.279.670</b>	<b>-52.797</b>
<b>IV. OPERATING RESULT</b>	<b>25.953.284</b>	<b>24.512</b>
<b>11./12. Balance for the transfer to, and the liquidation of valuation adjustments for receivables and reserves for contingent liabilities and credit risks</b>	-4.466.309	-8.090
<b>13./14. Balance for the transfer to, and the liquidation of valuation adjustments for securities valued as financial assets and equity interests and interests in affiliated companies</b>	-313.830	2.921
<b>V. OPERATING PROFIT</b>	<b>21.173.145</b>	<b>19.343</b>
<b>15. Taxation of income and earnings</b>	-6.231.845	-5.691
<b>16. Other taxation unless shown in position 15</b>	-88.802	-93
<b>VI. NET PROFIT</b>	<b>14.852.498</b>	<b>13.559</b>
<b>17. Movement of reserves</b>	-12.479.183	-11.201
including:		
liable reserve in acc. with § 23 subsec. 6 of the banking statute -952.562		-644
<b>VII. ANNUAL PROFIT</b>	<b>2.373.315</b>	<b>2.358</b>
<b>18. Profit brought forward</b>	19.738	12
<b>VIII. BALANCE SHEET PROFIT</b>	<b>2.393.053</b>	<b>2.370</b>



# VKB-Group

Balance Sheet as of the 31<sup>st</sup> of December, 2005  
Income Statement for 2005

## Balancesheet VKB-Group ASSETS

	31.12.2005 Euro	31.12.2004 TS Euro
<b>1. Cash on hand, deposits with central banks</b>	18.253.027	17.287
<b>2. Debentures of public bodies that have been admitted for refinancing by the central bank</b>		
Debentures of public bodies and similar securities	54.419.735	42.037
<b>3. Due from banks</b>		
a) call money	11.412.964	9.002
b) other receivable debts	85.959.174	77.663
	97.372.138	86.664
<b>4. Debts receivable from customers</b>	1.539.655.044	1.505.134
<b>5. Debentures and other fixed-interest securities</b>		
a) from public issuers	2.091.161	0
b) from other issuers	275.187.828	285.138
	277.278.989	285.138
<b>6. Shares and other non-fixed interest securities</b>	38.796.856	36.048
<b>7. Equity interests</b>		
including:		
in banks	5.552.733	4.564
in associated companies	23.888	22
	8.187.417	6.709
<b>8. Interests in affiliated companies</b>		
including:		
in affiliated companies	2.033.055	1.923
	2.063.055	2.009
<b>9. Intangible assets</b>	324.228	289
<b>10. Fixed assets</b>		
including:		
properties and buildings that are used by the bank within the framework of its own activities	24.485.818	24.680
	46.045.685	42.292
<b>11. Other assets</b>	13.354.446	14.790
<b>12. Accrued and deferred items</b>	156.229	179
<b>Total assets</b>	<b>2.095.906.847</b>	<b>2.038.575</b>
<b>1. Foreign assets</b>	257.065.087	217.021

Balance Sheet VKB-Group **LIABILITIES**

	<b>31.12.2005</b>	<b>31.12.2004</b>
	<b>Euro</b>	<b>TS Euro</b>
<b>1. Obligations towards banks</b>		
a) at call	17.385.492	9.822
b) with fixed term or period of possible cancellation	218.964.428	227.602
	<b>236.349.920</b>	<b>237.424</b>
<b>2. Obligations towards customers</b>		
a) savings deposits	967.770.088	966.937
including:		
aa) at call	0	1
bb) with fixed term or period of notice	967.770.088	966.936
b) other liabilities	399.300.252	367.210
including:		
aa) at call	305.469.241	279.335
bb) with fixed term or period of notice	93.831.011	87.875
	<b>1.367.070.340</b>	<b>1.334.147</b>
<b>3. Debts documented by certificates</b>		
other debts documented by certificates	141.581.721	141.363
<b>4. Other liabilities</b>	<b>66.446.666</b>	<b>58.824</b>
<b>5. Accrued and deferred items</b>	<b>3.530.964</b>	<b>3.943</b>
<b>6. Reserves</b>		
a) reserves for compensation	8.713.087	7.659
b) reserves for pensions	24.207.400	23.793
c) provisions for taxation	3.080.397	863
d) other	14.230.404	15.142
	<b>50.231.287</b>	<b>47.457</b>
<b>7. Supplementary capital</b>	<b>3.111.705</b>	<b>3.112</b>
<b>8. Subscription capital</b>	<b>5.205.779</b>	<b>5.070</b>
<b>9. Capital reserves</b>	<b>18.300</b>	<b>18</b>
<b>10. Profit reserves</b>		
a) statutory reserves	5.031.319	5.028
b) other reserves	216.872.137	201.678
	<b>221.903.456</b>	<b>206.706</b>
<b>11. Group balance sheet profit</b>	<b>456.709</b>	<b>511</b>
<b>Total liabilities</b>	<b>2.095.906.847</b>	<b>2.038.575</b>
<b>1. Contingent liabilities</b>		
Liabilities from guarantees or the ordering of collateral	123.620.210	110.337
<b>2. Credit risks</b>		
unused credit lines	123.775.456	93.195
promissory credits	180.622.601	184.938
obligations from pension business	2.144.000	2.180
	<b>306.542.057</b>	<b>280.313</b>
<b>3. Obligations from trust funds</b>	<b>9.953.796</b>	<b>12.126</b>
<b>4. Eligible own funds in acc. with § 23 subsec. 14 of the banking statute</b>	<b>256.487.604</b>	<b>238.514</b>
<b>5. Own funds requirement in acc. with § 22 subsec. 1</b>	<b>133.116.865</b>	<b>125.542</b>
points 1 and 4 of the banking statute	133.116.865	125.542
<b>6. Foreign liabilities</b>	<b>153.140.739</b>	<b>126.641</b>

## INCOME STATEMENT VKB-Group

	2005 Euro	2004 TS Euro
<b>1. Interest and interest-related income</b>	101.352.455	100.119
including:		
from fixed-interest securities	14.575.440	15.562
<b>2. Interest and interest-related expenditure</b>	-40.369.972	-39.862
<b>I. NET INTEREST INCOME</b>	<b>60.982.483</b>	<b>60.257</b>
<b>3. Income from securities and equity interests</b>		
a) income from shares, other equity interests and non fixed-interest securities	1.381.347	1.146
b) income from equity interests	421.071	285
c) income from affiliated companies	309.832	79
	2.112.250	1.510
<b>4. Income from commissions</b>	17.104.919	15.518
<b>5. Commission expenses</b>	-874.047	-777
<b>6. Income/Expenses from financial transactions</b>	3.445.953	2.282
<b>7. Other operating income</b>	2.960.868	2.505
<b>II. OPERATING INCOME</b>	<b>85.732.425</b>	<b>81.294</b>
<b>8. Administrative expenditure</b>		
a) personnel expenditure	-34.773.328	-32.868
aa) wages and salaries	-24.776.958	-23.328
bb) expenses on statutory social security expenditure and on payment of dependant charges and compulsory contributions	-6.639.324	-6.320
cc) other social security expenditure	-849.126	-899
dd) expenses for pension scheme and support	-1.361.803	-1.293
ee) allocation of the pension reserve	395.914	400
ff) allocation of the compensation reserve	-1.542.031	-1.429
b) other administrative expenditure (material expenses)	-14.902.852	-15.314
	-49.676.180	-48.182
<b>9. Valuation adjustments for assets as per positions 9 and 10</b>	-3.978.688	-3.918
<b>10. Other operating expenditure</b>	-4.265.817	-3.619
<b>III. OPERATING EXPENSES (Sum of positions 8 to 10)</b>	<b>-57.920.685</b>	<b>-55.719</b>
<b>IV. OPERATING RESULT</b>	<b>27.811.740</b>	<b>25.576</b>
<b>11./12. Balance for the transfer to, and the liquidation of valuation adjustments for receivables and reserves for contingent liabilities and credit risks</b>	-5.404.982	-8.067
<b>13./14. Balance for the transfer to, and the liquidation of valuation adjustments for securities valued as financial assets and equity interests and interests in affiliated companies</b>	-420.458	2.875
including:		
from businesses which are considered affiliated	-31.628	-42
<b>V. OPERATING PROFIT</b>	<b>21.986.301</b>	<b>20.383</b>
<b>15. Taxation of income and earnings</b>	-6.386.495	-5.748
<b>16. Other taxation unless shown in position 15</b>	-88.802	-93
<b>VI. NET PROFIT</b>	<b>15.511.004</b>	<b>14.542</b>
<b>17. Movement of reserves</b>	-15.119.986	-14.083
<b>VII. GROUP ANNUAL PROFIT</b>	<b>391.018</b>	<b>459</b>
<b>18. Profit brought forward</b>	65.691	52
<b>VIII. GROUP BALANCE SHEET PROFIT</b>	<b>456.709</b>	<b>511</b>



# Address directory

## HEAD OFFICE

4010 Linz, Rudigierstraße 5-7,  
Phone +43/732/76 37-0, Fax +43/732/76 37-290  
E-Mail: [international@vkb-bank.at](mailto:international@vkb-bank.at)  
Internet: <http://www.vkb-bank.at>  
Telegram-address: Volkskreditbank Linzdonau

## TREASURY AND CORRESPONDENT BANKING DEPARTMENT

4010 Linz, Pfarrplatz 12  
Phone +43/732/76 37-394, Fax +43/732/76 37-392  
SWIFT: VKBLAT2L  
Telex 222282 vkbdr a  
<http://www.vkb-bank.at>  
e-mail: [international@vkb-bank.at](mailto:international@vkb-bank.at)

## REPRESENTATIVE OFFICE

### IN CZECH REPUBLIC

U Cerne veze 6, CZ-37001 Ceske Budejovice  
Phone, Fax +420/38/635 22 37  
Telex 144600 vkb c, Representative

## BRANCHES

### LINZ AREA

4010 Linz, Rudigierstraße 5-7  
Phone +43/732/76 37-0, Fax +43/732/76 37-404

4010 Linz, Domgasse 12  
Phone +43/732/76 37-0, Fax +43/732/76 37-140

4020 Linz, Derfflingerstraße 10  
Phone +43/732/77 66 50, Fax +43/732/79 28 16

4020 Linz-Froschberg, Ziegeleistraße 74  
Phone +43/732/66 92 26-0, Fax +43/732/66 92 26-31

4020 Linz, Hasnerstraße 34  
Phone +43/732/65 14 94, Fax +43/732/60 83 71

4030 Linz-Kleinmuenchen, Zeppelinstraße 50  
Phone +43/732/30 38 83, Fax +43/732/30 38 83-6

4020 Linz-Neue Welt, Kremplstraße 1  
Phone +43/732/34 23 56-0, Fax +43/732/34 23 56-31

4050 Traun, Hauptplatz 18  
Phone +43/7229/757 90-0, Fax +43/7229/757 90-22

4040 Urfahr, Linke Brueckenstraße 24-26  
Phone +43/732/71 28 00-0, Fax +43/732/71 28 00-34

4040 Urfahr-Auberg, Rosenauerstraße 54  
Phone +43/732/73 70 60, Fax +43/732/73 70 60-21

4040 Urfahr-Gruendberg, Leonfeldner Straße 150  
Phone +43/732/25 46 25, Fax +43/732/25 46 25-18

4053 Haid bei Ansfelden, Salzburger Straße 8  
Phone +43/7229/875 10, Fax +43/7229/8 5 10-18

4060 Leonding, Mayrhansenstraße 8  
Phone +43/732/67 06 52, Fax +43/732/67 06 52-24

4061 Pasching-Langholzfeld, Stifterstraße 68  
Phone +43/7229/618 77, Fax +43/7229/618 77-13

## UPPER AUSTRIA AREA

4481 Asten, Wiener Straße 20  
Phone +43/7224/662 63, Fax +43/7224/660 34

8990 Bad Aussee, Bahnhofstraße 132  
Phone +43/3622/533 22

4820 Bad Ischl, Kreuzplatz 21  
Phone +43/6132/239 41-0, Fax +43/6132/239 41-13

4820 Bad Ischl-Pfandl, Steinbruch 167,  
Phone +43/06132/267 15, Fax +43/06132/267 15-13

4701 Bad Schallerbach, Grieskirchner Straße 3  
Phone +43/7249/481 62-0, Fax +43/7249/481 62-21

5280 Braunau/Inn, Stadtplatz 36-37  
Phone +43/7722/634 52-0, Fax +43/7722/634 52-44

4407 Dietach, Kirchenplatz 1  
Phone +43/7252/383 53-0, Fax +43/7252/383 53-19

4470 Enns, Wiener Straße 5-7  
Phone +43/7223/849 85-0, Fax +43/7223/849 85-33

4240 Freistadt, Hauptplatz 2,  
Phone +43/7942/745 00 0, Fax +43/7942/745 00-50

4810 Gmunden, Theatergasse 5  
Phone +43/7612/641 45-0, Fax +43/7612/641 45-66

4810 Gmunden, Salzkammergut-Einkaufspark, Druckereistraße 7  
Phone +43/7612/732 52-0, Fax +43/7612/732 52-9

4710 Grieskirchen, Stadtplatz 35-36  
Phone +43/7248/629 11-0, Fax +43/7248/629 11-15

5122 Hochburg-Ach, Hochburg 2  
Phone +43/7727/40 00-0, Fax +43/7727/40 00-15

4862 Kammer am Attersee, Hauptstraße 1  
Phone +43/7662/22 17, Fax +43/7662/22 17-15

4560 Kirchdorf an der Krems, Hauptplatz 5  
Phone +43/7582/620 50-0, Fax +43/7582/620 50-36

4614 Marchtrenk, Linzer Straße 44  
Phone +43/7243/52 9 11-0, Fax +43/7243/52 9 12

4501 Neuhofen/Krems, Kirchengasse 8  
Phone +43/7227/59 70-0, Fax +43/7227/59 70-33

4523 Neuzeug-Sierninghofen, Steyrtalstraße 21  
Phone +43/7259/24 42, Fax +43/7259/24 42-12

4491 Niederneukirchen, Dorfplatz 8  
Phone +43/7224/70 02-0, Fax +43/7224/70 02-17

5121 Ostermiething, Bergstraße 2  
Phone +43/6278/62 04, Fax +43/6278/62 04-19

4320 Perg, Hauptplatz 19  
Phone +43/7262/543 73-0, Fax +43/7262/543 73-33

4910 Ried im Innkreis, Stelzhamerplatz 15  
Phone +43/7752/805 55-0, Fax +43/7752/805 55-30

4311 Schwertberg, Hauptstraße 7  
Phone +43/7262/614 25-0, Fax +43/7262/614 25-33

4490 St. Florian bei Linz, Thannstraße 1  
Phone +43/7224/42 20-0, 86 18; Fax +43/7224/42 20-30

4400 Steyr, Stadtplatz 32  
Phone +43/7252/539 94-0, Fax +43/7252/539 94-33

4400 Stey-Neulust, Aschacher Straße 1  
Phone +43/7252/479 88-0, Fax +43/7252/479 88-23

4400 Steyr Tabor, Kaserngasse 2b  
Phone +43/7252/722 46-0, 776 51-0; Fax +43/7252/72 2 46-22

4840 Vöcklabruck, Stadtplatz 18-20  
Phone +43/7672/724 77-0, 724 78-0 Fax +43/7672/724 77-18

4655 Vorchdorf, Schlossplatz 10  
Phone +43/7614/62 10, Fax +43/7614/62 10-24

4601 Wels, Kaiser-Josef-Platz 47  
Phone +43/7242/617 21-0, Fax +43/7242/293 92

4600 Wels-Lichtenegg, Salzburger Straße 67  
Phone +43/7242/688 26, Fax +43/7242/519 49