VOLKSBANK WIEN

WE ARE YOUR RELATIONSHIP BANK

ANNUAL FINANCIAL REPORT 2017

KEY FIGURES OF VOLKSBANK WIEN AG

Euro million	31 Dec 2017	31 Dec 2016	restated 31 Dec 2015
Statement of financial position			
Total assets	**10,616**	**10,008**	**10,004**
Loans and advances to customers	**4,810**	**4,351**	**3,722**
Amounts owed to customers	**5,791**	**4,691**	**3,992**
Debts evidenced by certificates	**488**	**725**	**798**
Subordinated liabilities	**426**	**29**	**18**
Own funds according to Basel III for the VOLKSBANK WIEN AG group			
Common equity tier 1 capital (CET1)	533	449	364
Additional tier 1 capital (AT1)	0	0	0
Tier 1 capital (T1)	**533**	**449**	**364**
Tier 2 capital (T2)	407	7	10
Own funds	**941**	**456**	**374**
Risk weighted exposure amount - credit risk	2,721	2,433	2,084
Total risk exposure amount settlement risk	0	0	0
Total risk exposure amount market risk	112	153	188
Total risk exposure amount operational risk	579	586	577
Total risk for credit valuation adjustment	59	60	90
Total risk exposure amount	**3,470**	**3,233**	**2,939**
Common equity tier 1 capital ratio[1]	**15.37%**	**13.88%**	**12.38%**
Tier 1 capital ratio[1]	**15.37%**	**13.88%**	**12.38%**
Equity ratio[1]	**27.11%**	**14.10%**	**12.74%**
Income statement	**1-12/2017**	**1-12/2016**	**1-12/2015**
Net interest income	127.2	99.7	70.1
Risk provisions	2.4	-13.6	13.8
Net fee and commission income	53.8	41.1	30.1
Net trading income	5.6	4.9	7.1
General administrative expenses	-204.9	-174.4	-121.5
Restructuring result	1.3	3.1	-0.3
Other operating result	65.2	39.0	1.3
Income from financial investments	-7.5	1.7	8.5
Income from companies measured at equity	6.2	10.3	-6.5
Result before taxes	**49.4**	**11.7**	**2.4**
Income taxes	4.6	13.3	12.6
Result after taxes	**54.0**	**25.0**	**15.0**
Non-controlling interest	0.0	-1.4	0.0
Consolidated net income	**54.0**	**23.6**	**15.0**
Key ratios[2]			
Operating cost-income-ratio	**80.6%**	**82.7%**	**110.9%**
ROE before taxes	**9.5%**	**2.9%**	**0.9%**
ROE after taxes	**10.4%**	**6.1%**	**5.5%**
ROE consolidated net income	**10.5%**	**5.8%**	**5.5%**
NPL ratio	**2.5%**	**3.5%**	**3.4%**
Net interest margin	**1.2%**	**1.0%**	**0.7%**
Leverage ratio	**4.3%**	**3.8%**	**2.9%**
Net Stable Funding Ratio (NSFR)	**131.7%**	**118.1%**	**99.1%**
Loan deposit ratio	**79.8%**	**80.5%**	**85.7%**
Coverage ratio I	**27.0%**	**25.3%**	**27.2%**
Coverage ratio III	**103.7%**	**96.2%**	**86.1%**
Resources	**1-12/2017**	**1-12/2016**	**1-12/2015**
Staff average	**1,284**	**1,139**	**815**
of which domestic	1,284	1,139	815
	31 Dec 2017	**31 Dec 2016**	**31 Dec 2015**
Staff at end of period	**1,327**	**1,242**	**1,130**
of which domestic	1,327	1,242	1,130
Number of sales outlets	**78**	**78**	**64**
of which domestic	78	78	64
Number of customers	**348,488**	**368,935**	**350,652**

1) In relation to total risk
2) The operating cost-income-ratio is the ratio between operating income and operating expenses. Operating income includes net interest income, net fee and commission income, net trading income and if positive other operating result and income from discontinued operation. Operating expenses include general administrative expenses and if negative other operating result and income from discontinued operation. Other operating result and income from discontinued operation is displayed net of other taxes, deconsolidation result and valuation result according to IFRS 5. The ROE before taxes indicates the result before taxes in relation to the average equity including non-controlling interest. The ROE after taxes indicates the result after taxes in relation to the average equity including non-controlling interest. The ROE consolidated net income indicates the consolidated net income in relation to the average equity including non-controlling interest. The NPL ratio indicates the portfolio of non-performing loans in relation to the total exposure of all loans and advances to customers. The net interest margin shows the net interest income in relation to total assets. The leverage ratio indicates the business volume (CCF-weighted off-balance positions plus derivatives add-on, replacement value of derivatives, disallowance of derivative claims and financial volume) in relation to the Tier I capital (CET1 + AT1). The NSFR indicates the available stable funding in relation to the necessary stable funding. The Loan deposit ratio indicates the total amount of loan accounts, overdraft facilities less syndicated loans in relation to the total amount of savings deposits, demand deposits, fixed term deposits and debts evidenced by certificates. The Coverage ratio I indicates the coverage ratio of non performing loans by risk provisions. The Coverage ratio III indicates the coverage ratio of non performing loans by risk provisions and collaterals.

CONSOLIDATED FINANCIAL STATEMENTS

INDIVIDUAL ANNUAL FINANCIAL STATEMENTS

OFFICERS AND ADRESSES

FOREWORD BY THE CHIEF EXECUTIVE OFFICER

Gerald Fleischmann

CEO and Chairman
of the Managing Board

2017 was an extraordinary and defining year for VOLKSBANK WIEN AG. VOLKSBANK WIEN AG has made a lot of progress: as the largest regional bank among Austrian Volksbanks on the one hand, and in its function as the central organisation for the entire Association of Volksbanks in Austria on the other hand.

Following the regional mergers concluded within the scope of the reorganisation of the Association, the catchment area of VOLKSBANK WIEN AG comprises all of Vienna, the whole of Burgenland, and the eastern half of Lower Austria. Moreover, in 2017, also SPARDA BANK Austria merged with VOLKSBANK WIEN AG, with the latter now operating under the SPARDA brand throughout Austria. The SPARDA brand positions itself as a bank for employed persons, servicing its target customer segments to a considerable degree through works councils and the vida trade union.

Apart from the mergers and optimisation of the Association's new structures, VOLKSBANK WIEN AG, just like the financial sector as a whole, was facing big challenges due to the low interest rate environment and high regulatory expenses. The simplification of the business model is aimed at achieving savings in the medium term. The bank focuses on the core areas of deposits, loans and payment transactions. In the service business with insurances, securities, leasing, building society savings and other areas, VOLKSBANK WIEN AG sells products sourced from top-quality partners with the highest expertise in these areas.

Service business with the product partners developed very positively. Record sales and two-digit growth were achieved again in the previous year within the scope of our cooperation – of several years already – with TeamBank in the area of consumer financing. As regards investment funds, the second year of cooperation with Union Investment was very encouraging; the excellent products of this international investment company were highly appreciated by the Austrian market. Net fee and commission income in securities business was increased by nearly 30%.

Owing to the sound capital base and liquidity situation, VOLKSBANK WIEN AG and the Association managed to considerably expand credit business with the "KMU-Milliarde" (SME billion) and "Wohnbaumilliarde" (housing billion) focus campaigns. In 2017, VOLKSBANK WIEN AG managed to increase total borrowings by as much as 6.6%.

The branches still constitute the primary sales channel of VOLKSBANK WIEN AG. The combination of individual branches is meant to ensure that a high level of competence is available at all locations, both in retail and in corporate banking. All measures taken within the branch and sales organisation are aimed at putting an even greater focus on the customer and the quality of the consultancy we provide. Obviously, this also includes continuous investments in the professional training and further development of our employees. Within our consultancy-based and relationship-oriented approach, our employees are – and always will be – our most important asset. One clear goal is to further increase the quality standards of our consultancy.

The digital world is becoming another important sales channel for all banks. By launching its new digital presence in the second half of 2016, VOLKSBANK WIEN AG has responded to this trend, offering a range of products and services that was extended by some new functions again in 2017.

Being able to offer competent, reliable consultancy in complex financial matters, on the one hand, and ensuring that our customers can carry out all commonly used transactions and satisfy their need for information around the clock anywhere they like, on the other hand, is going to be an essential factor of sales success. And it is precisely in that direction that we are consistently developing our sales organisation. Volksbank wants to be perceived as a relationship bank in Austria, as first contact when it comes to financial matters.

In 2017, we also undertook great efforts in order to achieve the stable equity base that we have now. In comparison to previous year, the equity base was increased. This enables us to properly fulfil our main function in economic terms, namely the financing of individuals and businesses. Our focus is on small- and medium-sized enterprises, in particular, which are an essential pillar of the Austrian economy. Retail customers appreciate the high quality of our consultancy and the services tailored to their individual needs.

VOLKSBANK WIEN AG and the Association were attested great progress by the rating agencies and the capital market. In the first half of 2017, the rating agencies Moody's and Fitch upgraded the credit rating to "Investment Grade"; in September, a subordinated bond with a volume of euro 400 million was placed on the international market, with subscriptions more than twice the issue volume.

The year 2017 was characterised by drastic changes that have created many opportunities for the years to come. I would like to thank all employees, officers and owners for their enormous commitment. And I want to thank our customers especially, for their great loyalty to VOLKSBANK WIEN AG in the past year.

Vienna, April 2018

Gerald Fleischmann
CEO and Chairman of the Managing Board

REPORT OF THE SUPERVISORY BOARD

pursuant to section 96 of the Austrian Stock Corporation Act (Aktiengesetz) for the 2017 business year

Heribert Donnerbauer

Chairman
of the Supervisory Board

In four ordinary and two extraordinary meetings in the 2017 business year, in further discussions and numerous committee meetings, the Supervisory Board obtained information on the legality, expediency and efficiency of the management as well as on the situation, development and business strategy of the Company. The Supervisory Board also dealt with the topics that VOLKSBANK WIEN AG as the central organisation of the Association of Volksbanks is responsible for according to Section 30a BWG.

The corresponding reports of the Managing Board were thoroughly discussed and acknowledged, and the required resolutions were passed.

The committee chairpersons have reported to the Supervisory Board on the work of the committees of the Supervisory Board on a regular basis. Moreover, the records of all committees, except for the HR Committee, were made available to all Supervisory Board members. Accordingly, the Supervisory Board was given ample opportunity to comply with its duty to obtain information and with its supervisory duty.

The Supervisory Board has set up the following committees: Working and Risk Committee, Audit Committee, Remuneration Committee, Nomination Committee, HR Committee, as well as Transformation and Mergers Committee.

The Working and Risk Committee held four meetings in 2017, where the investments falling within its sphere of competence, as well as the risk topics, the risk strategy, and the current risk situation of the Company and of the Association of Volksbanks were dealt with. Credit decisions were also taken by circular resolution by the Working and Risk Committee.

The Audit Committee held four meetings in 2017. Apart from the audit of the annual financial statements, the consolidated financial statements and the financial statement of the Association, especially the internal control system, the internal audit system, and the risk management system were discussed in these meetings.

In 2017, in three meetings, the Remuneration Committee dealt with the principles of remuneration policy and with the remuneration report of VOLKSBANK WIEN AG and of the Association of Volksbanks.

The Nomination Committee held five meetings in 2017. One key topic was filling the position of CRO at the Managing Board. Moreover, the Nomination Committee dealt with the annual evaluation of the Managing Board and Supervisory Board members, with evaluating key personnel and with the Company's Fit & Proper Policy.

The HR Committee dealt with the Managing Board matters falling within its sphere of responsibility in three meetings in 2017, especially the conclusion of the management contract with Thomas Uher, the newly appointed CRO.

The Transformation and Mergers Committee held two meetings in 2017, where the contribution of the banking operation of SPARDA-BANK AUSTRIA eGen to VOLKSBANK WIEN AG was dealt with and the respective current status of the mergers within the Association of Volksbanks was reported on.

The meetings of the Supervisory Board and its committees were characterised by a high number of members attending.

The merger process initiated in 2014 was largely completed within the Association of Volksbanks in 2017. The contribution of the banking operation of SPARDA-BANK AUSTRIA eGEN to VOLKSBANK WIEN AG was reviewed by the Supervisory Board after the above-mentioned deliberations in the Transformation and Mergers Committee, it was approved in the ordinary general meeting held on 18 May 2017 and was carried out by way of the agreement on contribution in kind dated 22 May 2017 with retroactive effect as at 31 December 2016, according to Section 92 BWG, based on the principles of the Reorganisation Tax Act.

Again in 2017, the HR Committee of the Supervisory Board dealt with personnel changes in the Managing Board of VOLKSBANK WIEN AG. Mr. Schauer resigned from the Managing Board at his own request upon cancellation of his management contract by mutual agreement with effect from 31 January 2017. Subsequently, a selection and recruiting process to fill the vacant fourth Managing Board mandate was initiated, with the function of CRO being advertised in this context. The selection and recruiting process was accompanied by the Nomination Committee and ended with a decision in favour of Thomas Uher as the candidate best suited for the position. Upon a relevant recommendation by the Nomination Committee, therefore, the Supervisory Board appointed Thomas Uher as member of the Managing Board of VOLKSBANK WIEN AG in the function of CRO with effect from 15 October 2017. The HR Committee took care of concluding his management contract. Hence, the Managing Board of VOLKSBANK WIEN AG again consists of four members now: Gerald Fleischmann, Chairman of the Managing Board and responsible for retail business, Josef Preissl, Deputy Chairman of the Managing Board and responsible for commercial and real estate business, Rainer Borns, CFO, and Thomas Uher, CRO.

In 2017, there was also a personnel change at the Supervisory Board. The Supervisory Board member delegated by the Republic of Austria, Johannes Linhart, resigned from his position with effect from 14 September 2017, and Eva Hieblinger-Schütz was delegated to the Supervisory Board in his place.

Equally, some changes with regard to the State Commissioners occurred: instead of former State Commissioners Helga Ruhdorfer and Dietmar Mitteregger, Christian Friessnegg and Katharina Hafner were appointed State Commssioners with effect from 1 August 2017 and 1. September 2017, respectively.

With effect from 1 January 2017, the Supervisory Board resolved upon a policy for dealing with conflicts of interest by the executive bodies of VOLKSBANK WIEN AG. By resolution of the Supervisory Board in its ordinary meeting on 12 December 2017, the policy was updated and made more specific. It is explicitly pointed out in this policy that due to the structure of the association of credit institutions under Section 30a BWG, individual members of the Supervisory Board are exposed to potential conflicts of interest inherent to the system, in the sense that on the one hand they are a manager/managing board member of a credit institution within the Association of Volksbanks and at the same time exercise the function of a Supervisory Board member of VOLKSBANK WIEN AG at the same time, and on the other hand are affected by the scope of powers of VOLKSBANK WIEN AG as central organisation of the Association of Volksbanks. The Supervisory Board and Managing Board of VOLKSBANK WIEN AG are aware of this conflict potential. Conflicts of interest occurring in the 2017 business year were resolved in that the board members affected by a conflict of interest did not participate in passing a resolution on the object of their conflict of interest or in that they abstained from voting.

The annual financial statements, including the Notes, as at 31 December 2017, and the management report were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (KPMG) and were given an unqualified audit certificate. The consolidated financial statements as at 31 December 2017 including the group management report were audited by KPMG and also provided with an unqualified audit certificate.

The Supervisory Board has acknowledged the report submitted by the Managing Board and has examined the annual financial statements including the management report as well as the consolidated financial statements including the group management report and the annex acc. to Section 63 (5) and (7) BWG to the audit report upon previous involvement of the Audit Committee under Section 96 (1) Stock Companies Act. Said examination by the Supervisory Board has not resulted in any objections; in particular, the Supervisory Board found that the annual financial statements and the consolidated financial statements had been prepared correctly.

Accordingly, the Supervisory Board approves the annual financial statements including the management report, meaning that the same are approved under Section 96 (4) Stock Companies Act, as well as the consolidated financial statements including the group management report and the annex to the audit report under Section 63 (5) and (7) BWG. The Supervisory Board also concurs with the results of the year-end audit, which were thoroughly discussed with KPMG in the Audit Committee, and consents to the proposal for the appropriation of profits as submitted by the Managing Board.

VOLKSBANK WIEN AG is obliged to provide a non-financial statement according to Section 243b UGB and a consolidated non-financial statement acc. to Section 267a UGB. These statements are summarised and published in a separate non-financial report (sustainability report). The sustainability report was submitted to the Supervisory Board and reviewd by the same. Moreover, the Supervisory Board charged KPMG Advisory GmbH with auditing the sustainability report; the relevant audit report has been submitted to the Supervisory Board. The reviews or audits by the Supervisory Board and by KPMG Advisory GmbH did not result in any objections, and the Supervisory Board concurs with the results of the audit by KPMG Advisory GmbH.

In the past business year, VOLKSBANK WIEN AG has again fulfilled the support function provided for by the shareholders and stipulated in Section 3 of the articles of association.

Finally, the Supervisory Board would like to thank the Managing Board and all employees for their high personal commitment and the success achieved in the past business year.

Vienna, March 2018

For the Supervisory Board of VOLKSBANK WIEN AG:

Heribert DONNERBAUER,
born 4 August 1965
Chairman of the Supervisory Board

THE MANAGING BOARD

Chairman:

Gerald Fleischmann

born 27 February 1969

CEO

Division of responsibilities in the Managing Board:

- Digitalisation
- General Secretariat
- Front Office Service Center / Customer Service Center
- Organisation & IT
- HR Management
- PR & Communication
- Private Banking / Treasury
- Retail
- Audit
- Banking Association Strategy
- Sales Management / Marketing

Deputy Chairman:

Josef Preissl

born 2 March 1959

Deputy-CEO

Division of responsibilities in the Managing Board:

- Corporates
- Property Subsidiaries
- Real Estate
- VB Services for Banks

Member of the Managing Board:

Rainer Borns

born 7 August 1970

Division of responsibilities in the Managing Board:

- Control
- Financial Data Steering
- Finance
- Legal and Compliance

Member of the Managing Board:

Thomas Uher

born 15 June 1965

Member from 15 October 2017

Division of responsibilities in the Managing Board:

- Credit risk management
- Risk controlling
- Transition Credit

Wolfgang Schauer

Member up to 31 January 2017

THE SUPERVISORY BOARD

Heribert Donnerbauer

Donnerbauer & Hübner Rechtsanwälte GmbH

Chairman

Martin Holzer

Director, Volksbank Tirol AG

First Deputy Chairman

Rainer Kuhnle

Director, Volksbank Niederösterreich AG

Second Deputy Chairman

Susanne Althaler
IBD Steuerberatung GmbH & Co KG
Member

Franz Gartner
Muncipiality of Traiskirchen
Member

Eva Hieblinger-Schütz
Rechtsanwaltskanzlei Hieblinger-Schütz
Member from 14 September 2017

Markus Hörmann
Director, Volksbank Tirol AG
Member

Johannes Linhart
Independent consultant on capital markets and finance
Member up to 14 September 2017

Harald Nograsek
Member

Monika Wildner
Independent lawyer
Member

Otto Zeller
Director, Volksbank Salzburg eG
Member

Works council delegates:

Chairman of the Works council Manfred Worschischek

Hans Lang

Hermann Ehinger

Rainer Obermayer

Michaela Pokorny

State Commissioners:

Dietmar Mitteregger
State Commissioner up to 31 July 2017

Christian Friessnegg
State Commissioner from 1 August 2017

Helga Ruhdorfer
Deputy State Commissioner up to 31 August 2017

Katharina Hafner
Deputy State Commissioner from 1 September 2017

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

Report on the business development and economic situation

Business development

In February 2017, a decision was made at VBW that VBW and Sparda should start preparatory talks and evaluations for the merger. Already in the first half of 2017, the owners of both banks resolved in the general meetings of both companies to contribute the banking operation of Sparda to VBW; said contribution was effected in August 2017 by entering the same in the Companies' Register.

Also in February 2017, Moody's Investors Service awarded a rating (Baa2) to deposits of VBW for the first time ever. And in March 2017, again for the first time ever, the Covered Bond programme (covered bank bonds secured by mortgage) of VBW was awarded a rating by Moody's – namely the best possible one: Aaa.

The Fitch rating agency upgraded the Long-Term Issuer Default Rating of the Association of Volksbanks from BB+ to BBB- in March 2017, with a Positive Outlook.

Since the end of June 2017, confirmed case law has been available regarding the handling of negative interest rates. VBW was no defendant in any of the proceedings concerned. Potentially affected credit accounts were examined, and in the event of a claim being established, any excess interest charged was refunded to our customers in October 2017.

In October 2017, VBW issued a subordinated bond (T2) rated Baa3 by Moody's with an issue volume of euro 400 million to improve the equity base. In October, this resulted in Moody's upgrading the rating for deposits of VBW to Baa1.

Economic environment

According to an estimate by the Austrian Institute of Economic Research (WIFO) of December 2017, Austria's gross domestic product has grown by 3.0% year on year. This constitutes a noticeable increase in dynamics as compared to 2016, when growth had only amounted to 1.5%. Accordingly, the growth rate of the Austrian economy was markedly higher in the past year than that of the euro zone, which – according to estimates by the European Central Bank – has grown by 2.4%. Growth in Austria was due both to an increase in domestic demand and to higher demand in exports.

Against the background of this accelerated growth, the Austrian unemployment rate decreased slightly in the past year: it fell from 5.7% at the beginning of the year to 5.4% in November. The downward trend was even more pronounced in the euro zone: starting out from much higher values, the employment rate decreased from 9.6% at the beginning of the year to 8.7% in November. According to the Harmonised Index of Consumer Prices, the inflation rate in Austria fluctuated between 2.0% and 2.5% in the first eleven months of the year. As in previous years, this made Austria one of the countries with the highest inflation rates in the euro zone. In the past year, the rates of price increases varied between 1.3% and 2.0% in the common currency zone.

Monetary policy in the euro zone remained highly expansive also in the previous year. The European Central Bank (ECB) left the main refinancing rate at 0.00%, the interest rate for the prime refinancing facility at 0.25% and the deposit rate at -0.40%. In March, however, the ECB decided to reduce its monthly securities purchases from euro 80 billion to euro 60 billion. In October, it announced that it would continue the net purchases at a reduced level of euro 30 billion monthly as of January 2018 at least until September 2018.

Money market interests remained more or less unchanged throughout the past year. The 3-month rate started the year at -0.32% and ended it at -0.33%. On the other hand, the returns on the capital market slightly increased in the past year. The yield of the ten-year government bond in Austria increased from 0.43% to 0.59% in 2017. In Germany, it went up from 0.20% to 0.42%.

In spite of monetary tightening in the USA – the US Fed raised its key interest rate in three steps by a total of 75 basis points in 2017 – the euro clearly appreciated in relation to the US dollar over the course of the year. More precisely, from 1.05 USD/EUR to 1.20 USD/EUR. In relation to the Swiss franc, too, the euro was clearly strengthening.

Regional development and branches of industry

Measured against the increase in gross value added in the first half of 2017 compared to the first half of 2016, the regional economic development in Vienna showing an increase of 2.9% year on year – while being robust – was nevertheless below average. The only sectors managing to keep up with the overall Austrian average were construction and the number of overnight stays in tourism. With the exception of material goods production, however, all segments recorded real increases in value added. In the first half of 2017, the number of unemployed persons decreased, but this decrease remained below-average compared to the federal Länder.

In Lower Austria, the development of regional value added compared to other federal Länder was inconspicuous. At a growth rate of 3.6% year on year of gross value added in the first half of the year, the material goods production sector, which is very important for this federal Land, was very strong. In contrast, the construction sector was strikingly below the Austrian average in spite of certain increases. The decrease in the number of unemployed persons was lower than in the other federal Länder; in the first quarter, there was even a slight increase year on year.

The development of Burgenland was also quite similar to that of the whole of Austria. Construction was remarkable here, in that it recorded the highest growth rate of all federal Länder by far. Compared to the other federal Länder, tourism showed the weakest growth among them, however against the background of unusually strong growth in the previous year. The number of unemployed persons decreased at an above-average rate.

Styria also recorded economic development more or less in line with the overall Austrian trend in the first two quarters of 2017. Compared to other federal Länder, the situation was above average in the service sector, especially in business-related services. The situation in the labour market has clearly improved, the decrease in the number of unemployed persons was higher than the Austrian average.

In the first half of 2017, Carinthia was the federal Land with the strongest growth in gross value added. This is due, among others, to very strong growth in material goods production, but also in construction. Not a single economic sector showed below-average performance compared to the other federal Länder. Accordingly, also the number of unemployed persons decreased markedly in Carinthia.

After Carinthia, Upper Austria recorded the second best development of all federal Länder in the first half of 2017, with an increase of 4.2% in gross value added. The sectors of material goods production, which plays a very important role in Upper Austria, and construction made an essential contribution in this respect. The decrease in the number of unemployed persons corresponded to the general Austrian trend.

In the first half of 2017, Salzburg ranked last among the federal Länder with respect to economic development. Gross value added was only 2.0% higher than in the comparative period of the previous year. Retail was the only sector managing to achieve an above-average growth rate compared to the other federal Länder. Nevertheless, the number of unemployed persons decreased in Salzburg.

The very good development in tourism in the second quarter provided Tyrol with an average increase in gross valued added in the first half of the year, after disappointing results for the first quarter. The other sectors hardly deviated from the general Austrian trend, the same is true for the number of unemployed persons.

In the first half of 2017, Vorarlberg ranked second to last, in front of Salzburg, in terms of economic development. This was mainly due to the feeble development in material goods production, which had even declined compared to the relevant period of the previous year. Also, tourism lagged behind the general average. Otherwise, the Vorarlberg economy presented only few conspicuities.

The favourable development of previous years continued in the Austrian residential property market in 2017. The price gap between Vienna and the other federal Länder decreased somewhat. In the third quarter of 2017, annual growth rates for the prices of freehold flats and single-family homes outside Vienna amounted to approx. 4%. In Vienna, the prices of freehold flats increased by 3.6% year on year, those of single-family homes by 0.6% year on year. A marked increase was recorded by the prices of building plots for residential properties at 11.5% year on year in Vienna and 12.5% year on year outside Vienna (each Q3/2017). Affordability, based on the relationship between prices and disposable nominal income, had somewhat improved in mid-2017 compared to the previous year, both in Vienna and throughout Austria, with the relevant index of Oesterreichische Nationalbank (OeNB) being much less favourable in Vienna (98.4 points) than in the rest of Austria (123.6 points). The persistently high demand for residential properties was also reflected in the credit market. At an average of 4.5% year on year, the growth rate of housing credits to private households was only slightly below that of 2016 in the first ten months of the year.

Just like 2016, 2017 was another good year for the Austrian tourist sector. In spite of snow being scarce, the 2016/2017 winter season brought a new record high of overnight stays, even if only marginal, with overnight stays of foreign guests decreasing slightly. In the 2017 summer season, the best result in terms of overnight stays ever since the summer of 1992 was achieved.

Above-average growth rates were achieved by commercial operations and holiday apartments in both seasons. Also, the 2017/2018 winter season got off to a very promising start, with Statistics Austria reporting new record highs both for the number of overnight stays and for the number of arrivals for the first eleven months of the year. All federal Länder recorded increasing numbers of overnight stays. Most overnight stays were reported by Tyrol, followed by Salzburg, Vienna, Styria, Carinthia, Upper Austria, Lower Austria, Vorarlberg and Burgenland. The highest growth rate was recorded by Lower Austria at 7.6%, the lowest one by Vorarlberg at 0.4%.

Consolidated result for the 2017 business year

Due to the contribution in the second half of 2017, the figures of the reporting period are comparable to those of the previous year to a limited extent only.

The consolidated income of VBW before taxes amounts to euro 49 million (2016: euro 12 million). The consolidated income after taxes and minority interest amounts to euro 54 million (2016: euro 24 million).

The net interest income for the 2017 business year amounts to euro 127 million, thus exceeding the income for the reference period (2016: euro 100 million) by euro 28 million. The increase is essentially due to the mergers in 2016 and 2017.

In 2017, at euro +2 million, the risk provision item has greatly improved against the comparative period (euro -14 million). This effect results from reversals of individual impairments and a lower requirement of provisions for portfolio impairments.

The net fee and commission income in the reporting period amounts to euro 54 million, an increase compared to the previous period (2016: euro 41 million). The increase essentially results from the mergers in the second half of 2016 and 2017. Net trading income amounts to euro 6 million for the reporting period and has improved against the previous year.

General administrative expenses of euro 205 million (2016: euro 174 million) have increased by comparison with the previous year. As compared to the end of 2016, the headcount increased by 85 employees from 1,242 and amounts to 1,327 employees as at 31 December 2017. From the Sparda merger 142 employees were taken over.

Due to the write-back of restructuring provisions, the 2017 business year shows a positive result in the item restructuring expenditure in the amount of euro 1 million (2016: euro 3 million).

Apart from the income from charged-out costs, the other operating result includes income from the acquisition of Sparda in the amount of euro 18 million. A loss in the amount of euro -1 million (2016: euro 12 million) was produced from early redemptions of issues in the 2017 business year. For the allocation to interest claims for 2015 and 2016 from the charging of negative interest rates, euro -2 million were reported in this position. The bank levy is included with an amount of euro -2 million (2016: euro -26 million). Due to the impairment test carried out for the the goodwills created through the contributions in the previous years, said goodwills had to be impaired by an amount of euro 8 million (2016: euro 6 million).

The result from financial investments for the reporting period amounts to euro -7 million, thus undercutting the reference period (2016: euro 2 million) by euro 9 million. The effect is almost exclusively due to the valuation of derivatives.

In the reporting period, the result of the companies measured at equity amounted to euro 6 million (2016: euro 10 million). From the assumption of pro rata results, euro 1 million (2016: euro 3 million) was recognised. As regards the participation in VB Kärnten, the impairment effected in previous years were reversed again due to the increase in fair value in the amount of euro 5 million. In the previous year, a result of euro 6 million was recognised from the first-time valuation of VB Verbund-Beteiligung eG. Net income of euro 1 million was received from the sale of Immo-Bank AG effected in the 2016 business year.

Due to the tax planning of the next four years, it was possible, in the reporting period, to recognise deferred tax assets for part of the tax loss carried forward. For tax loss carried forward in the amount of euro 268 million (31 December 2016: euro 304 million), no deferred tax assets are recognised as before. Deferred tax is recognised for the remaining valuation differences, especially in connection with the valuation of derivatives and securities.

Financial position

Due to the contribution in the second half of 2017, the figures of the reporting period are comparable to those of the previous year to a limited extent only. The increases in the individual balance sheet items essentially result from the contribution of the Sparda banking operation.

As at 31 December 2017, total assets amounted to euro 10.6 billion and have slightly increased by comparison with the end of 2016 (euro 10.0 billion).

Compared to the end of the previous period (euro 2.2 billion), loans and advances to credit institutions have decreased to euro 1.7 billion. The decrease essentially results from lower refinancing requirements of the banks of the Association.

As at 31 December 2017, loans and advances to customers, less risk provisions, amount to euro 4.8 billion and have increased compared to the end of the previous year (euro 4.3 billion).

At euro 1.8 billion, financial investments remained at a similar level as at the end of 2016 (euro 1.9 billion).

As at 31 December 2017, the item Assets available for sale shows the carrying amount of commercially used properties and vacant objects the sale of which has already been contractually agreed, or is very likely, as at 31 December 2017.

At euro 2.7 billion, amounts owed to credit institutions have decreased compared to the end of 2016 (euro 3.3 billion). The main reason are lower deposits of the Volksbanks with VBW. Amounts owed to customers in the amount of euro 5.8 billion have increased compared to the end of 2016 (euro 4.7 billion). This is primarily due to the contribution of the Sparda banking operation.

As at 31 December 2017, debts evidenced by certificates amount to euro 0.5 billion and, due to early redemptions, have decreased compared to 31 December 2016 (euro 0.7 billion).

The subordinated bond issued by VBW in October 2017 resulted in an increase in subordinated liabilities, which amount to euro 0.4 billion as at 31 December 2017.

Compared to the end of the previous year, equity has changed by euro 96 million. Apart from the consolidated annual result, the available for sale reserve primarily increased due to the appreciation of participations by euro 32 million after deduction of deferred taxes. In August 2017, VBW implemented a cash capital increase by euro 15.5 million. The capital increase in combination with the contribution of the Sparda banking operation amounted to euro 3.9 million. In the 2017 business year, a distribution of VB Rückzahlungsgesellschaft mbH to the federal government in the amount of euro 13 million was effected.

Report on branch establishments

The VBW Group does not have any branch establishments.

Financial performance indicators

As at 31 December 2017, the regulatory own funds of the VBW credit institution group amount to euro 1 billion (31 December 2016: euro 0.5 billion). The aggregate risk amount was euro 3.5 billion (31 December 2016: euro 3.2 billion) as at 31 December 2017. The CET 1 capital ratio in relation to total risk amounts to 15.37% (31 December 2016: 13.88%), the equity ratio in relation to total risk is 27.11% (31 December 2016: 14.10%). Regulatory own funds, aggregate risk amount and the key indicators calculated therefrom were determined acc. to the CRR (EU Regulation No. 575/2013). For more detailed information, please refer to the Notes.

Performance indicators	2017	2016	2015
Return on Equity before taxes	9.5%	2.9%	0.9%
Return on Equity after taxes	10.4%	6.1%	5.5%
Cost-income ratio	80.6%	82.7%	110.9%

The ROE before taxes is determined as the quotient of result before taxes and the mean value of equity at the balance sheet date and the balance sheet date of the previous year.

The ROE after taxes is determined as the quotient of result after taxes and the mean value of equity at the balance sheet date and the balance sheet date of the previous year.

The operative cost-income ratio is calculated from operating income in relation to operating expenses. The operating income consists of net interest income, net fee and commission income, net trading income, as well as the other operating result, and result of a disposal group, if positive. The operating expenditure includes the general administrative expenses as well as the other operating result, and result of a disposal group, if negative. The other operating result and the result of a disposal group are adjusted for other taxes, deconsolidation result and IFRS 5 measurement.

The performance indicators shown are considered as customary within the industry and are essential factors for the credit rating of banks. Additionally, within VBW, the cost-income ratio was defined as early warning indicator for the Bankensanierungs- und Abwicklungsgesetz (BaSAG, Act on the Reorganisation and Liquidation of Banks).

Non-financial performance indicators

Essential organisational and IT projects

The project portfolio of the Association of Volksbanks is structured in 4 clusters: sales & digitisation, efficiency, infrastructure, and regulatory matters. The most important initiatives of 2017 are described below:

Sales & Digitisation Cluster

New online banking products were developed under the heading "Digital Volksbank Banking". The comprehensive offer in digital desktop banking (including personalisation, personal financial management, global search function etc.) was supplemented by innovative Volksbank apps (Banking app with all functions available as on the desktop, Quick app for quick enquiry of account balance, and TAN app as the new safe signature process). Accordingly, digital banking as information, communication and distribution channel between customer and bank was further expanded in 2017 and is also going to be a major focus within the Association of Volksbanks in 2018.

In 2017, the credit process within the Association of Volksbanks was further optimised. The goal is to digitise and automatise the process chain from the counselling interview through to disbursement of the loan. Based on a counselling approach involving all distribution channels ('Omnikanalansatz'), a process is meant to be implemented that can be used by both the customer online and in the branch. The defined process will be implemented as of January 2018. For this purpose, the technical specifications will be defined first and then implemented in terms of system engineering and processes. Integration into the core banking system is meant to take place via defined interfaces.

These interfaces will be developed within the scope of the "Flexrail" project – with a view to enabling the flexible connection of third-party applications in future. Flexrail is a modern service-oriented architecture with standardised interfaces providing for the future connection of both ARZ applications and third-party applications.

One first application of Flexrail is the project "Online Kunde werden" (becoming a customer online). In the course of this project, an online application process for opening a current account incl. bank cards was implemented. Based on this application, new customers are enabled to open a current account completely online. Legitimation is done by video.

Efficiency Cluster

In August 2017, the contribution of the banking operation of SPARDA AUSTRIA Verwaltungsgenossenschaft eGen to VBW was entered in the Companies' Register. The underlying merger project comprised organisational integration, technical consolidation, and all organisational and technical measures with a view to carrying the trademark "SPARDA-BANK eine Marke der VOLKSBANK WIEN AG" (SPARDA-BANK a brand of VOLKSBANK WIEN AG).

In the MSC (Market Service Center) project, uniform processes (throughout the Association) for handling customer, account and portfolio processes have been worked out. For the purpose of service to be centralised in future, as well as with a view to uniform development, a service client was developed. This service client allows for centralised parametrisation for the entire Association of Volksbanks.

In addition to the MSC, a KSC (Kunden Service Center/Customer Service Center) was established. It has already assumed inbound telephone calls for 120,000 customers, thus supporting the sales function. The KSC assumes the provision of information to customers, the coordination of appointments with the account manager, and the implementation of simple processes (e.g. new issue of cards). By the end of the year, 80,000 customers with 26,000 current accounts were serviced by the KSC.

Regulatory Matters Cluster
The MiFID II project required under regulatory provisions comprises the implementation of all statutory requirements under the MiFID II/MiFIR regulations and/or the Austrian WAG 2018 (Securities Supervision Act) as well as the PRIIPs (investor protection, market transparency, reporting etc.) across the Association. In this context, the entire value added chain both in the securities and the derivatives business is equally affected. Requirements regarding investor protection include the following aspects: product launch and product review process, investment advisory services incl. customer information, extensions to the investment profile during target market testing (customer:product), obligations regarding records and storage, as well as limitations of benefits. Market transparency comprises the topics of systematic internalisation, best execution and post-trading transparency. Reporting deals with the transaction report, the depreciation threshold report and the position report for (certificated) commodity derivatives/certificates.

The IFRS 9 project, which was started in 2015 already, entered its final phase in 2017, in time for implementation as of 1 January 2018. In doing so, processes and systems were changed according to IFRS 9 throughout the Association, the focus in terms of content being classification and measurement, new regulations regarding impairments, and also hedge accounting. At the same time, a uniform nominal accounts structure was rolled out throughout the Association and SAP FI (with the NewGL, AA and AP modules) was implemented.

Within the scope of the joint reporting platform (GMP), where, based on a jointly used software (Abacus), the major Austrian banking associations implement the OeNB data model through Austria Reporting Services GmbH (AuRep), the Finrep Solo, FMS Cubes reports were assisted in the GMP 2017 project and successfully put into operation, and the paper-based report VERA A1a was replaced by the single-transaction-based GMP solution. Moreover, the existing system was developed according to regulatory requirements based on the extension of the data model (Version 4.1). And implementation of reporting requirements regarding AnaCredit was started.

The General Data Protection Regulation (GDPR) will take effect on 25 May 2018. By that time, all data applications will have to be adjusted to the new legal situation. Implementation throughout the Association will take place in three project clusters: (1) In the ARZ joint data processing centre, the registers of processing operations for ARZ services will be prepared and the rights of data subjects implemented (deletion, blocking, right to information, data portability, objection, authorisation, profiling). (2) A data management system used across the Association will be implemented within VBW, the registers of processing operations of VBW will be prepared, the ARZ registers will be adopted and adapted if necessary, an estimate of consequences will be carried out, and the rights of data subjects implemented. (3) In decentralised Association projects, the registers of processing operations will be prepared for the respective institution, the ARZ and VBW registers will be adopted and adapted if necessary, and the rights of data subjects implemented.

Infrastructure Cluster
In order to design the IT architecture, which has developed over many years, in a future-proof and sustainable fashion with respect to the permanently increasing requirements regarding data volumes and granularity, processing speed, degree of automation, and data integrity, the Data Architecture programme was started in January 2017. Within the scope of the programme, IT architecture master plans and TARGET flows of information were developed, essentially creating a central data warehouse (single point of truth = SPoT) containing all data on individual and customer transactions and serving as a source for all reporting addressees. The Data Governance project resulted in a new organisation unit: "FDS – Financial Data Steering", which is going to ensure sustainable data management and/or data governance. Moreover, in the BCBS239 project, the measures that are going to serve as the basis for implementation projects were defined for the bank.

In the Lingua project, a standardised technical data model is being worked out within the Association of Volksbanks. The aim is to create a uniform technical perspective and content definition of terms or concepts, data fields and business ratios to provide for a common understanding of data contents and definitions across user groups on that basis and to subsequently identify any redundancies within the body of available data. Additionally, data governance is also being developed within this project. The individual roles required in connection with data management, such as data owner, DQ manager etc., are analysed, any existing responsibilities revised, as well as the data request process and the data management processes optimised. Among others, these measures serve to further increase data quality.

Another focus was on implementation of a common SAP HCM system landscape across the Association. In that context, a number of individual projects was successfully completed. The overall project will be completed by the end of 2018. The aim is the standardised handling of all HR-relevant IT matters in SAP across the Association. In this context, the ARZ is responsible for the development and current maintenance of the systems. Experts of the ARZ, the VBW as well as representatives of the banks of the Association cooperate within the project groups.

Sustainability
VBW reports on concepts, results and risks relating to environmental matters, social and employee topics, human rights, corruption and bribery as well as diversity according to the Nachhaltigkeits- und Diversitätsverbesserungsgesetz (NaDiVeG; Sustainability and Diversity Improvement Act) in a separate sustainability report.

Report on the company's future development and risks

Future development of the company

Economic environment

According to the economic forecast of the Austrian Institute of Economic Research (WIFO) published in December, the Austrian economy is expected to grow by 3% in 2018. In December, the European Central Bank increased its economic growth forecasts for the euro zone in 2018 to 2.3%. The OeNB forecast for Austria included in that figure is 2.8%. Oesterreichische Nationalbank expects positive contributions to growth from all demand components and a persistently good (if flattening) development of investments, meaning that a solid demand for loans may be hoped for. With the savings rate of 7.2% remaining the same, the OeNB expects real disposable household income to grow by 1.6%. This would provide for a sound basis both for the credit rating of private borrowers and for investment business. Due to the favourable economic situation, a growing demand for loans is expected across all branches of industry. A persistently favourable development of the residential real estate market and of the corresponding demand for loans can also be derived from demographic trends. The increase in housing construction recorded in the first half of the previous year, as well as the outlook in terms of interest, suggest a positive, yet flattening price development in Vienna and other conurbations, while prices may also decline in regions affected by emigration.

The forecast of the European Central Bank for the average inflation rate in the euro zone for 2018 amounts to a mean of 1.4%. Accordingly, the rate of price increases would not quite reach the target inflation rate of the European Central Bank of a little under 2% again in 2018. This in combination with the European Central Bank's monetary easing would suggest a continuation of the low-interest environment, although continuing monetary tightening in the USA should provide for a slight upward trend and also in Europe, monetary easing is expected to be gradually discontinued. The very high interest differential in favour of the US dollar is likely to work against a further appreciation of the euro. In 2018, considering the favourable economic situation, the currencies of the economies outside the euro zone that are considered here might benefit from an increase in risk appetite on the part of international investors and from a positive development in the sphere of direct investments.

The risks associated with this outlook are manifold. They include, for instance, the potential foreign restrictions imposed by the USA, which may affect Austrian exporting companies and suppliers. A modification of growth rates in the neighbouring countries might also affect tourism to a certain extent. Tensions within the European Union in connection with the exit negotiations with Great Britain or any decline in pro-European sentiment in the major member states, e.g. after elections, constitute a risk for the continuation of economic recovery within the region. A rapid rise in interest rates would also have to be classified as a risk for economic activity and the real estate markets. Additionally, geopolitical conflicts may also potentially harm the basically positive economic outlook.

Future development of the company

The focus of the Association of Volksbanks on retail banking is meant to be continued, supported, in particular, by increasing digitisation of the sales process. In the course of medium-term planning, the Association of Volksbanks has set itself a number of strategic goals, the accomplishment, observance and/or undercutting/exceeding of which will be a management focus in the years to come. Among others, this includes achieving a cost-income ratio of 60%, a CET 1 capital ratio of at least 12%, a total capital ratio of at least 16%, an NPE ratio (non-performing exposure) of not more than 3%, as well as a return on equity (ROE) of 8%.

In spite of persistently high investments in the systems, in improving data quality and in spite of the still high regulatory cost, VBW intends to achieve an annual result in the low two-digit million euro range. Despite planned growth, the CET 1 capital ratio is intended to remain at around 12% within the group.

The low interest rate environment expected to continue in 2018 calls for a streamlining of the cost structure and an increase of productivity. For this purpose, additional cooperation models are being evaluated within the Association of Volksbanks, among others.

Currently, the plan is for the banking operation of Waldviertler Volksbank Horn reg.Gen.m.b.H. to be contributed to VBW. In case of consent by the responsible bodies, the contribution is meant to be completed in the first half of 2018.

Significant risks and uncertainties

As regards the legally required disclosures on the use of financial instruments, the risk management targets and methods as well as the existing risk of price changes, default, liquidity and cash flow risks, please refer to the information contained in the Notes (in particular the risk report in chapter 50).

Report on research and development

The VBW Group is not active in research and development.

Report on key characteristics of the internal control and risk management system with regard to the accounting process

Control environment

Observance of all relevant legal provisions is the ultimate ambition of the VBW Group within the scope of financial reporting. The Managing Board is responsible for establishing and organising an appropriate internal control and risk management system with respect to the accounting process and provides a framework for implementation applicable to the entire group in the ICS group policy. Within the VBW Group, responsibility for implementation lies with the OPRISK and Risk Governance groups within VBW.

In all companies included in the consolidated financial statements, the responsibility to define and introduce an appropriate ICS for the respective company and to ensure compliance with group-wide policies and regulations lies with the respective managing board or with the management. In order to ensure that the data provided by the Group subsidiaries are imported correctly, all data supplied are first checked for plausibility. The data is then processed using the Tagetik consolidation software. Checks are effected based on the dual-control principle as well as an additional review by the department manager.

Control measures are applied within the current business process to ensure that potential errors are prevented and/or deviations in financial reporting are revealed and corrected. The control measures range from revision of the various results for the period by the management up to specific reconciliations of accounts and items, and an analysis of the ongoing processes within group accounting. In this context, two types of controls are distinguished:

- Operational controls include manual controls performed by employees according to specific tasks, automatic controls carried out using IT systems, as well as preventive controls aimed at the proactive avoidance of errors and risks through separation of functions, definition of responsibilities and access authorisations.
- Management controls serve to ensure, on the basis of spot checks by managers, that operational controls are complied with. The intervals of the checks are defined by the respective manager (division manager, department manager) depending on the degree of risk involved. The spot checks are documented in the control schedule in a manner comprehensible to third parties, and the results are reported semi-annually within the scope of management reporting.

Additionally, Internal Audit verifies compliance with internal regulations independently and regularly, also in the sphere of accounting. As a staff function, Internal Audit is directly allocated to the Managing Board, it reports directly to the Chairman of the Managing Board and also to the Supervisory Board on a quarterly basis.

Risk assessment

Risks relating to the accounting process are identified and monitored by the process owners with a focus on materiality.

For the preparation of the financial statements, estimates need to be performed regularly, with an inherent risk that future developments deviate from these estimates. This applies, in particular, to the following items and facts of the consolidated financial statements: the recoverability of financial assets, banking risks, social capital, as well as the outcome of legal disputes. Publicly accessible sources are used to a certain extent, or experts are called in, in order to minimise the risk of false estimates.

Information and communication

Guidelines and regulations regarding financial reporting are regularly updated by the management and communicated to all employees concerned.

The group accounting employees are trained with regard to amendments in international accounting on an ongoing basis, in order to identify any risks of unintentional false reporting at an early stage. Moreover, employees in group accounting communicate this information to the employees of the subsidiaries.

Twice a year, a management report is prepared which contains statements regarding the completeness, comprehensibility, active implementation and effectiveness of the control system with respect to the accounting process.

Monitoring

Top management regularly receives summary financial reports, such as quarterly reports on the development of the respective segments and the most important financial performance indicators. Financial statements that must be published are subjected to a final check by executive employees within accounting, divisional management and the Managing Board before they are forwarded to the competent bodies. The result of the supervisory activity relating to the accounting processes is stated in the management report, which contains a qualitative risk assessment of the processes as well as a documentation of the number of checks carried out in relation to those specified.

CONSOLIDATED FINANCIAL STATEMENTS

Statement of comprehensive income

Income statement	Note	1-12/2017 Euro thousand	1-12/2016 Euro thousand	Changes Euro thousand	%
Interest and similar income		194,098	124,768	69,329	55.57 %
Interest and similar expense		-66,872	-25,088	-41,784	166.55 %
Net interest income	4	127,226	99,681	27,545	27.63 %
Risk provisions	5	2,430	-13,645	16,075	-117.81 %
Fee and commission income		79,099	70,035	9,064	12.94 %
Fee and commission expenses		-25,321	-28,915	3,594	-12.43 %
Net fee and commission income	6	53,778	41,120	12,658	30.78 %
Net trading income	7	5,597	4,896	701	14.32 %
General administrative expenses	8	-204,876	-174,394	-30,481	17.48 %
Restructuring result		1,276	3,060	-1,784	-58.31 %
Other operating result	9	65,206	38,997	26,209	67.21 %
Income from financial investments	10	-7,458	1,740	-9,198	< -200.00 %
Income from companies measured at equity		6,177	10,252	-4,074	-39.74 %
Result before taxes		49,356	11,705	37,651	> 200.00 %
Income taxes	11	4,626	13,319	-8,693	-65.27 %
Result after taxes		53,982	25,024	28,958	115.72 %
Result attributable to shareholders of the parent company (Consolidated net result)		53,972	23,625	30,346	128.45 %
thereof from continued operations		53,972	23,625	30,346	128.45 %
Result attributable to non-controlling interest		11	1,399	-1,388	-99.24 %
thereof from continued operations		11	1,399	-1,388	-99.24 %

Other comprehensive income

	1-12/2017 Euro thousand	1-12/2016 Euro thousand	Changes Euro thousand	%
Result after taxes	**53,982**	**25,024**	**28,958**	**115.72 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation obligation of defined benefit plans (IAS 19)	2,634	-3,952	6,586	-166.65 %
Deferred taxes of revaluation IAS 19	-658	988	-1,646	-166.65 %
Total items that will not be reclassified to profit or loss	1,975	-2,964	4,939	-166.65 %
Items that may be reclassified to profit or loss				
Available for sale reserve (including deferred taxes)				
Change in fair value	32,258	-4,033	36,291	< -200.00 %
Net amount transferred to profit or loss	-306	162	-467	< -200.00 %
Change in deferred taxes of untaxed reserves	0	387	-387	-100.00 %
Change from companies measured at equity	1,857	56	1,801	> 200.00 %
Total items that may be reclassified to profit or loss	**33,809**	**-3,428**	**37,237**	**< -200.00 %**
Other comprehensive income total	**35,785**	**-6,392**	**42,177**	**< -200.00 %**
Comprehensive income	**89,767**	**18,632**	**71,135**	**> 200.00 %**
Comprehensive income attributable to shareholders of the parent company	89,755	17,236	72,518	> 200.00 %
thereof from continued operations	89,755	17,236	72,518	> 200.00 %
Comprehensive income attributable to non-controlling	12	1,395	-1,383	-99.14 %
thereof from continued operations	12	1,395	-1,383	-99.14 %

Statement of financial position as at 31 December 2017

	Note	31 Dec 2017 Euro thousand	31 Dec 2016 Euro thousand	Changes Euro thousand	%
Assets					
Liquid funds	12	1,813,951	1,119,252	694,698	62.07 %
Loans and advances to credit institutions (gross)	13	1,703,912	2,196,042	-492,130	-22.41 %
Loans and advances to customers (gross)	14	4,810,325	4,351,134	459,191	10.55 %
Risk provisions (-)	15	-57,944	-69,099	11,156	-16.14 %
Trading assets	16	69,167	137,550	-68,383	-49.72 %
Financial investments	17	1,842,992	1,855,462	-12,470	-0.67 %
Investment property	18	30,764	32,949	-2,185	-6.63 %
Companies measured at equity	19	30,753	22,046	8,707	39.50 %
Participations	20	43,222	15,781	27,441	173.89 %
Intangible assets	21	23,418	31,652	-8,234	-26.01 %
Tangible fixed assets	22	132,078	128,851	3,228	2.50 %
Tax assets	23	47,429	48,538	-1,109	-2.28 %
Current tax assets		1,513	1,108	404	36.49 %
Deferred tax assets		45,917	47,429	-1,513	-3.19 %
Other assets	24	123,977	137,534	-13,557	-9.86 %
Assets held for sale	25	2,437	0	2,437	100.00 %
TOTAL ASSETS		**10,616,482**	**10,007,692**	**608,789**	**6.08 %**
Liabilities and Equity					
Amounts owed to credit institutions	26	2,743,551	3,338,048	-594,496	-17.81 %
Amounts owed to customers	27	5,791,374	4,691,373	1,100,000	23.45 %
Debts evidenced by certificates	28	487,507	725,217	-237,710	-32.78 %
Trading liabilities	29	82,010	413,543	-331,533	-80.17 %
Provisions	30, 31	83,772	82,259	1,512	1.84 %
Tax liabilities	23	6,843	5,968	874	14.65 %
Current tax liabilities		5,692	4,892	800	16.35 %
Deferred tax liabilities		1,151	1,077	74	6.89 %
Other liabilities	32	428,148	251,255	176,893	70.40 %
Subordinated liabilities	33	425,778	28,881	396,897	> 200.00 %
Equity	35	567,499	471,147	96,352	20.45 %
Shareholders' equity		563,606	467,189	96,417	20.64 %
Non-controlling interest		3,893	3,958	-65	-1.63 %
Total Liabilities and Equity		**10,616,482**	**10,007,692**	**608,789**	**6.08 %**

Changes in the Group's equity

Euro thousand	Subscribed capital 1)	Capital reserve	Retained earnings	IAS 39 valuation reserves Available for sale reserve 2)	Shareholders' equity	Non-controlling interest	Equity
As at 1 January 2016	**114,481**	**154,162**	**95,943**	**15,174**	**379,760**	**2,674**	**382,434**
Consolidated net income 3)			23,625		23,625	1,399	25,024
Change in deferred taxes arising from untaxed reserve			387		387	0	387
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)			-2,960		-2,960	-3	-2,964
Available for sale reserve (including deferred taxes)				-3,871	-3,871	0	-3,871
Change from companies measured at equity			-60	116	56		56
Comprehensive income	0	0	20,992	-3,755	17,236	1,395	18,632
Kapitalerhöhung	19,460	48,602			68,062		68,062
Dividends paid			-393		-393	-19	-411
Participation capital	-7,004	-845	0		-7,849	0	-7,849
Payment Shareholder		10,290			10,290		10,290
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation			82		82	-93	-11
As at 31 Dec 2016	**126,938**	**212,209**	**116,624**	**11,419**	**467,189**	**3,958**	**471,147**
Consolidated net income 3)			53,972		53,972	11	53,982
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)			1,974		1,974	1	1,975
Available for sale reserve (including deferred taxes)				31,952	31,952	0	31,952
Change from companies measured at equity			54	1,803	1,857		1,857
Comprehensive income	0	0	56,000	33,755	89,755	12	89,767
Capital increase	5,956	13,395			19,351		19,351
Dividends paid			-13,395		-13,395	-16	-13,411
Payment Shareholder		658			658		658
Umbuchung Kapitalrücklage		-10,948	10,948		0		0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation			49		49	-60	-12
As at 31 Dec 2017	**132,894**	**215,313**	**170,225**	**45,174**	**563,606**	**3,893**	**567,499**

1) Subscribed capital corresponds to the figures reported in the financial statements of VOLKSBANK WIEN AG (VBW).
2) As at 30 September 2017, the available for sale reserve included deferred taxes of euro -15,058 thousand (31 December 2016: euro -3,806 thousand).
3) In 2017 (and 2016) the financial statements of VBW contain no currency translation differences resulted from the application of average rates of exchange in the income statement, whether for shareholders' equity nor for non-controlling interest.

For further details see note 34 equity.

Cash flow statement

In euro thousand	Note	1-12/2017	1-12/2016
Annual result (before non-controlling interest)		**53,982**	**25,024**
Non-cash positions in annual result			
Net interest income	4	-115,112	-89,790
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	8, 10	12,556	20,939
Allocation to and release of provisions, including risk provisions	5, 8	-2,740	6,005
Gains from the sale of financial investments and fixed assets	9, 10	-618	-3,808
Result from contribution of assets and liabilities	2	-18,227	0
Income taxes	11	-4,626	-13,319
Changes in assets and liabilities from operating activities			
Loans and advances to credit institutions	13	1,397,032	567,841
Loans and advances to customers	14	-120,198	98,280
Trading assets	16	15,841	-16,683
Financial investments	17	159,423	57,185
Investment property	18	682	4,163
Other assets from operating activities	24	19,584	-11,969
Amounts owed to credit institutions	26	-1,058,348	-581,671
Amounts owed to customers	27	235,616	-162,111
Debts evidenced by certificates	28	-221,027	-58,700
Derivatives	16, 24, 29, 32	-63,631	11,112
Other liabilities	32	-61,404	27,114
Interest received		170,496	138,704
Interest paid		-56,561	-46,367
Dividends received		291	2,068
Income taxes paid		-1,683	2,734
Cash flow from operating activities		**341,327**	**-23,249**
Proceeds from the sale or redemption of			
Securities held to maturity	17	0	0
Participations	20	0	20,186
Fixed assets	21, 22	2,793	5,277
Payments for the acquisition of			
Securities held to maturity	17	-55,808	-182,768
Participations	20	-3	-4,689
Fixed assets	21, 22	-2,354	-2,589
Acquisition of subsidiaries - liquid funds	2	14,108	11,778
Cash flow from investing activities		**-41,265**	**-152,805**
Capital increase	35	15,500	0
Payment Shareholder	35	658	10,290
Dividends paid	35	-13,411	-411
Changes in subordinated liabilities	33	392,881	-496
Repayment non-controlling interest	35	-12	-11
Cash flow from financing activities		**395,616**	**9,372**
Cash and cash equivalents at the end of previous period	12	**1,113,587**	**1,280,269**
Cash flow from operating activities		341,327	-23,249
Cash flow from investing activities		-41,265	-152,805
Cash flow from financing activities		395,616	9,372
Cash and cash equivalents at the end of period	12	**1,809,264**	**1,113,587**

Details of the calculation method of cash flow statement are shown in note 3) ii).
Details to cash in- and outflow of subordinated liabilities are shown in note 32).

NOTES

1) General information

VOLKSBANK WIEN AG (VBW), which has its registered office at Kolingasse 14-16, 1090 Vienna, is the parent company of national acting subsidiaries and the central organisation (CO) of the Austrian Volksbank sector. In addition to the sector business with Volksbanks, the priorities in private and corporate customer business are based in Austria.

VBW as the CO in accordance with section 30a Austrian Banking Act is part of the banking association (joint liability and liquidity association). The Association of Volksbanks is required to comply with the regulatory provisions of Parts Two to Eight of Regulation (EU) No 575/2013 and section 39a Austrian Banking Act, on the basis of the consolidated financial position (section 30a (7) Austrian Banking Act). VBW must continue to comply with all applicable regulatory provisions on a single-entity basis and at Group level. The members of the Association of Volksbanks have joint, unlimited liability and have contractually agreed to bear the costs and risks of the CO on a pro rata basis. By letter dated 29 June 2016, the ECB granted unlimited approval of the Association of Volksbanks.

The accounts have been prepared on the assumption that it will remain a going concern. The consolidated financial statements are reported in euros, as this is the Group's functional currency. All figures are indicated in thousand of euro unless specified otherwise. The following tables may contain rounding differences.

The present consolidated financial statements were signed by the Managing Board on 13 March 2018 and then subsequently submitted to the Supervisory Board for notice.

2) Presentation and changes in the scope of consolidation

By way of an agreement on a transfer and contribution in kind dated 22 May 2017, SPARDA-BANK AUSTRIA e.Gen. contributed its undertaking, the Sparda banking operation, to VBW, retaining cash assets in the amount of euro 0.5 million, all shares in Volksbank Wien Beteiligung eGen., as well as in Sparda Versicherungs-Service GmbH, a provision for redemptions of participation certificates in the amount of euro 1.7 million, subordinated capital in the amount of euro 0.5 million, as well as income tax claims and other liabilities. The contribution in kind is effected against the granting of 12,643 new no-par shares of VBW. Registration in the Companies' Register was effected on 17 August 2017.

The purchase price and the fair values of the acquired assets and liabilities determined based on purchase price allocation are set out in the table below:

Euro thousand	Sparda
Liquid funds	14,108
Loans and advances to credit institutions	460,498
Loans and advances to customers	338,371
Risk provisions (-)	-2,851
Financial investments	81,123
Participations	3,044
Intangible assets	1,004
Tangible fixed assets	12,837
Tax assets	3,017
Other assets	9,991
Amounts owed to customers	-865,377
Provisions	-12,030
Other liabilities	-15,655
Subordinated liabilities	-6,000
Net assets acquired	**22,078**
Purchase price = capital increase	3,851
Gain from bargain purchases	**18,227**

As the purchase prices were settled through share issues by VBW, there was no cash outflow from the Group. The cash inflow relates to the cash reserve acquired in each case. Loans and advances which have been written down are displayed on a gross basis in the table above and throughout the financial statements. In order to ensure that data is consistent with the risk management systems and regulatory reporting, risk provisions acquired as part of the acquisitions have therefore been reported separately. Any adjustments to reflect fair value were therefore reported in the items loans and advances to credit institutions or loans and advances to customers.

The fair value and the gross value of the loans and advances acquired as well as the cash flows expected to be irrecoverable as at the acquisition date are as follows:

Euro thousand	Sparda
Fair value of purchased receivables	338,371
Gross sum of receivables	332,607
Estimated irrecoverable receivables	-3,074

Fair values of euro 26 thousand were determined for guarantees in force and credit facilities committed as at the acquisition date and recognised as provisions. The maturities are mainly at one year. Cash outflows of approx. euro 0.3 million are expected during this period.

Incidental acquisition costs are recognised under other operating expenses in the income statement and stand at euro 398 thousand.

The information about the amount of net interest income and the annual result after taxes that were achieved in the acquired banking operations since the date of acquisition is not available for these banking operations, since no separate records are available after the merger.

If Sparda had already been acquired on 1 January 2017, net interest income of the VBW Group would have been higher in total by euro 4,564 thousand and the annual profit after taxes would have been higher in total by euro 4,106 thousand.

Participation right of the federal government

The federal government's participation right was issued for the purpose of meeting those commitments that were made by the EU Commission to the federal government for the purpose of obtaining approval of the reorganisation under the funding guidelines. The participation right was issued by VB Rückzahlungsgesellschaft mbH (RZG), a direct subsidiary of VBW.

Distributions of RZG based on the federal government's participation right are subject to the discretion of VBW as sole shareholder of RZG. No claim for profit shares exists under the federal government's participation right. In that context, shareholders of VBW have transferred VBW shares (at a rate of 25 % of the share capital plus 1 share) to the federal government without consideration. The transfer of the shares to the federal government was effected on 28 January 2016. The federal government is obliged to transfer these shares back to the respective shareholders without consideration, as soon as the aggregate amount of distributions received by the federal government under the participation right and certain other creditable amounts reaches a certain level. Should the distributions under the federal government's participation right, as received by the federal government on contractually determined effective dates, fail to reach certain minimum amounts agreed (disposition event), taking account of certain creditable amounts (such as any distributions on the shares held by the federal government in VBW), then the federal government shall be entitled to freely dispose of said shares without any further consideration and to claim additional ordinary shares of VBW from the VBW shareholders, in the amount of 8 % of the share capital of VBW without any further consideration. Overall, therefore, if the disposition event occurs, up to 33 % plus 1 share of the VBW shares may transfer to the (legal and beneficial) ownership of the federal government, and the latter would be able to freely dispose of said holding of shares (subject to the pre-emptive right granted). In case that the pre-emptive right granted by the federal government is exercised by a purchaser nominated by VBW and that a minimum threshold for the sum of the distributions in respect of the federal government's participation right and of the creditable amounts is missed again, the shareholders of VBW have undertaken to transfer to the federal government additional ordinary shares of VBW in the amount of the VBW shares previously transferred to the federal government and acquired by the purchaser nominated by VBW, with immediate unrestricted power of disposition of the federal government.

According to its contractual obligations towards the federal government, VBW must submit to the Volksbanks a proposal for the total amount to be distributed with respect to the federal government's participation right by RZG in the subsequent calendar year and for the total amount of the primary banks' contributions required for this purpose (indirect contributions of the Volksbanks and direct contribution of VBW to RZG) by 30 November of each year. VBW is charged according to the share of its retail segment in the Association of Volksbanks (total assets UGB/BWG). Of the repayment amount of euro 300 million that was promised to the federal government, euro 67 million have already been repaid. Accordingly, the threshold existing at 31 December 2017 for the minimum repayment in the amount of euro 15 million was by far exceeded. From today's point of view, the next threshold at 31 December 2019 in the amount of euro 75 million will be met as well.

Number of consolidated companies

	31 Dec 2017			31 Dec 2016		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	1	0	1	1	0	1
Financial institutions	1	0	1	1	0	1
Other companies	7	0	7	7	0	7
Total	**9**	**0**	**9**	**9**	**0**	**9**
Companies measured at equity						
Credit institutions	1	0	1	1	0	1
Other companies	1	0	1	1	0	1
Total	**2**	**0**	**2**	**2**	**0**	**2**

Number of unconsolidated companies

	31 Dec 2017			31 Dec 2016		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	7	0	7	7	0	7
Associated companies	3	0	3	3	0	3
Companies total	**10**	**0**	**10**	**10**	**0**	**10**

The unconsolidated companies in their entirety were deemed immaterial to the presentation of a true and fair view of the net assets, liabilities, financial position and profit or loss of the Group. Beside quantitative criteria like total assets and result after taxes, the effect of consolidation on specific positions as well as on the true and fair view of the consolidated financial statements is taken into account for the assessment of materiality. The calculation of the quantitative characteristics was based on the latest available financial statements of the companies and the Group's consolidated financial statements for 2017.

The complete list of companies included in the consolidated financial statements, companies measured at equity, as well as the unconsolidated companies including detailed information, can be found at the end of the notes (see note 51), 52), 53)).

3) Accounting principles

The accounting principles described below have been consistently applied to all reporting periods covered by these financial statements and have been followed by all consolidated companies without exception.

The VBW Group's consolidated financial statements for 2017 have been prepared in accordance with the IFRS/IAS and thus comply in full with the provisions set out in section 245a of the Austrian Commercial Code and section 59a of the Austrian Banking Act regulating exempting consolidated financial statements prepared in accordance with internationally recognised accounting principles.

The consolidated financial statements have been prepared in accordance with all IFRS/IAS published by the International Accounting Standards Board (IASB) in force on the balance sheet date as well as all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) as endorsed by the European Union (EU).

The consolidated financial statements have been prepared on the basis of costs excluding the following items:

- Derivative financial instruments – measured at fair value
- Financial instruments in the category at fair value through profit or loss and available for sale – measured at fair value
- Investment property assets – measured at fair value
- Financial assets and liabilities which constitute underlying instruments for fair value hedges – amortised costs are adjusted for changes in fair value, which are to be allocated to hedged risks
- Deferred taxes – for temporary differences between tax and IFRS values, those amounts are recognized which will result in a future tax burden or relief at the time of inversion
- Employee benefit provisions – recognised at net present value less the net present value of plan assets

The two following chapters present altered and new accounting standards that are of significance to the consolidated financial statements of VBW.

	Binding application	Endorsement
Amendments to IAS 7 – Disclosure initiative	as of BY 2017	EU Regulation dated 6 Nov 2017
Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses	as of BY 2017	EU Regulation dated 6 Nov 2017
Amendments to IFRS 4 – Applying IFRS 9 with IFRS 4	as of BY 2018	EU Regulation dated 3 Nov 2017
Clarification regarding IFRS 15 Revenue from contracts with customers	as of BY 2018	EU Regulation dated 31 Oct 2017
IFRS 16 Leases	as of BY 2019	EU Regulation dated 31 Oct 2017
Annual improvements of the IFRS (cycle 2014-2016)	as of BY 2017 or 2018	planned for Q4 2017
Amendments to IAS 40 – Transfer of investment property	as of BY 2018	planned for Q1 2018
Amendments to IFRS 2 – Classification and measurement of share-based payment transactions	as of BY 2018	planned for Q1 2018
IFRIC 22 Foreign currency transactions and advance consideration	as of BY 2018	planned for Q1 2018
IFRIC 23 Uncertainties over income tax treatments	as of BY 2019	planned for 2018
Amendments to IFRS 9 – Prepayment features with negative compensation	as of BY 2019	planned for 2018
Amendments to IAS 28 – Long-term interests in associates and joint ventures	as of BY 2019	planned for 2018
IFRS 17 Insurance contracts	as of BY 2021	to be determined

a) New and amended accounting standards

New and amended accounting standards adopted by the EU

Amendments to IAS 7 – Cash flow statements: The amendments are aimed at improving the information about changes to the indebtedness of the company. The amendments are applicable to business years that commence on or after 1 January 2017.

Amendments to IAS 12 – Income taxes. The amendments clearly state that losses on debt instruments that have not yet occurred and are measured at fair value, but are valued at amortised cost for tax purposes may lead to deferred tax assets. Moreover, the amendments clarify that it is not the carrying amount, but the fiscal value of an asset that is relevant for estimating future taxable profits, and that the carrying amount does not constitute the upper limit for calculation. During impairment tests of deferred tax assets, the effect from changes of the deferred tax item from reversing these temporary differences must not be taken into account when estimating future taxable profits. The amendments are applicable to business years that commence on or after 1 January 2017. The amendments will not have any significant effects on the VBW group.

Amendments to IFRS 4 – Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts': Through this adjustment, the potential issues of applying IFRS 9 to insurance companies until application of the future standard for insurance contracts (IFRS 17) are taken into account. Initial application is effected in the business year commencing on or after 1 January 2018. The amendments will not have any significant effects on the VBW group.

Annual improvements of the IFRS (cycle 2014-2016)

The amendments relate to wording in need of improvement and clarifications. The standards IFRS 1, IFRS 12 and IAS 28 were concerned. As regards IFRS 1 and IAS 28, application of the new provisions is mandatory for reporting periods commencing on or after 1 January 2018; as regards IFRS 12, application is mandatory for reporting periods commencing on or after 1 January 2017. The amendments will not have any significant effects on the VBW group.

Accounting regulations not applicable yet, but adopted by the EU

IFRS 9 – Financial instruments: In July 2014, the final version of IFRS 9 Financial instruments was published. The provisions were adopted into European law by the EU. The new standard is applicable to business years that commence on or after 1 January 2018.

Classification and recognition of financial instruments

Financial assets are classified into three valuation categories: at amortised cost, at fair value through profit or loss, and at fair value through other comprehensive income (OCI). The group of financial assets measured at amortised cost consists of such financial assets that only provide for the claim to interest and redemption payments at given points in time (SPPI criterion) and are held within the scope of a business model for the purpose of holding assets. All other financial assets constitute the group of assets measured at fair value and are attributed to the 'Hold and Sell' or 'Other' business model. Equity instruments that are not held for trading may be reported at fair value through OCI, without realised gains or losses subsequently being transferred to the income statement. All other equity instruments are recorded at fair value through profit or loss.

The business model determines the way in which a company generates cash flows: by receiving contractually agreed cash flows, by selling financial instruments, or both. A business model aims, or is meant, to control financial assets in a certain manner. The evaluation of business models was effected based on various criteria such as targets, compensation, performance measurement, management and/or risk strategy, frequency and timing of selling transactions, as well as reasons for the selling transactions. Based on these criteria, individual portfolios or sub-portfolios are created within the 'Hold', 'Hold and Sell' and 'Other' business models.

Apart from analysing, defining and stipulating the business model condition, analysing the arrangement of the cash flows of financial instruments is also required to be able to appropriately classify them. If the SPPI criterion is not met, valuation must absolutely be effected at fair value through profit or loss. The verification of the SPPI criterion for loans and security portfolios was completed by the end of 2016 and subsequently, for new business, in the third quarter of 2017. In case of fixed interest rates which could not be clearly classified as SPPI-compliant or SPPI-non-compliant, the allocation was made based on the result of a benchmark test. The result of the benchmark test indicates whether the deviation of the undiscounted contractual cash flows of potential non-compliant fixed interest rates as opposed to undiscounted cash flows of benchmark instruments should be assessed as SPPI-non-compliant. The SPPI criterion of these financial assets is not met primarily due to fixed interest rates tied to secondary market yields or secondary market yield components within fixed interest rates.

Changes of classification and measurement

Based on the list of criteria for determination of the business models and the SPPI criterion, portfolios were defined for the VBW group within the credit and securities division and allocated to the business models. The business model assessment in the credit division has shown that the objective is basically portfolio maintenance and growth in the Retail/SME, model, commercial, project and real estate financing spheres. No performance-based, variable compensation or selling transactions are intended. Risks included in the credit portfolio are minimised using, among others, interest rate derivatives or sub-participations. Accordingly, all portfolios in the credit sphere are allocated to the 'Hold' business model, unless there is an intention to sell loans or companies holding such loans. If the SPPI criterion is met, measurement is effected at amortised cost. Those portfolios or individual financial assets that are meant to be sold, as well as those within companies up for sale are designated as "for sale" and measured at fair value through profit or loss. At 31 December 2017, there were no intentions whatsoever to sell any credit portfolios or companies that hold any credits. Accordingly, as per 1 January 2018, all credits are allocated to the 'Hold' business model within the VBW group. The negative effect (decrease of equity) due to the fair value measurement of credits that fail to meet the SPPI criterion is expected to amount to approx. euro -5 million (before deferred tax) and relates to a volume of approx. euro 185 million. The transition effect is still being validated, meaning change is still possible. The analysis regarding business model allocation of securities portfolios was completed within VBW already in 2016. The identification of the business models indicated that no distinction is made in the banking book between performance measurement and compensation. The performance is basically measured exclusively on the basis of net interest income. No performance-based, variable compensation has been provided for. Within the positions in the banking book, no differentiation in terms of management and risk strategies is effected either. All banking book investments are made within the scope of the group-wide investment strategy and basically show a low credit risk profile. Accordingly, identification of the business models essentially takes place based on the following parameters: investment goals, such as compliance with regulatory requirements or realising returns, as well as reasons for and frequency of selling transactions. The VBW group defines as compliant any sales of positions that do no longer fit the investment strategy due to a significant increase in default risk, that take place shortly before maturity and the sales proceeds of which approximately correspond to the remaining contractual payments, which are effected, among others, due to frustration, and which take place within the scope of a strategic reorientation in connection with regulatory or risk-related considerations. The different portfolios within VBW result from the different objectives for banking book investments. On the one hand, a volume of approx. euro 1,380 million will be allocated to the 'Hold' portfolio, as the intention here is to hold these instruments until maturity. This also includes positions held for compliance with LCR requirements. A volume of approx. euro 379 million was allocated to the 'Hold and Sell' portfolio, which is basically intended to hold positions until maturity. If, however, due to positive market conditions, an opportunity for optimised returns arises through premature sales, they may be utilised accordingly. The aim of VBW is to minimise volatility within the income statement based on the fair value measurement; therefore, the volume of SPPI-non-compliant securities is minimised to the greatest possible extent. These instruments are accordingly available for sale at any time. Within VBW, this volume amounts to approx. euro 46 million. As for purchases on or after 1 January 2018, Treasury will allocate the instrument to a business model. Within the securities portfolio of VBW, therefore, all valuation methods under IFRS 9 (valuation at cost, fair value measurement through profit or loss, as well as fair value measurement through OCI) are applied. The minor effect on equity due to revaluations of securities will amount to approx. euro 2 million (before deferred tax) taking hedge accounting into consideration.

As regards shares and other participations, the first-time application of IFRS 9 does not result in any transition effect, as all participations are already reported at fair value at 31 December 2017. A decision was made to report all equity instruments – except for the VB Regio participating interest – as measured at fair value through OCI (OCI option). As these equity instruments must absolutely be accounted for at fair value under IFRS 9, no change of equity results from choosing the accounting option.

For financial liabilities, classification and measurement under IFRS 9 remain unchanged, with the exception that gains and losses from a financial liability designated at fair value through profit or loss, which has emerged due to changes of the bank's own credit risk, must be reported in OCI. Within the VBW group, the fair value option is chosen for the bank's own issues. The expected change in equity for a volume of euro 82 million will lead to a reduction of approx. euro -4 million (before deferred tax).

Accounting of impairments of financial assets

The new regulations regarding impairments under IFRS 9 must be applied to financial assets allocated to the measurement categories at amortised cost and at fair value through OCI, to receivables from leases, and to off-balance sheet loan commitments and financial guarantees. Due to the new provisions, not only losses that have already occurred but also losses already expected must be recognised. In this context, the extent of recognition of expected losses is distinguished as to whether or not the default risk of financial assets has deteriorated significantly ever since their addition. If a material deterioration has occurred, and if the default risk cannot be assessed as low on the reference date, all lifetime expected credit losses must be recognised with effect from that date. Otherwise, only those losses expected for the lifetime of the instrument must be taken into account that result from future potential loss events within the next twelve months. Exceptions exist for trade receivables and leasing receivables. For these assets, all expected losses must (receivables without any significant financing component) or may (receivables with a significant financing component and leasing receivables) be taken into account already at the time of addition.

Scope of application

The impairment is

- reported as a risk provision for financial assets at amortised cost (AC).
- taken into account within the credit risk-adjusted effective interest rate for purchased or originated credit-impaired financial assets (POCI). If the amount of estimated loss has changed since the time of addition, this is reported as a risk provision.
- reported as a provision for irrevocable loan commitments and financial guarantees.
- recognised through profit or loss and reported in other comprehensive income (OCI) for debt instruments classified at fair value through OCI under IFRS 9.

The impairment is not separately shown for debt instruments accounted for at fair value through profit or loss, as any impairments are already taken account of in the fair value. As the accounting of equity instruments must always be effected at fair value according to IFRS 9, the same applies here.

3-stage model

The new impairment model distinguishes three possible impairment stages:

Stage 1: Basically, all transactions are allocated to that stage upon addition. Instruments that were already classified as impaired at the time of addition (POCI) are an exception from this rule and are treated separately.

Stage 2: This stage includes all instruments that show a significant increase in default risk compared to the time of addition.

Stage 3: If, in addition to a significant increase in default risk, objective evidence of impairment exists, the instrument will be allocated to this stage.

A significant increase in credit risk is primarily measured on the basis of the rate of change of the probability of default throughout the lifetime of the instrument (lifetime PD). If the rate of change of lifetime PD exceeds a predefined threshold, the financial asset is classified in stage 2. Additionally, default of performance of at least 30 days, classification as forborne or the customer's transfer to intensive supervision are interpreted as a significant increase in credit risk.

Any objective evidence of impairment is equated with a downgrade of the customer's rating to the default rating category; this downgrade can basically be triggered by 13 defined default events. The definition of default within Volksbank corresponds to the requirements of CRR I Art. 178.

Possible exceptions (options):

- At Volksbank, the option regarding the low credit risk exemption – i.e. the blanket allocation of low-risk instruments to stage 1 without any further examination of any significant increase in credit risk – is exercised. The relevant instruments exclusively comprise securities with an external investment grade rating. If several ratings exist, the second-best rating is used. This ensures that at least two of three rating agencies provide the issuer with an investment grade rating.
- For the time being, no exceptions associated with an option to choose a simplified model acc. to IFRS 9, e.g. trade receivables, contractual assets under IFRS 15 and leasing receivables, have been provided for, as such receivables either do not occur within the VBW group at present or this option is not exercised.

A re-transfer from stage 2 or stage 3 (taking into account any period of good conduct) will be assumed if the criteria that have resulted in the rating downgrade no longer apply. Accordingly, upgrades and downgrades are treated symmetrically.

Information regarding the calculation logic

The impairment is the expected loss defined as the present value from the difference of contractually agreed cash flows and expected cash flows.

The calculation logic may be described according to the following 6 dimensions:

- Time horizon: The expected losses are calculated either for a 12-month period (stage 1) or for the entire residual time to maturity (stage 2 and stage 3).
- Individual transaction or portfolio perspective: The calculation of the impairment at individual transaction level usually takes place for customers at stage 3 with a certain minimum exposure (individual impairments and specific provisions). While for all other items, the calculation is carried out for each transaction individually as well, the parameters used (PD, LGD, etc.) are derived from portfolios/groups with the same risk characteristics (portfolio impairments/provisions and flat-rate individual impairments/specific provisions).
- Scenario analysis: The impairment is determined on the basis of at least two probability-weighted scenarios.
- Expected cash flows: With respect to determination of the expected losses, there are requirements for estimating the expected cash flows (determination of collateral cash flows, cash flows from current operations, etc.)
- Time value of money: The expected loss includes the “time value of money” and accordingly constitutes a discounted value.
- Taking into account available information: For the purpose of calculating the impairment, debtor-specific, transaction-specific and macroeconomic information about past events, current conditions and forecasts about the future are taken into account within the scope of the PD, LGD and cash flow models applied.

Effects of the impairment regulations

VBW estimates that the application of the impairment regulations of IFRS 9 as at 1 January 2018 will cause an increase in impairments reported by euro 7 million (before deferred tax).

Accounting of hedging relationships

The aim of the new rules is for hedge accounting to be geared more clearly to the economic risk management of the company. As previously, companies are obliged to document the respective risk management strategy including risk management goals at the beginning of a hedging relationship; but in future, the relationship between the hedged underlying transaction and the hedging instrument will normally have to correspond to the requirements of the risk management strategy. Hedge accounting is applied within VBW according to IFRS 9 as of 1 January 2018. The option to introduce new hedge combinations based on the changes under IFRS 9 is currently being discussed within VBW. In doing so, the potential application of layer hedge accounting for fixed-interest loans is checked both in professional and technical terms.

Most of the hedging relationships that have applied under IAS 39 remain valid. Only in case of own issues with a volume of approx. euro 82 million that were designated as hedge accounting under IAS 39, the fair value option is applied under IFRS 9. The expected change in equity will result in a reduction of approx. euro -4 million (before deferred tax).

Effect on own funds

Due to the above-mentioned transition effects, own funds acc. to the CRR would be the following as at 31 December 2017:

Euro thousand	31 Dec 2017
Common equity tier 1 capital - CET1	**531,688**
Additional tier 1 capital - AT1	**0**
Tier 1 capital (CET1 + AT1)	**531,688**
Tier 2 capital - T2	**407,212**
Own funds	**938,900**

Common equity tier 1 capital ratio (tier I)	15.31 %
Tier 1 capital ratio	15.31 %
Equity ratio	27.04 %
each in relation to total risk exposure amount	

The following table shows the own funds of the VBW group (fully loaded) after full application of the CRR:

Euro thousand	31 Dec 2017
Common equity tier 1 capital - CET1	**528,936**
Additional tier 1 capital - AT1	**0**
Tier 1 capital (CET1 + AT1)	**528,936**
Tier 2 capital - T2	**416,470**
Own funds	**945,406**

Common equity tier 1 capital ratio (tier I)	15.25 %
Tier 1 capital ratio	15.25 %
Equity ratio	27.26 %
each in relation to total risk exposure amount	

The estimated effects will only have minor effect on equity, amounting to less than euro -1 million as at 1 January 2018. The described effects represent gross amounts (before deferred tax). Transition to the new standard is mostly complete and transition effects in detail are currently being analysed. The actual impacts can in particular cases differ from the stated information since the transitional and migrational works in the process and system landscape have not yet been finalized.

IFRS 15 – Sales revenue from customer contracts: IFRS 15 is to be applied to sales revenue from customer contracts and is going to replace the previously applicable standards IAS 11 and IAS 18. IFRS 15 provides for a principle-based 5-step model, according to which initially the customer contract and the separate performance obligations contained therein must be identified. Subsequently, the transaction price is determined and apportioned to the performance obligations of the contract. The sales revenue must be realised, if the customer has the power of disposition with respect to the agreed services. This may take place either based on a period or a point in time. The transfer of opportunities and risks is no longer decisive. The sales revenue must be measured at the amount of the consideration that the company expects to receive.

The project was started at VBW in mid-2017 and completed in the fourth quarter of the year. Interest income and dividends from ordinary operations previously governed by IAS 18 are only covered by IFRS 15 to a limited extent. The provisions under IAS 39 and IFRS 9 are applicable to the remuneration for financial services, provided they constitute an integral part of the effective interest rate. In terms of content, this will not have any effect on the previous way of procedure. For this reason, the distinction of revenue from income from financial instruments under IFRS 15 that falls under IFRS 9, as well as from income from leases under IFRS 16 and/or IAS 17 is of importance to the VBW group. Other commission fees and charges were equally analysed. An application analysis of IFRS 15 for the areas or items identified did not result in any material effect for the VBW group.

IFRS 16 – Leases: In the fourth quarter of 2017, the VBW group initiated a project for analysing application and effects. Within the VBW group, the majority of contracts subject to application of IFRS 16 relate to vehicles, real estate and IT components. The quantification and identification of details will take place in the first half of 2018. One significant change concerns the reporting of operating leases at the lessee, as assets and liabilities from operating leases will now have to be reported. There is an option to report leasing agreements with a term of not more than 12 months and those whose underlying asset is of low value as expenses. It has not been decided yet whether use will be made of the practical facilities that are possible under IFRS 16. Accounting at the lessor will change only slightly as compared to IAS 17. The information contained in the notes will be more comprehensive as compared to IAS 17. The EU adopted the regulations into European law in November 2017. No material effects are expected with respect to financing leases.

New and amended accounting regulations not yet adopted by the EU

Amendments to IFRS 2 – Classification and measurement of business transactions with share-based payment: The amendments deal with individual questions in connection with the accounting of share-based payments with cash settlement. Moreover, there has been a change with respect to the classification of share-based payments as performed by way of equity securities. Additionally, the regulations now govern the way of procedure to be followed in case of transition from share-based payments with cash settlement to performance through equity instruments due to amendments to the agreement. The amendments are applicable to financial years that commence on or after 1 January 2018. The amendments will not have any effects on the VBW group.

Amendments to IAS 40 – Transfer of real estate held as financial investments: The amendments propose guidelines as to when an asset should be reclassified from inventories to real estate held as financial investment. The amendments are applicable to financial years that commence on or after 1 January 2018. The amendments will not have any material effects on the VBW group.

IFRIC 22 – Foreign currency transactions and advance consideration: The interpretation clarifies at which point in time the exchange rate for converting transactions in foreign currencies must be determined, if the company recognises a non-monetary asset or non-monetary liability resulting from a payment made in advance/consideration received in advance. The amendments are applicable to financial years that commence on or after 1 January 2018. The amendments are not expected to have any material effect on the VBW group.

IFRIC 23 – Uncertainties over income tax treatments: The interpretation clarifies the way in which tax risks that are likely to be assessed differently by the tax authority than by the reporting company in its tax calculation must be taken into account. Application of IFRIC 23 is mandatory for the first time in reporting periods commencing on or after 1 January 2019. The amendments are not expected to have any material effect on the VBW group.

Amendment to IFRS 9 – Prepayment features with negative compensation: The amendment allows for accounting at amortised cost or at fair value through OCI for financial assets with negative compensation under certain conditions. The amendments are applicable to financial years that commence on or after 1 January 2019. The amendments are not expected to have any material effect on the VBW group.

Amendment to IAS 28 – Long-term interests in associates and joint ventures: The amendment clarifies that IFRS 9 must be applied to long-term interests in associated companies or joint ventures that are not accounted for using the equity method. The amendments are applicable to financial years that commence on or after 1 January 2018. The amendment will not have any effect on the VBW group.

IFRS 17 – Insurance contracts: The aim of the new standard is the consistent, principle-based accounting of insurance contracts and requires the valuation of insurance liabilities at their current performance value. This results in the uniform valuation and presentation of all insurance contracts. The standard is applicable to financial years commencing on or after 1 January 2021. This standard will not have any material effect on the VBW group.

Annual improvements of IFRS (cycle 2015-2017)
The amendments relate to wording in need of improvement and clarifications. IFRS 3, IFRS 11, IAS 12 and IAS 23 are concerned. Application of the amendments to the standards is mandatory for reporting periods that commence on or after 1 January 2019. The amendments will not have any material effect on the VBW group.

b) Application of estimates and assumptions

All assumptions, estimates and assessments required as part of recognition and measurement in line with IFRS are carried out in accordance with the relevant standard, are re-evaluated on an ongoing basis and are based on historical experience and other factors including expectations with regard to future events that appear reasonable in the particular circumstances. These estimates and assumptions have an influence on the amounts shown for assets and liabilities in the statement of financial position and income and expenses in the income statement.

In case of the following assumptions and estimates, there is the inherent possibility that the development of overall conditions contrary to expectations as at the reporting date may lead to considerable adjustments of assets and liabilities in the following business year.

- Alternative investment measurement methods are used to assess the recoverability of financial instruments for which no active market is available. Some of the parameters taken as basis when determining fair value are based on assumptions concerning the future.
- The assessment of the recoverability of intangible assets, goodwill, investment properties and property, plant and equipment is based on assumptions concerning the future.
- The recoverability of financial instruments measured at amortised cost or assigned to the available for sale category is based on future assumptions.

- The recognition of deferred tax assets is based on the assumption that sufficient tax income will be generated in future in order to realise existing tax loss carryforwards; where required no deferred tax assets were recognized.
- Assumptions regarding the interest rate, retirement age, life expectancy and future salary increases are applied when measuring existing long-term employee provisions.
- Provisions are measured on the basis of cost estimates from contractual partners, past experience and investment calculation methods.
- Assessments are regularly carried out for liabilities and impairment not recognised in the balance sheet due to guarantees and contingencies in order to determine whether on-balance sheet recognition in the financial statement is to be carried out.

If estimates were required to a greater extent, the assumptions made are shown with the note on the corresponding item. Actual values may deviate from the assumptions and estimates made if overall conditions develop contrary to expectations as at the balance sheet date. Amendments are recognised in profit or loss and assumptions adjusted accordingly once better information is obtained. As at 31 December 2017, the scope of consolidation of VBW does not include any foreign subsidiary in foreign currency.

c) Consolidation principles

The consolidated financial statement is based on the separate financial statements of all fully consolidated companies prepared in accordance with IFRS. The figures reported in the individual financial statements of associated companies measured at equity have been adjusted to Group accounting principles where the effects on the consolidated financial statements were significant.

The financial statements of the fully consolidated companies and the companies consolidated using the equity method were prepared on the basis of the Group’s balance sheet date of 31 December 2017.

Business combinations with a contract date on or after 31 March 2004 are accounted for using the purchase method set out in IFRS 3. Accordingly, all identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date. If the cost of acquisition exceeds the fair value of the identifiable assets, liabilities and contingent liabilities, goodwill is recognised as an asset. The full goodwill method is not in use. Goodwill is not amortised over the estimated useful life, but instead is tested for impairment annually in accordance with IAS 36. Negative goodwill is recognised directly in income in accordance with IFRS 3 after re-examination. Any change in contingent consideration recognised as a liability at the acquisition date is recognised in profit or loss. Transactions, which do not lead to a loss of control are recognised directly in equity.

Subsidiaries under the direct or indirect control of VBW are fully consolidated if these are material for a true and fair view of the net assets, liabilities, financial position and profit or loss of the Group. Companies in which VBW holds an equity interest of between 20 % and 50 % and for which controlling agreements do not exist are consolidated using the equity method; they are not consolidated if they are not significant for the Group.

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

d) Currency translation

In accordance with IAS 21, foreign currency monetary assets and debts, non-monetary positions stated at fair value and unsettled spot transactions are translated using the spot exchange mean rate, whereas unsettled forward transactions are translated at the forward exchange mean rate prevailing on the balance sheet date. Non-monetary assets and liabilities carried at amortised cost are recognised at the prevailing rate on the acquisition date.

The individual financial statements of fully consolidated companies prepared in currencies other than the euro are translated using the modified closing rate method set out in IAS 21. Under this method, all assets and liabilities are translated at the spot exchange mean rate effective on the balance sheet date, while the historical rate is applied for the translation of equity. Differences resulting from the translation of the financial statements of foreign subsidiaries are recognised in the currency translation reserve in equity. Any goodwill, disclosed hidden reserves and liabilities arising from the initial consolidation of foreign subsidiaries prior to 1 January 2005 have been translated at historical rates. Any goodwill, disclosed hidden reserves and liabilities arising from business combinations after 1 January 2005 are translated at the spot exchange mean rate on the Group's balance sheet date.

Income and expense items are translated at the average spot exchange mean rate for the reporting period, calculated on the basis of the end-of-month rates. Exchange differences between the closing rate applied for the translation of balance sheet items and the average rate used for translating income and expense items are recognised in the currency translation reserve in equity.

e) Net interest income

Interest income and interest expenses are recognised on an accrual basis in the income statement. Current or non-recurring income or expenses similar to interest, such as commitment fees, overdraft commissions or handling fees, are reported in net interest income in accordance with the effective interest method. Premiums and discounts are allocated over the term of the financial instrument using the effective interest method and reported in net interest income.

The unwinding effect resulting from the calculation of the risk provision is therefore shown in interest income.

Net interest income consists of:

- Interest and similar income from credit and money market transactions (including unwinding effect from risk provision)
- Interest and similar income from debt securities
- Income from equities and other variable-yield securities
- Income from affiliated companies and other participations
- Rental income from investment property assets
- Interest and similar expenses for deposits
- Interest and similar expenses for debts evidenced by certificates and subordinated liabilities
- The interest component of derivatives reported in the investment book

Interest income and expenses from trading assets and liabilities are recognised in net trading income.

The result of the valuation and disposal of securities, shares and participations is reported in income from financial investments.

f) Risk provisions

Risk provisions reflect the allocation to and release of provisions for impairments of loans and advances on individual and portfolio basis (see note 3) l)). Loans and advances directly written off and receipts from loans and advances already written off are also recognised in this item. Furthermore, this item contains additions to and releases of provisions for risks.

An impairment occurs if, after initial recognition of the loan receivable, objective information suggests an event that impacts on the future cash flows from the receivable, the effects of which can be estimated reliably. For the purpose of determining provision requirements, loan receivables are reviewed individually for the above-mentioned indications within the scope of credit and default monitoring both regularly and on an ad hoc basis. The default criteria include, among others, forbearance measures as well as indicators suggesting a potential default of payment (for instance, unlikeliness to pay). In case of receivables that meet any default criteria and exceed the defined amount of exposure ("significant" receivables), determination of the risk provision is effected using the discounted cash flow method (specific risk provision). In this context, the present value of expected future cash flows is calculated on the basis of the original effective interest rate of the receivable. It depends on the assessment of the current and future economic situation of the customer, the estimated amount of realisation proceeds of loan collateral, and the timing of cash flows resulting therefrom. The risk provision for non-significant credit exposures meeting any default criterion is determined on a flat-rate basis (flat-rate specific risk provision). For credit exposures that do not show any default criteria a portfolio risk provision is set up. The flat-rate specific risk provision and the portfolio risk provision are determined on single-transaction level using valuation models. These valuation models are based on statistically calculated parameters, such as historical default and loss ratios. The methods and parameters used are validated regularly in order to approximate the estimated and actual defaults and losses. The process for determining the impairment is computer-aided, using an impairment tool specifically developed for this purpose.

g) Net fee and commission income

This item contains all income and expenditure relating to the provision of services as accrued within the respective reporting period.

h) Net trading income

All realised and unrealised results from securities, from items in foreign currency and derivatives allocated to the trading book (trading assets and trading liabilities) are reported in this item. This includes changes in market value as well as all interest income, dividend payments and refinancing expenses for trading assets.

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

i) General administrative expenses

General administrative expenses contain all expenditure incurred in connection with the Group's operations.

Staff expenses include wages and salaries, statutory social security contributions and fringe benefits, payments to pension funds and internal pension plans as well as all expenses resulting from severance and pension payments.

Administrative expenses include expenses for premises, communications, public relations and marketing, costs for legal advice and other consultancy, as well as training and EDP expenditure.

Amortisation of intangible assets – excluding impairment of goodwill – and depreciation of tangible fixed assets is also reported in this item.

j) Other operating result

In addition to the result from measurement or repurchasing of financial liabilities, impairment of goodwill, measurement of IFRS 5 disposal groups, and the deconsolidation result from the disposal of subsidiaries, this item contains all results from the Group's other operating activities.

k) Income from financial investments

This item contains all realised and unrealised results from financial investments at fair value through profit or loss and all derivatives reported in the investment book. The result from interest or dividends is recognised in net interest income.

In addition, the results of disposals of securitised financial investments classified as available for sale (including participations), loans & receivables and held to maturity are included in this item. Remeasurement results attributable to material or lasting impairment are also reported in this item as well as the increase of the fair value, which can be objectively related to an event occurring after the impairment loss was recognised, up to a maximum of amortised cost.

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

l) Financial assets and liabilities

Recognition

A financial asset or a financial liability is initially recognised in the balance sheet when the Group becomes party to a contract on the financial instrument and thus acquires the right to receive or assumes a legal obligation to pay liquid funds. A financial instrument is deemed to be added or disposed of at the trade date. The trade date is relevant for the initial recognition of a financial instrument in the balance sheet, its measurement in the income statement and the accounting treatment of its sale.

Derecognition

A financial asset is derecognised on the date on which the contractual rights to its cash flows expire. A financial liability is derecognised once it has been redeemed.

The Group conducts transactions in which financial assets are transferred but the risks or rewards incident to the ownership of the asset remain with the Group. If the Group retains all or substantially all risks and rewards, the financial asset is not derecognised, but instead continues to be reported in the balance sheet. Such transactions include, for example, securities lending and repurchase agreements.

Offsetting

Financial assets and liabilities are set off and the net amount is presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions, such as in the Group’s trading activities.

Amortised cost

Amortised cost of financial assets and liabilities is defined as the amount consisting of the original purchase price adjusted for account redemptions, the allocation of premiums or discounts over the term of the instrument in accordance with the effective interest method, and value adjustments or depreciation due to impairment or uncollectibility.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For calculation of fair values, the following hierarchy is used and shows the meaning of the single parameters.

Level 1: Quoted prices in active markets of identical assets or liabilities. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable data – either directly as prices or indirectly derived from prices. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties, as well as reference to the current fair value of other instruments that are substantially the same. For discounted cash flow analyses and option pricing models all important parameters are derived either directly or indirectly from observable market data. All factors that market participants would consider in setting prices are taken into account, and are consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Level 3: Measurement methods that largely use parameters which are not observable on the market. These parameters have a significant impact on the calculation of fair value. This category also contains instruments which are measured by adjusting non-observable inputs, provided such adjustment is considerable.

The valuation methods are realigned periodically and checked for validity, using prices of current observable market transactions or prices based on available observable market data for the same financial instrument. The valuation method for level 3 was adjusted during the financial year. The fair value measurement of the loans is still effected by way of a discounted cash flow method, discounting the cash flows calculated on the basis of forward rates with the risk-free interest curve incl. an additional charge. This additional charge was re-modelled and now consists of risk costs, liquidity costs and a collective position for all pricing parameters (epsilon) not taken into account. The risk-free interest curve is derived from market data. The liquidity cost curve is modelled on the basis of market data. The risk cost curve is deducted from the rating or the probability of default. The constant epsilon is calibrated in such a way that a transaction will not generate any fair value gain/loss at the time of conclusion. The average of new business in the fourth quarter of 2017 was used as epsilon for portfolio measurement. The improved method is applied with effect from 31 December 2017.

Impairment

There is a quarterly procedure for the evaluation of lending under which the organisational units responsible for risk are required to make a proposal for risk provisioning on the basis of current developments. An impairment is recognised if, subsequent to the initial recognition of a financial instrument, there is objective evidence of an event that will have an effect on the future cash flows from the financial instrument and reliable assumptions can be made with regard to the extent of such an effect.

Objective evidence that financial assets are impaired includes, for example, financial difficulties of the debtor; the rescheduling of receivables on terms which would otherwise not be granted; indications that the debtor will enter bankruptcy; the disappearance of securities from an active market and other observable data in connection with a group of financial assets, such as changes in the payment status of borrowers or economic conditions correlating with defaults on the assets in the group.

In calculating the level of risk provisioning required, all assets are individually analysed if there is objective evidence of impairment. All significant assets are individually tested on the base of the expected cash flow. Financial assets that are not individually significant are grouped together on the basis of similar risk profiles and assessed collectively. In the case of assets for which there is no objective indication of impairment, impairment is recognised in the form of portfolio-based allowances to reflect impairment that has occurred but not yet been detected.

All customers with an internal rating of 4C to 4E (watch list loans) and all other customers for which other indications show a risk of default, i.e. the contractual redemption is at risk, are examined more intensively in accordance with the Group credit risk manual. A corresponding risk provision is recognised for uncollateralised or partly collateralized exposures. For non-performing loans (rating category 5A – 5E), the appropriateness of the level of risk provisioning is examined.

The amount of impairment for assets carried at amortised cost is calculated as the difference between the carrying amount and the net present value of the future cash flows, taking any collateral into account, discounted using the effective interest rate of the asset. The impairment amount is reported in the income statement. In the event that the reason for impairment ceases to exist at a later date, the impairment loss is reversed through profit or loss. The amount of risk provisions for non-securitised receivables is presented in a separate account. Securitised receivables are impaired or revalued directly. Non-securitised receivables are impaired directly if the asset is derecognised and the risk provision allocated up to the date of recognition was insufficient.

Portfolio-based allowances are calculated for homogeneous portfolios. The parameters listed below are used in assessing the amounts of these value adjustments:

- historical loss experience with non-performing loans
- the estimated losses for the following period
- the estimated period between the occurrence of the loss and its identification (loss identification period: 30 – 360 days)
- Management's experienced judgment as to whether the expected losses in the current period are greater or lower than suggested by historical data.

In case of available for sale financial assets and a corresponding impairment it is recognised immediately as a write-down in the income statement. The amounts that have been recognised so far in the available for sale reserve will also be reclassified to the income statement. If the reason for impairment ceases to exist, the impairment loss is reversed through profit or loss in the case of debt instruments or recognised directly in comprehensive income taking into account deferred taxes in the case of equity instruments.

Financial instruments designated at fair value through profit or loss

The Group does not make use of the option to irrevocably designate financial instruments at fair value through profit or loss. Allocation to this category is performed if one of the three following criteria is met:

- Groups of financial assets and financial liabilities are managed on a fair value basis in accordance with a documented risk management and investment strategy.
- Fair value measurement can be demonstrated to prevent inconsistencies in the valuation of financial assets and liabilities.
- A financial instrument contains an embedded derivative that is generally required to be reported separately from the host agreement at fair value.

Interest, dividends and relating commission income and expenses are recognised in the corresponding items in profit and loss for financial assets and liabilities in the investment book measured at fair value through profit or loss. Result of fair value measurement is shown separately in income from financial investments.

In note 37) Financial assets and liabilities, the amounts allocated to the at fair value through profit or loss category are indicated for each class of financial asset and liability. The reasons for the designation are described in the notes on the individual financial assets and liabilities.

Derivatives

Derivatives are always recognised in income at their fair value.

For calculation of fair value the credit value adjustments (CVA) and debt value adjustments (DVA) are taken into account. Counterparty risk for market values arising from unsecured derivatives is taken into account by means of CVA respectively DVA – a way of approximating potential future loss in relation to counterparty default risk. The expected future exposure (EFE) is calculated using a Monte Carlo simulation. As no observable credit spreads are available for these counterparties on the market, the default probabilities for the counterparties are based on the Group's internal ratings.

Changes in the market value of derivatives that are used for a fair value hedge are recognised immediately in the income statement under income from financial investments. The change in market value of the underlying transaction resulting from the hedged risk is also recognised under net income from financial instruments, irrespective of its allocation to individual categories under IAS 39. The Group uses fair value hedges to hedge against interest rate and currency risks arising from fixed-income financial investments and liabilities, foreign currency receivables and liabilities and structured issues.

In case of cash flow hedges, the change in the fair value of the derivative is recognised in the cash flow hedge reserve in the other comprehensive income, taking into account deferred taxes. The ineffective part of the hedge is recognised in income. The valuation of the underlying transaction depends on the classification of the underlying transaction into different categories. The Group doesn’t use cash flow hedges at the moment.

Embedded derivatives are reported and measured separately, irrespective of the financial instrument in which they are embedded, unless the structured investment has been designated and allocated to the at fair value through profit or loss category.

Own equity and debt instruments

Own equity instruments are carried at cost and deducted from equity on the liabilities side of the balance sheet. Repurchased own issues are deducted from issues at their redemption amounts on the liabilities side of the balance sheet, with the difference between the redemption amount and cost reported in other operating result.

m) Loans and advances to credit institutions and customers

Loans and advances represent non-derivative financial assets with fixed or determinable redemption amounts which are not traded on an active market and are not securitised.

Loans and advances to credit institutions and customers are recognised at their gross amounts before deductions for impairment losses, including deferred interest. The total amount of risk provisions for balance sheet receivables is recognised as a reduction on the asset side of the balance sheet under loans and advances to credit institutions and loans and advances to customers. Risk provisions for off-balance sheet transactions are included in provisions.

Receivables are initially measured at fair value plus incremental direct transaction costs. Subsequent measurement is performed at amortised cost using the effective interest method unless the receivables are designated to the at fair value through profit or loss category.

n) Risk provisions

Provisions for individual and portfolio-based impairment are recognised in order to cover the specific risks inherent to banking. For further details, see section 3) l) Financial assets and liabilities.

o) Trading assets and liabilities

Trading assets include all financial assets acquired with a view to short-term sale or forming part of a portfolio which is intended to yield short-term profits. Trading liabilities consist of all negative fair values of derivative financial instruments used for trading purposes. In this position no financial assets and liabilities are reported which are designated to the at fair value through profit or loss category.

Both initial recognition and subsequent measurement are performed at fair value. Transaction costs are expensed as incurred. All changes in fair value as well as all interest and dividend payments and refinancing allocable to the trading portfolio are reported in net trading income.

p) Financial investments

Financial investments comprise all securitised debt and equity instruments not classified as participations. These are purely financial investments without any relevance to the core business of the VBW group, where the optimisation of returns is of primary importance. Financial investments are initially recognised at fair values plus incremental direct transaction cost. Subsequent measurement depends on whether the financial assets are allocated to the categories at fair value through profit or loss, available for sale, loans & receivables or held to maturity.

Available for sale

This category comprises all financial instruments which are not allocated to the categories at fair value through profit or loss, loans & receivables or held to maturity. It also includes all equity instruments with no maturity date, provided that they have not been classified as at fair value through profit or loss. Shares which are not traded on a stock exchange and whose fair value cannot be reliably determined are carried at cost less any impairment losses. All other available for sale assets are measured at fair value. Changes in fair value are taken directly to equity until these financial investments are sold or impaired and the remeasurement result is transferred from equity to the income statement. With regard to debt securities, the difference between cost including transaction cost and the redemption amount is amortised in accordance with the effective interest method and recognised in income. Accordingly, only the difference between amortised cost and fair value is recognised in the available for sale reserve.

Loans & receivables

All securitised financial investments with fixed or determinable payments that are not quoted in an active market and which the Group does not intend to sell immediately or near-term are classified as loans & receivables. These financial instruments are recognised at amortised cost in accordance with the effective interest method.

Held to maturity

The Group allocates financial instruments to this category if it has the positive intention and ability to hold them to maturity and they have fixed or determinable payments and a fixed maturity.

These financial instruments are recognised at amortised cost in accordance with the effective interest method. Any sale or reallocation of a substantial part of these financial instruments which does not occur on a date that is close to the redemption date or is attributable to a non-recurring isolated event that is beyond the Group's control and that could not have been reasonably anticipated, results in the reallocation of all held to maturity financial investments to the available for sale category for the two subsequent fiscal years. In 2017 no such reallocations took place.

q) Investment property

All land and buildings that meet the definition of investment property as set out in IAS 40 are reported at market value. Annual measurement is essentially based on RICS standards (Royal Institution of Chartered Surveyors). The RICS defines market value (sale value) as the estimated amount for which a property could be sold on the date of valuation by a willing seller to a willing buyer in an arm’s-length transaction after a suitable marketing period, wherein the parties had each acted knowledgeably, prudently and without compulsion. These calculations are earnings calculations prepared on the basis of current rent lists and lease expiry profiles, and are subject to assumptions regarding market developments and interest rates. The income return used is defined by the evaluator and reflects the current market situation as well as the advantages and disadvantages of the specific object. Comparative value methods are used for undeveloped plots of land where development is not expected in the near future. Transaction prices for similar properties recently sold on the open market are taken as a basis. These sales prices are analysed using comparable properties and adjusted with regard to differences in size, layout, location, use and other factors to fit the property being valued.

The real estate portfolio is valued exclusively by external appraisers. The criteria for selecting appraisers include proven professional qualification and experience of the locations and categories of property being valued. In Austria, appraisals are carried out by IMMO-CONTRACT Maklerges.m.b.H.. External appraisers are paid a fixed fee which does not depend on the appraised market value of the property.

Since parameters are used to measure investment property which are not based on market information, investment property is classified in Level 3 of the fair value category. The assumptions and parameters used in the valuation are updated on every valuation date, which can lead to considerable fluctuations in the figures.

Tenancy agreements are in place with commercial and privat lessees; these vary owing to the diversity of the portfolio. These tenancy agreements generally have longer terms of up to 10 years and are secured with deposits. Adjustments to indexes in line with the market are taken into account. Rents are not linked to revenue. Purchase options have been granted for some properties.

Rental income is recognised on a straight-line basis in accordance with the term of the respective lease and rental contracts and reported in interest and similar income.

r) Participations

Subsidiaries are established and participations acquired for strategic reasons and as financial investments. Strategic investments are companies that cover the areas of business, as well as companies that support those areas of business. Subsidiaries are fully consolidiated if they are material for presentation of a true and fair view of the net assets, liabilities, financial position and profit or loss of the Group.

Companies on which a material influence is exerted are measured according to the equity method. All other participations are reported at fair value. As these participations are not listed at a stock exchange and no market prices are available on an active market, the participations are measured by means of valuation methods and input factors (some of which are not observable). Valuations are effected according to the discounted cash flow method and the peer group approach. Various calculation models are applied. The income approach is applied if VBW is in control or exercises any management function, and budgets are available accordingly. If the company is not controlled, the fair value calculation takes place on the basis of the dividend paid as well as the annual results of the last five years. In case of companies whose object does not permit any regular income or the result of which is controlled by the parent company through settlements, the net assets are used as valuation criterion. In case of participations in co-operatives, the share capital is used as the market value, provided the subscription of new shares and the cancellation of existing shares are possible at any time. If valuation reports are prepared by external valuators, they will be used for current valuation.

To the extent that the discounted cash flow method is applied, the discount rates used are based on the respective current recommendations of the *Fachsenat der österreichischen Kammer der Wirtschaftstreuhänder* as well as of international financial data service providers and, in the 2017 financial year, range between 6.9 - 8.9 % (2016: 7.0 - 8.3 %). The market risk premium used for the calculation is 6.75 % (2016: 6.75 %), the beta values used range between 0.8 - 1.1 (2016: 0.9 - 1.1). Additional country risks did not have to be considered. Discounts due to fungibility and exercise of control in the amount of 10 % in each case are effected for two participations.

In case of impairments, appropriate depreciations are effected. If the reason for impairment ceases to exist, the impairment loss is reversed and recognized directly in equity with due consideration of deferred taxes.

For calculating the sensitivities for the fair value, the interest rate is basically set at +/-0.5 percentage points. The income components used for the calculation are taken into account at +/-10 % for the sensitivity calculation in each case. Participations where the market value corresponds to net assets, this is taken into account at +/-10 % for information regarding sensitivity. For market values derived from valuation reports, a lower and an upper range for sensitivity are recognised, respectively. If the market value corresponds to the share capital, no sensitivity will be calculated.

s) Intangible and tangible fixed assets

Intangible assets are carried at cost less straight-line amortisation and impairment. This item primarily comprises acquired goodwill, customer relationships and software.

Goodwill is not depreciated on a straight-line basis, but instead is tested for impairment at least once a year in accordance with IAS 36, or more frequently if events or changes in circumstances indicate that impairment may have occurred. Impairment testing is performed for the cash-generating units (CGUs) to which goodwill is allocated. Impairment requirements for CGUs are calculated by comparing carrying value with their realisable value. Where realisable value is less than the carrying value, the difference is recognised as an impairment expense. Impairment of goodwill may not be reversed in the subsequent period. Tangible fixed assets are carried at cost and depreciated on a straight-line basis over their estimated life in the case of depreciable assets.

Write-downs are recognised for permanent impairment. If the circumstances resulting in the recognition of a write-down cease to exist, the write-down is reversed up to a maximum of amortised cost.

The useful life is the period of time during which an asset is expected to be used and is calculated as follows:

Office furniture and equipment	up to 10 years
EDP hardware (including calculators, etc.)	up to 5 years
EDP software	up to 4 years
Vehicles	up to 5 years
Customer relationships	up to 20 years
Strongrooms and safes	up to 20 years
Buildings, reconstructed buildings	up to 50 years
Rental rights	up to the period of lease

t) Tax assets and liabilities

This item is used to report current and deferred tax assets and liabilities.

According to the balance sheet liability method set out in IAS 12, deferred taxes are derived from all temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet prepared in accordance with IFRS. Deferred taxes are calculated for subsidiaries on the basis of the tax rates that apply or have been announced in the individual countries on the balance sheet date. Deferred tax assets are offset against deferred tax liabilities for each individual subsidiary.

Deferred tax assets in respect of unutilised tax loss carryforwards are recognised to the extent that it is probable that future taxable profit will be available at the same company against which the unused tax losses can be utilised or if sufficient taxable temporary differences exist. The appraisal period is up to 4 years. Deferred tax assets from tax loss carryforwards are impaired, if it is unlikely that the tax benefit can be realised. Deferred taxes are not discounted.

u) Other assets

Deferred items are used for accruing income and expenses and are shown in this item together with other assets. Value adjustments are recognised for impairment. This item also includes all positive fair values of derivatives that are reported in the investment book and carried at fair value. With the exception of derivatives used in cash flow hedges, which are taken directly to other comprehensive income, changes in fair value are reported in income from financial investments.

v) Liabilities

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

w) Employee benefits

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

VBW Group has made defined benefit commitments for individual staff members for the amounts of future benefits. These plans are partly unfunded, i.e. the funds required as cover are retained and the VBW Group recognises the necessary provisions. These plans are funded exclusively by the Group; employees are not required to make contributions to the plans. In VBW Group, staff pension entitlements were transferred to a pension fund in previous years and are shown as plan assets. There are no extraordinary risks, risks specific to the company or plans, or significant risk concentrations.

The pension fund has established an asset risk management process (ARM process) for those pension obligations transferred to it.

At BONUS Pensionskasse Aktiengesellschaft, risk is measured at VRG level using the value at risk (VaR) and shortfall risk (SFR) indicators. These quantify maximum loss probabilities under common market conditions. Scenario analyses are also performed in order to take into account rarely occurring extreme market movements. VaR and SFR are the core indicators used to manage risk at VRG level. Defined limits for VaR and SFR values along with hedging measures in the event of negative market developments provide the framework for the VRG's investments.

The pension fund fulfils the requirements of the Austrian Financial Market Authority's Risk Management Regulation (Risikomanagementverordnung) in its own area and reports regularly in this regard to the Supervisory Board. On the liabilities side, the biometric risks in the VRG are regularly reviewed in order to identify long-term deviations from the basis of calculation in a timely manner and to avoid such deviations by amending the tables accordingly. The same applies to the obligations that have not been transferred. There is no specific ALM management for these obligations as, in the case of direct obligations (pensions, severance payments and anniversary bonuses), these provisions are not covered by directly attributable assets. However, the ranges of fluctuation resulting from fluctuations of the parameters included are calculated and monitored as part of a sensitivity analysis in order to assess the impact of possible fluctuations on the asset side of the balance sheet in a timely manner.

In accordance with the projected unit credit method, provisions for pensions and severance payments are calculated on the basis of generally recognised actuarial principles for determining the present value of the overall entitlement and additional claims acquired in the reporting period. For severance payments, this procedure takes into account retirement due to attainment of pensionable age, occupational incapacity, disability or death, as well as the vested rights of surviving dependents.

Actuarial gains and losses are recognised directly in other comprehensive income. Past service cost is recognised immediately through profit and loss when the plan is amended. All income and expenses connected with defined benefit plans are recognised under staff expenses.

Principal actuarial assumptions

	2017	2016	2015	2014
Expected return on provisions for pensions	1.10 %	1.10 %	1.50 %	1.60 %
Expected return on provisions for severance payments	1.10 %	1.10 %	2.00 %	2.00 %
Expected return on anniversary pensions	1.10 %	1.10 %	2.00 %	1.80 %
Expected return on plan assets	1.10 %	1.10 %	1.50 %	
Future salary increase	3.00 %	3.00 %	3.00 %	3.00 %
Future pension increase	2.00 %	2.00 %	2.00 %	2.00 %
Fluctuation rate	none	none	none	none

The fundamental biometric actuarial assumptions of the latest Austrian scheme by Pagler&Pagler for calculating pension insurance for salaried employees are applied as the basis of calculation (AVÖ 2008 P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler&Pagler, Angestelltenbestand).

The current retirement age limits are generally taken into account in these calculations. It is assumed that, as a rule, men will retire at the age of 65 years and women at the age of 60 years. Any transitional arrangements are neglected.

Pension obligations comprise claims of employees who were in active service for the Group on the valuation date as well as entitlements of pension recipients. These entitlements are defined in special agreements and in the Group's Articles of Association, and represent legally binding and irrevocable claims.

x) Other provisions

Other provisions are recognised if a past event has given rise to a present obligation and it is likely that meeting such an obligation will result in an outflow of resources. They are built to the amount of the most probable future claims, taking into account cost estimates of contractual partners, experienced data and financial mathematical methods. A contingent liability is reported if an eventual obligation exists and an outflow of resources does not appear probable or no reliable estimate of the amount of the obligation can be made. Riskprovisions are discounted.

Risk provisions comprise loan loss provisions for contingent liabilities (in particular financial guarantees). Other provisions contain provisions for legal disputes and restructuring. Risk provisions allocated and released are recorded under risk provisions in the income statement. Amounts allocated to and released from the restructuring provision are included under restructuring expense, while income and expenses from all other provisions are mainly recognised under other operating result.

y) Other liabilities

Deferred items are used for accruing income and expenses and are shown in this item together with other liabilities. This item also includes all negative market values of derivatives that are reported in the investment book and carried at fair value. With the exception of derivatives used in cash flow hedges, which are taken directly to other comprehensive income, changes in fair value are reported in income from financial investments.

z) Subordinated liabilities

Subordinated capital is initially recognised at market value plus directly attributable transaction costs. It is subsequently measured at amortised cost using the effective interest method, unless these liabilities were designated as liabilities at fair value through profit or loss.

In case of bankruptcy or the winding up of the enterprise, all amounts accounted for as subordinated liabilities may be satisfied after having met the demands of all other non-subordinated creditors.

In addition to subordination, the contractual terms for supplementary capital contain a performance-based interest payment. Interest may only be paid insofar as this is covered by annual profit before changes in reserves of the company issuing the capital. Supplementary capital interests also participate in any loss. The repayment amount is lowered by current losses. Repayment at nominal value is only possible if the proven losses are covered by profits.

aa) Equity

Financial instruments issued by the VBW Group which do not involve a contractual obligation to transfer cash or another financial asset to another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially unfavourable to the issuer are reported in equity.

Capital management in VBW Group is done on the basis of the supervisory capital. For further details see chapter dd) Own funds in accordance chapter 50) a) Internal capital adequacy assessment process.

bb) Capital reserves

In accordance with IAS 32, the transaction cost of an equity transaction are accounted for as a deduction from equity, taking into account deferred taxes, to the extent that they constitute incremental cost that are directly attributable to the equity transaction. Furthermore, the difference between face value and repurchase value of own shares, as far as it is covered in capital reserves, is shown there. If the difference exceeds capital reserves, this amount is deducted from retained earnings.

cc) Retained earnings

All legal and statutory reserves as well as other reserves, provisions against a specific liability as defined by section 57 (5) of the Austrian Banking Act, untaxed reserves and all other undistributed profits are reported in retained earnings.

dd) Own funds

The company is subject to external capital requirements based on the European Union's CRD IV and CRR (Basel III). The rules on capital ratios specified there constitute the central management variable in the VBW Group. These ratios reflect the relationship between regulatory own funds and credit, market and operational risk. Accordingly, the risk/return management of VBW Group is based on the capital allocated to one business or, ultimately, one organisational unit and the income to be generated from this, taking into account the corresponding risk considerations.

Credit risk is determined by multiplying on-balance-sheet and off-balance-sheet exposures on the basis of their relative risks by the risk weighting to be allocated to a counterparty. The procedures for determining risk-relevant parameters (exposure, risk weighting) are based on percentages specified by regulatory requirements (standard approach). There is also an equity capital requirement for credit valuation adjustments in derivatives transactions. This is derived from regulatory requirements and, in particular, reflects the counterparty risk in the derivatives transaction. The market risk component of the Group is also calculated using the standard approach. The capital requirements for operational risk are calculated by multiplying the revenues by the respective percentages for the divisions.

Regulatory own funds can be broken down into three elements:

- Common Equity Tier I (CET1)
- Additional Tier I (AT1)
- Supplementary capital or Tier II capital (T2)

The first two components comprise the Tier I capital.

CET1 comprises the equity and participation capital that meets the CRR requirements. These are as follows: classification as equity with separate disclosure in the accounts, perpetual, fully loss-bearing, no reduction in the principal amount except in the case of liquidation or repayment without particular incentive mechanisms, no obligation to make distributions, distributions not linked to the nominal price. Transition arrangements apply for existing participation capital that does not fulfil the CET1 criteria. In the period until 2021, this capital will be applied at a rate reduced by ten percentage points each year. From 2022, this capital will no longer be eligible at all. CET1 also includes capital reserves, retained earnings, other reserves and non-controlling interests used to meet the regulatory capital requirement. Intangible assets and goodwill, deferred tax assets and interests in other credit institutions constitute significant deductions.

T2 also includes non-current subordinated liabilities.

The minimum equity ratio (total of Tier I and Tier II) is 8 %. Minimum core capital requirements are 4.5 % for CET1 and 6.0 % for tier I. The VBW Group complied with these relevant supervisory requirements throughout the entire reporting period and its own funds exceeded the minimum requirements.

A capital conservation buffer of 2.5 % which needs to consist of CET1 must be built up until 2019. In 2018 the required capital conservation buffer is 1.875 % (2017: 1.25 %).

Alongside the systemic risk buffer, the Capital Buffer Regulation also governs the FMA's countercyclical capital buffer. This buffer is intended to counteract any credit bubbles that emerge and is currently set at 0.0 percentage points for claims in Austria.

In 2017, the Association of Volksbanks was integrated back into the Supervisory Review and Evaluation Process (SREP) of the ECB. Further information is included in note 50) Risk report.

The Group's own funds are described in note 36) Own funds.

ee) Trustee transaction

Transactions in which an affiliate of the Group acts as a trustee or in any other trusteeship function and thus manages or places assets on a third-party account are not shown in the balance sheet. Commission payments from such transactions are reported in net fee and commission income.

ff) Repurchase transactions

Under genuine repurchase agreements, the Group sells assets to a contractual partner and simultaneously undertakes to repurchase these assets at the agreed price on a predefined date. The assets remain in the consolidated balance sheet as no risk or rewards are transferred and are measured in accordance with the rules applying to the respective balance sheet items. At the same time, the received payment is recognised as a liability.

gg) Contingent liabilities

Possible obligations for which an outflow of resources does not appear probable or no reliable estimate of the amount of the obligation can be made, are reported under contingent liabilities. Provisions are recognised for acceptances and endorsements as part of provisions for risks if there are likely to be future claims.

Obligations arising from financial guarantees are recognised as soon as the VBW Group becomes a contracting party, i.e. when the guarantee offer is accepted. Initial measurement is performed at fair value. Generally the fair value corresponds to the value of the premium agreed.

Guaranteed amounts of members in the case of participations in cooperatives are reported under other contingent liabilities.

A follow-up check is regularly performed in order to determine whether on-balance sheet recognition in the consolidated financial statements is necessary.

hh) Cash flow statement

The cash flow statement is calculated in accordance with the indirect method. Here, the net cash flow from operating activities is calculated based on the annual result after taxes and before non-controlling interest, whereby non-cash expenses and income during the business year are included and deducted respectively first of all. Moreover, all expenses and income which did serve as cash, but were not allocated to operating activities, are eliminated. These payments are recognised under the cash flow from investing activities or financing activities. The interest, dividend and tax payments, which are stated separately, are solely from operating activities.

Cash flows from non-current assets such as held to maturity securities, participations and fixed assets are assigned to the cash flow from investing activities. The cash flow from financing activities includes all cash flows of the owners as well as changes to subordinated liabilities and non-controlling interest. Liquid funds have been defined as cash and cash equivalents and comprise balances with central banks as well as cash in hand. These balances are composed of the minimum reserve to be held according to statutory provisions and current investments with various central banks.

4) Net interest income

Euro thousand	2017	2016
Interest and similar income	194,098	124,768
Interest and similar income from	187,594	118,657
liquid funds	0	25
credit and money market transactions with credit institutions	8,517	3,362
credit and money market transactions with customers	123,851	101,689
debt securities	44,321	3,095
derivatives in the investment book	10,905	10,486
Current income from	3,304	2,823
equities and other variable-yield securities	821	758
other affiliates	250	200
investments in other companies	2,233	1,865
Income from operating lease and investment property	3,200	3,289
rental income investment property	3,200	3,289
Interest and similar expenses of	-66,872	-25,088
deposits from credit institutions (including central banks)	-14,732	-12,850
deposits from customers	-8,515	-9,925
debts evidenced by certificates	-16,117	-1,721
subordinated liabilities	-3,031	-591
derivatives in the investment book	-24,476	0
Net interest income	**127,226**	**99,681**

Net interest income according to IAS 39 categories

Euro thousand	2017	2016
Interest and similar income	194,098	124,768
Interest and similar income from	187,594	118,657
derivatives in the investment book	10,905	10,486
financial investments not at fair value through profit or loss	176,689	108,170
financial investments available for sale	42,196	1,758
financial investments at amortised cost	132,368	105,078
of which unwinding of risk provisions	1,418	1,233
financial investments held to maturity	2,125	1,335
Current income from	3,304	2,823
financial investments available for sale	3,304	2,823
Income from operating lease and investment property	3,200	3,289
Interest and similar expenses of	-66,872	-25,088
derivatives in the investment book	-24,476	0
financial investments at amortised cost	-42,396	-25,088
Net interest income	**127,226**	**99,681**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 7,151 thousand (2016: euro 4,130 thousand) and interest expenses of euro -8,167 thousand (2016: euro -6,932 thousand) were realised in the 2017 business year. Negative interest income is reported in interest expenses and negative interest expenses are reported in interest income, so that all results from negative interest rates are shown gross.

The main reasons for the negative interest rates are, firstly, the reduction in the ECB's deposit rate (penalty rate), the negative effect of which is euro -5,901 thousand (2016: euro -4,052 thousand) and secondly, primarily involve CHF/EUR swaps.

5) Risk provisions

Euro thousand	2017	2016
Allocation to risk provisions	-15,772	-27,861
Release of risk provisions	18,951	19,774
Allocation to provisions for risks	-707	-1,945
Release of provisions for risks	1,798	3,289
Direct write-offs of loans and advances	-5,830	-9,663
Income from loans and receivables previously written off	3,989	2,759
Risk provisions	**2,430**	**-13,645**

6) Net fee and commission income

Euro thousand	2017	2016
Fee and commission income from	79,099	70,035
lending operations	9,745	9,691
securities businesses	29,794	32,025
payment transactions	31,570	22,823
from foreign exchange, foreign notes and coins and precious metals transactions	69	113
other banking services	7,922	5,383
Fee and commission expenses from	-25,321	-28,915
lending operations	-7,591	-7,955
securities businesses	-14,496	-18,969
payment transactions	-3,198	-1,869
from foreign exchange, foreign notes and coins and precious metals transactions	0	-83
other banking services	-36	-39
Net fee and commission income	**53,778**	**41,120**

Net fee and commission income does not include any income or expenses from financial investments designated at fair value through profit or loss.

Furthermore, net fee and commission income does not include any management fees for trust agreements.

7) Net trading income

Euro thousand	2017	2016
Equity related transactions	18	-30
Exchange rate related transactions	5,889	3,720
Interest rate related transactions	-310	1,206
Net trading income	**5,597**	**4,896**

8) General administrative expenses

Euro thousand	2017	2016
Staff expenses	-112,140	-97,315
Wages and salaries	-80,632	-72,567
Expenses for statutory social security	-21,848	-19,106
Fringe benefits	-1,339	-1,191
Expenses for retirement benefits	-1,689	-1,402
Allocation to provision for severance payments and pensions	-6,631	-3,049
Other administrative expenses	-82,917	-62,159
Depreciation of fixed tangible and intangible assets	-9,819	-14,921
Scheduled depreciation (-)	-8,422	-11,803
Impairment (-)	-1,398	-3,117
General administrative expenses	**-204,876**	**-174,394**

Staff expenses include payments for defined contribution plans totalling euro 2,537 thousand (2016: euro 2,224 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 87 thousand (2016: euro 82 thousand).

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 1,855 thousand (2016: euro 1,813 thousand). Thereof euro 1,368 thousand (2016: euro 1,508 thousand) fall upon the audit of the annual financial statements, consolidated financial statements and annual financial statements of the Association of Volksbanks, as well as of financial statements of individual affiliates and joint ventures included in the consolidated financial statements, euro 404 thousand (2016: euro 84 thousand) to other certifications and euro 84 thousand (2016: euro 220 thousand) to other services.

Information on compensation to board members

Euro thousand	2017	2016
Total compensation	**2,547**	**3,029**
Supervisory Board	193	403
Managing Board	1,942	1,949
Former board members and their surviving dependents	412	676
Expenses for severance payments and pensions		
Managing Board	552	840
Thereof defined contribution plans	130	137

Members of the Managing Board do not receive performance or results-based pay. The total compensation of Managing Board members consists of a fixed basic salary and other compensation (e.g. in-kind benefits). There is no stock-option or share-transfer scheme for members of the Managing Board.

Principles and prerequisites of the pension scheme

The pension scheme is a defined-contribution scheme for all members of the Managing Board. The collective pension-fund bargaining agreement for commercial credit cooperatives has been applied to members of the Managing Board. All members of the VBW Managing Board who have a valid contract and a mandate to serve on the Board are eligible to join the scheme.

Principles governing pension entitlements and claims of members of the Managing Board at termination of the function

The statutory severance pay conditions under section 23 Angestelltengesetz (Employees Act) apply to one Managing Board member, other members of the Managing Board are subject to the new severance payment system (“Abfertigung Neu”). There is also a D&O insurance policy (directors’ and officers’ insurance).

Number of staff employed

	Average number of staff		Number of staff at end of period	
	2017	2016	31 Dec 2017	31 Dec 2016
Employees	1,273	1,130	1,319	1,227
Workers	11	8	8	15
Number of staff total	**1,284**	**1,139**	**1,327**	**1,242**

All staff is domestic.

9) Other operating result

Euro thousand	2017	2016
Other operating income	94,257	128,611
Other operating expenses	-18,538	-57,990
Other taxes	-2,251	-26,115
Impairment of goodwill	-8,262	-5,510
Other operating result	**65,206**	**38,997**

Other operating income includes income from cost allocations, essentially to the Association of Volksbanks, in the amount of euro 73,390 thousand (2016: euro 106,331 thousand). Furthermore, the acquisition of Sparda generated profit in the amount of euro 18.227 thousand. Additionally, other operating income includes income from the sale of fixed assets in the amount of euro 1,317 thousand (2016: euro 2,726 thousand). In the previous period, early redemptions of issues with a result of euro 11,866 thousand as well as income from drawing on guarantees regarding Volksbank Marchfeld e.Gen. and Volksbanken Holding eGen (VB Holding) in the amount of euro 3,650 thousand were included.

Other operating expenses include costs of external companies in the amount of euro -14,737 thousand (2016: euro -54,543 thousand). These costs are essentially allocated to members of the Association of Volksbanks. Early redemptions of issues generated a result of euro -798 thousand in the 2017 business year. Other operating expenses include an amount of euro -1,425 thousand for repayment of negative interest. An expense of euro -698 thousand (2016: euro -532 thousand) was generated by the sale of fixed assets.

Other taxes include the bank levy in the amount of euro -1,938 thousand (2016: euro -25,643 thousand). The amount includes the non-recurring special payment of euro -16,601 thousand.

The goodwill from the contributions of banking operations was written down by euro -8,262 thousand (2016: euro -5,510 thousand).

Regarding the write-down of goodwill, please refer to the information contained in Note 21) Intangible assets.

10) Income from financial investments

Euro thousand	2017	2016
Result from fair value hedges	**-1,309**	**-1,975**
Result from revaluation of underlying instruments	-40,516	14,909
Loans and advances to credit institutions and customers	-1,262	-2,737
Debt securities	-52,747	17,955
Amounts owed to credit institutions and customers	87	66
Debts evidenced by certificates	13,406	-375
Result from revaluation of derivatives	39,207	-16,884
Result from valuation of other derivatives in the investment book	**-5,760**	**3,379**
Exchange rate related transactions	-2,634	6,579
Interest rate related transactions	-1,220	257
Credit related transactions	0	-75
Other transactions	-1,907	-3,382
Result from available for sale financial investments (including participations)	**-641**	**-3,366**
Realised gains / losses	290	248
Income from revaluation	333	540
Impairments	-1,263	-4,154
Result from loans & receivables financial investments	**0**	**1**
Realised gains / losses	0	1
Result from assets for operating lease and investment property assets as well as other financial investments	**252**	**3,700**
Realised gains / losses	56	2,441
Change in value investment property	196	1,260
Income from financial investments	**-7,458**	**1,740**

In 2017, an amount of euro 306 thousand (2016: euro -162 thousand) previously recognised in the available for sale reserve was reclassified and shown in the income statement.

Euro thousand	2017	2016
Result from financial investments, which are measured at fair value through profit or loss	**-6,873**	**2,664**
Fair value hedges	-1,309	-1,975
Other derivatives in the investment book	-5,760	3,379
Investment property assets	196	1,260
Result from financial investments, which are not measured at fair value and result from financial investments, which are not measured at fair value through profit and loss	**-585**	**-924**
Realised gains / losses	346	2,690
Available for sale financial investments	290	248
Loans & reveivables financial investments	0	1
Operating lease assets and other financial investments	56	2,441
Income from revaluation	333	540
Available for sale financial investments	333	540
Impairments	-1,263	-4,154
Available for sale financial investments	-1,263	-4,154
Income from financial investments	**-7,458**	**1,740**

11) Income taxes

Euro thousand	2017	2016
Current income taxes	-1,074	-5,133
Deferred income taxes	6,705	18,176
Income taxes for the current fiscal year	**5,631**	**13,044**
Income taxes from previous periods continued operation	-1,005	275
Income taxes from previous periods	-1,005	275
Income taxes	**4,626**	**13,319**

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

Euro thousand	2017	2016
Annual result before taxes - continued operation	49,356	11,705
Annual result before taxes - total	**49,356**	**11,705**
imputed income tax 25 %	12,339	2,926
Tax relief resulting from		
tax-exempt investment income	-2,011	-1,602
investment allowances	0	566
non-tax deductible impairment of goodwill	2,066	1,378
measurement of participation	-3,903	-2,677
non-taxable valuation results	-4,389	0
re-inclusion of deferred tax assets	-9,551	-12,855
other differences	-181	-780
Reported income taxes	**-5,631**	**-13,044**
Effective tax rate - continued operations	**-11.41 %**	**-111.44 %**
Effective tax rate - including discontinued operations	-11.41 %	-111.44 %

The effective tax rates differ significantly from the statutory tax rate in Austria due to the offsetting of deferred tax assets, particularly with regard to tax loss carryforwards.

		2017			2016	
Euro thousand	Result before tax	Income taxes	Result after tax	Result before tax	Income taxes	Result after tax
Revaluation obligation of defined benefit plans (IAS 19)	2,634	-658	1,975	-3,952	988	-2,964
Available for sale reserve	42,603	-10,651	31,952	-5,162	1,290	-3,871
Change in deferred taxes of untaxed reserve	0	0	0	0	387	387
Change from companies measured at equity	2,476	-619	1,857	75	-19	56
Other comprehensive income total	**47,713**	**-11,928**	**35,785**	**-9,039**	**2,646**	**-6,392**

Notes to the consolidated statement of financial positions

12) Liquid funds

Euro thousand	31 Dec 2017	31 Dec 2016
Cash in hand	55,489	216,989
Balances with central banks	1,758,462	902,264
Liquid funds	**1,813,951**	**1,119,252**

Transition from liquid funds to cash and cash equivalents

Euro thousand	31 Dec 2017	31 Dec 2016
Liquid funds	1,813,951	1,119,252
Restricted cash and cash equivalents	-4,687	-5,666
Cash and cash equivalents	**1,809,264**	**1,113,587**

Due to contractual obligations within the Association of Volksbanks, cash and cash equivalents are subject to restrictions. Mentioned cash and cash equivalents are allocated to a trust fund (Leistungsfonds) which serves the purpose of performing the services within the scope of joint liability scheme under the association agreement. This trust fund was set up in the 2016 financial year. In doing so, a target allocation amount was determined that must be achieved over a period of five years. VBW as CO manages this fund on trust. The amount reported corresponds to the share of VBW in the trust fund.

13) Loans and advances to credit institutions

Loans and advances to credit institutions amounting to euro 1,703,912 thousand (2016: euro 2,196,042 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
on demand	249,670	300,441
up to 3 months	723,886	837,785
up to 1 year	206,988	598,973
up to 5 years	468,084	385,705
more than 5 years	55,283	73,137
Loans and advances to credit institutions	**1,703,912**	**2,196,042**

Further information on maturities are included in note 50) b) Credit risk.

14) Loans and advances to customers

Loans and advances to customers amounting to euro 4,810,325 thousand. (2016: euro 4,351,134 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
on demand	110,751	111,981
up to 3 months	107,449	182,794
up to 1 year	307,696	256,754
up to 5 years	693,187	702,048
more than 5 years	3,591,242	3,097,557
Loans and advances to customers	**4,810,325**	**4,351,134**

Further information on maturities is included in note 50) b) Credit risk.

15) Risk provisions

Euro thousand	Individual impairment customers	Portfolio based allowance	Total
As at 1 Jan 2016	**61,954**	**6,828**	**68,782**
Changes in the scope of consolidation	8,319	1,468	9,787
Currency translation	33	0	33
Reclassification	23	0	23
Unwinding	-1,233	0	-1,233
Utilisation	-16,380	0	-16,380
Release	-19,774	0	-19,774
Addition	22,214	5,647	27,861
As at 31 Dec 2016	**55,156**	**13,943**	**69,099**
Changes in the scope of consolidation	2,851	223	3,074
Currency translation	-332	-22	-354
Reclassification	32	0	32
Unwinding	-1,418	0	-1,418
Utilisation	-9,309	0	-9,309
Release	-18,240	-712	-18,951
Addition	15,307	465	15,772
As at 31 Dec 2017	**44,047**	**13,896**	**57,944**

Loans and advances to customers include non-interest-bearing receivables amounting to euro 67,498 thousand (2016: euro 86,607 thousand). The additions include an amount of euro 0 thousand (2016: euro 0 thousand) caused by allocation due to interest past-due. The line reclassification includes reclassifications to the position other assets. Portfolio based allowances related almost entirely to loans and advances to customers.

16) Trading assets

Euro thousand	31 Dec 2017	31 Dec 2016
Debt securities	8,320	24,162
Positive fair value from derivatives	60,847	113,389
exchange rate related transactions	33	0
interest rate related transactions	60,814	113,389
Trading assets	**69,167**	**137,550**

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
up to 3 months	1,383	1,739
up to 1 year	0	1,410
up to 5 years	504	12,392
more than 5 years	6,433	8,620
Debt securities	**8,320**	**24,162**

Since the acquisition of the CO function the company maintains a trading book. The volume of the trading book as at 31 December 2017 amounts to euro 3,951,958 thousand (2016: euro 4,511,332 thousand).

17) Financial investments

Euro thousand	31 Dec 2017	31 Dec 2016
Financial investments available for sale	1,526,889	1,594,123
Debt securities	1,487,093	1,529,702
Equity and other variable-yield securities	39,796	64,421
Financial investments held to maturity	316,104	261,339
Financial investments	**1,842,992**	**1,855,462**

Financial investments held to maturity also include deferred interest of euro 2,700 thousand (2016: euro 2,169 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
up to 3 months	44,267	15,516
up to 1 year	39,907	97,556
up to 5 years	561,356	568,187
more than 5 years	1,157,667	1,109,783
Debt securities	**1,803,197**	**1,791,041**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2017	31 Dec 2016
Listed securities	1,776,732	1,765,337
Debt securities	1,776,018	1,764,589
Equity and other variable-yield securities	714	748
Securities allocated to fixed assets	1,697,310	1,715,638
Securities eligible for rediscounting	1,717,851	1,707,321

All securities held with the intention of belonging more than one year to the Group are shown in position securities allocated to fixed assets.

18) Investment property

Euro thousand	Investment properties
Cost as at 1 Jan 2016	34,998
Changes in the scope of consolidation	85
Additions, including transfers	1,468
Disposals, including transfers	-5,114
Cost as at 31 Dec 2016	31,436
Changes in the scope of consolidation	0
Additions, including transfers	745
Disposals, including transfers	-4,278
Cost as at 31 Dec 2017	**27,903**

Euro thousand	Investment properties
2016	
Cost as at 31 Dec 2016	31,436
Cumulative write-downs and write-ups	1,513
Carrying amount as at 31 Dec 2016	**32,949**
Impairments of fiscal year	0
Revaluations of fiscal year	1,260
Carrying amount as at 1 Jan 2016	35,852
2017	
Cost as at 31 Dec 2017	27,903
Cumulative write-downs and write-ups	2,861
Carrying amount as at 31 Dec 2017	**30,764**
Impairments of fiscal year	-293
Revaluations of fiscal year	489

The valuations shown in the table above are included within the income from financial investments item. These valuations include holdings of investment property assets to the amount of euro 262 thousand (2016: euro 540 thousand) at the reporting date.

In 2017, a carrying amount of investment property assets to the amount of euro 2,450 thousand (2016: euro 4,982 thousand) was disposed of.

Investment properties contain 9 completed properties (2016: 14) with a carrying amount of euro 15,958 thousand (2016: euro 19,142 thousand), as well as undeveloped land with a carrying amount of euro 14,806 thousand

(2016: euro 13,807 thousand). These properties are located in Austria. At balance sheet date, the investement properties are measured at fair value.

The valuation of investment property uses parameters that are not based on market data. Investment properties are therefore classified in the level 3 fair value category.

The non-observable input factors are provided by independent external experts and reflect the current market assessment taking into account the specific features of each property. The main input parameters are shown below, with a distinction made between finished properties and undeveloped real estate. The minimum and maximum values are reported for each individual input parameter along with the average value weighted by the book value (average). The average value in the position carrying amount corresponds to the average value of each property. The parameter values therefore do not generally relate to one and the same property.

Completed properties

	2017			2016		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	64	4,030	1,773	64	4,040	1,367
Rentable space in sqm	38	2,762	1,627	38	2,762	1,610
Occupancy rate	0 %	100 %	96 %	62 %	100 %	95 %
Discount rate	3.30 %	7.00 %	5.06 %	3.30 %	7.00 %	5.00 %

Sensitivity analysis

Euro thousand	Changes in the carrying amount	
31 Dec 2017	if assumption is increased	if assumption is decreased
Discount rate (0.25 % change)	-751	829
Discount rate (0.50 % change)	-1,434	1,748
31 Dec 2016		
Discount rate (0.25 % change)	-911	1,007
Discount rate (0.50 % change)	-1,739	2,125

Undeveloped land

	2017			2016		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	24	2,930	779	24	2,930	767
Plot size in sqm	540	48,263	12,607	540	48,263	13,066
Value per sqm	5	750	199	5	626	165

Sensitivity analysis

Euro thousand	Changes in the carrying amount	
31 Dec 2017	if assumption is increased	if assumption is decreased
Land value (10 % change)	1,481	-1,481
Land value (5 % change)	740	-740
31 Dec 2016		
Land value (10 % change)	1,381	-1,381
Land value (5 % change)	690	-690

The Group has committed itself to maintain investment property refunded by a third party. Apart from that, there are no other obligations to purchase, construct, develop or maintain investment property.

19) Companies measured at equity

Euro thousand	Associates
Carrying amount as at 1 Jan 2016	19,601
Changes in the scope of consolidation	20,622
Additions	1
Disposals	-18,502
Comprehensive income proportional	96
Received dividend	-2,831
Impairment	-7,149
Reversal of impairment	10,208
Carrying amount as at 31 Dec 2016	22,046
Changes in the scope of consolidation	0
Additions	673
Disposals	0
Comprehensive income proportional	2,907
Received dividend	0
Impairment	0
Reversal of impairment	5,127
Carrying amount as at 31 Dec 2017	**30,753**

Associates

VBW holds shares in the following associated companies. Volksbank Kärnten eGen (VB Kärnten, previously: Volksbank Gewerbe- und Handelsbank Kärnten eGen) and VB Verbund-Beteiligung eG (VB Bet).

VBW holds a 25.21 % (2016: 25.17 %) share in VB Kärnten with registered office in Klagenfurt. The company's main business purpose consists of banking operations and bank-related brokering and services.

VBW holds a 21.85 % (2016: 21.16 %) share in VB Bet with registered office in Vienna. The main business of the company is the holding of participations within the Association of Volksbanks.

In the following, the financial information is presented for all companies in aggregated form as none of the companies are deemed material in terms of the proportion of the financial information relevant to VBW reporting.

Additional information regarding associates

Euro thousand	Other companies 2017	2016
Assets		
Liquid funds	10,993	11,870
Loans and advances to credit institutions (gross)	181,459	199,508
Loans and advances to customers (gross)	1,091,918	1,023,337
Risk provisions	-23,965	-28,159
Financial investments	23,514	22,406
Other assets	192,784	195,650
Total assets	**1,476,703**	**1,424,611**
of which current assets	579,370	562,323
Liabilities and Equity		
Amounts owed to credit institutions	59,344	37,833
Amounts owed to customers	1,164,188	1,123,607
Debts evidenced by certificates	8,828	15,190
Subordinated liabilities	30,024	36,375
Other liabiliites	16,815	25,846
Equity	197,504	185,761
Total liabilities and equity	**1,476,703**	**1,424,611**
of which current liabilities	1,001,007	910,101
Statement of comprehensive income		
Interest and similar income	28,639	42,570
Interest and similar expense	-5,417	-6,962
Net interest income	23,222	35,608
Risk provisions	-234	-17,394
Result before taxes	6,253	-2,669
Income taxes	-2,191	2,546
Result after taxes	4,062	-123
Other comprehensive income	7,842	427
Comprehensive income	**11,904**	**304**

Not recognised proportional loss

Euro thousand	2017	2016
Loss of the period proportional	0	0
Change in other comprehensive income of the period proportional	0	0
Cumulative loss	0	0
Cumulative other comprehensive income	0	0

Reconciliation

Euro thousand	2017	2016
Equity	197,504	185,761
Equity interest	n.a.	n.a.
Equity proportional	46,410	42,829
Cumulative impairment and reversals	-6,344	-11,471
Not recognised proportional loss	0	0
Valuation previous years	-9,313	-9,313
Transfer carrying amount	0	0
Carrying amount as at 31 Dec 2017	30,753	22,046

In the reconciliation, the proportionate equity is reconciled with the carrying amount. As the other companies are aggregated, it is not possible to state the shareholding. The line valuations previous years includes the fair value measurement of the contribution of the CO business unit.

According to the statutory provisions of the Cooperative Societies Act (GenG), VBW only receives its original capital contribution back if it terminates its share in VB Kärnten (not in the event of liquidation or sale). Any dividends of VB

Kärnten are limited in the sense that the supervisory regulations must be followed and the equity capital may not fall below a certain amount.

20) Participations

Euro thousand	31 Dec 2017	31 Dec 2016
Investments in unconsolidated affiliates	4,036	842
Participating interests	3,865	2,570
Investments in other companies	35,321	12,369
Participations	**43,222**	**15,781**

A list of unconsolidated affiliates can be found in note 53). Participations with a carrying amount of euro 74 thousand (2016: euro 153 thousand) were disposed of during the business year. Profit from these sales amounted to euro 0 thousand (2016: euro 410 thousand) and is shown under income from financial investments.

Participations in companies whose fair value cannot be reliably determined are carried at cost net of any impairment. Participations with a carrying amount of euro 43,161 thousand (2016: euro 8,552 thousand) were measured at market value.

Sensitivity analysis

Participations, measured by using the DCF method

Proportional market value Euro thousand 31 Dec 2017		Interest rate -0.50 %	actual	0.50 %
Income component	-10.00 %	13,719	12,976	12,316
	actual	15,137	**14,313**	13,578
	10.00 %	16,556	15,648	14,840

Participations, measured by net assets

Euro thousand 31 Dec 2017	Proportional market value if assumption is decreased	actual	if assumption is increased
Net assets (10 % change)	5,749	**6,392**	7,027

Participations, measured based on external appraisals

Euro thousand 31 Dec 2017	Lower band	actual	Upper band
Proportional market value	17,188	**18,811**	20,433

In the previous year sensitivity analyses were made based on variations of income estimates of 20 %. In the event of an increase in the yield estimate, market value changed by euro 1,006 thousand, while a decrease of the yield estimate led to a change of euro -1,006 thousand.

21) Intangible assets

Euro thousand	Software	Goodwill	Other	Total
Cost as at 1 Jan 2016	25,122	3,570	9,297	37,988
Changes in the scope of consolidation	406	10,203	14,523	25,131
Additions, including transfers	891	0	0	891
Disposals, including transfers	0	0	0	0
Cost as at 31 Dec 2016	26,418	13,772	23,820	64,010
Changes in the scope of consolidation	4,263	0	1,004	5,267
Additions, including transfers	594	0	0	594
Disposals, including transfers	-534	0	0	-534
Cost as at 31 Dec 2017	**30,740**	**13,772**	**24,824**	**69,337**

Euro thousand	Software	Goodwill	Other	Total
2016				
Cost as at 31 Dec 2016	26,418	13,772	23,820	64,010
Cumulative write-downs and write-ups	-26,089	-5,510	-759	-32,358
Carrying amount as at 31 Dec 2016	**329**	**8,262**	**23,061**	**31,652**
of which unlimited useful life	0	8,262	0	8,262
of which limited useful life	329	0	23,061	23,390
Amortisation in fiscal year	-4,215	0	-681	-4,896
Impairments in fiscal year	0	-5,510	0	-5,510
Carrying amount as at 1 Jan 2016	4,500	3,570	9,220	17,289
2017				
Cost as at 31 Dec 2017	30,740	13,772	24,824	69,337
Cumulative write-downs and write-ups	-30,163	-13,772	-1,983	-45,918
Carrying amount as at 31 Dec 2017	**577**	**0**	**22,841**	**23,418**
of which unlimited useful life	0	0	0	0
of which limited useful life	577	0	22,841	23,418
Amortisation in fiscal year	-345	0	-1,224	-1,570
Impairments in fiscal year	0	-8,262	0	-8,262

Composition of goodwill

Euro thousand	Carrying amount 31 Dec 2017	Impairment 2017	Carrying amount 31 Dec 2016	Impairment 2016
Retail segment	0	-8,262	8,262	-5,510
Total	**0**	**-8,262**	**8,262**	**-5,510**

Goodwill for the 2017 business year in the retail segment relates to the goodwill from the acquisition of VB Ost in 2015 business year and from the acquisitions of VB Weinviertel, VB Südbgld and VB NÖ Süd in 2016 business year.

The goodwills are allocated to cash generating units (CGU). These CGU correspond to the segments under IFRS 8. The allocated goodwills were reviewed for recoverability in accordance with IAS 36. The review is performed based on the respective medium-term planning annually in the fourth quarter. Additionally, a review is carried out if a triggering event occurs.

The review of goodwill in the retail segment was performed based on the 2018-2022 plan of the retail segment, which corresponds to the CGU allocated. In the following years, the continued existence of the CGU for an unlimited period of time (perpetuity) was assumed.

The value in use based on dividend discount model is determined as the amount recoverable. The special characteristics of the banking business and any regulatory requirements are taken into account. The present value of expected future dividends that can be distributed to the shareholders after compliance with the relevant regulatory capital requirements represents the amount recoverable. The cash flows for the perpetuity beyond the planning period are estimated by ex-trapolating a constant growth rate of 2.0 % for subsequent years. The amount depends on the expected long-term infla-tion rate. The discount rate used was 7.18 % and was determined in line with the capital asset pricing model. It is composed of a risk-free interest rate and risk premium, which were both derived from market data. The risk premium is calculated as the product of market risk premium and beta coefficient. The beta coefficient was determined based on a comparable group of regional banks active in Western Europe. The risk-free interest rate was derived from the 30-year spot rate of German government bond published by the Deutsche Bundesbank.

The underlying planning represents the best possible estimation by the management on the future development and is based on estimates regarding macroeconomic assumptions made by VBW´s research department for the following five years. These estimates are also compared with external sources of international organisations as well as of large banks which are active in the same economic area. Assumptions regarding growth and inflation rate in particular, as well as interest rates and currencies are presented in the Asset-Liability Committee and also notified to the bodies of the bank.

In the Retail segment, a moderate demand for corporate loans and increasing growth in the sphere of private housing construction form the basis for the planning horizon. Both are adjusted to the expected demand for loans estimated by the research department and the growth targets of the bank in individual customer segments. Interest rate planning is based on the expectation of low rates for the coming years and an increase occurring only in the medium-term due to expectations of increasing economic indicators and inflation rates. Regarding costs, continuous optimisations in the branch network coupled with an enhanced offer in the area of digitalisation is planned. Moreover, planned synergies from the mergers carried out in 2015, 2016 and 2017 are meant to be realised.

Due to the assumptions made in planning and the associated uncertainties, the following future circumstances may basically – but without limitation – influence the target values of the cash generating units negatively: A weakening of the macroeconomic environment and a resulting negative effect on the growth forecast, a reduced demand for loans and long-term low interest rates, as well as further pressure on interest margins due to competition.

The comparison of the ascertained value in use with the carrying amount required a write-down of euro 8,262 thousand, which is reported in the other operating result through profit or loss. The impairment was essentially required due to the change of the market interest rate and an adjustment of assumptions made for planning (in particular taking into account the lower interest rate level compared to the previous year, and higher costs due to regulatory requirements).

22)Tangible fixed assets

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other	Total
Cost as at 1 Jan 2016	160,906	6,298	38,045	0	205,249
Changes in the scope of consolidation	28,512	2,184	10,682	685	42,062
Additions, including transfers	2,527	238	2,331	2	5,099
Disposals, including transfers	-5,743	-1,356	-1,670	-687	-9,457
Cost as at 31 Dec 2016	186,201	7,364	49,388	0	242,954
Changes in the scope of consolidation	13,581	1,432	12,727	348	28,088
Additions, including transfers	2,123	274	1,073	4	3,473
Disposals, including transfers	-8,299	-991	-6,186	-351	-15,828
Cost as at 31 Dec 2017	**193,606**	**8,079**	**57,002**	**0**	**258,687**

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other	Total
2016					
Cost as at 31 Dec 2016	186,201	7,364	49,388	0	242,954
Cumulative write-downs and write-ups	-65,300	-6,988	-41,814	0	-114,103
Carrying amount as at 31 Dec 2016	**120,901**	**376**	**7,574**	**0**	**128,851**
Depreciation of fiscal year	-3,952	-210	-2,749	3	-6,908
Revaluation of fiscal year	0	0	0	0	0
Extraordinary depreciation of fiscal year					
Carrying amount as at 1 Jan 2016	110,263	410	9,907	0	120,579
2017					
Cost as at 31 Dec 2017	193,606	8,079	57,002	0	258,687
Cumulative write-downs and write-ups	-70,600	-7,633	-48,376	0	-126,609
Carrying amount as at 31 Dec 2017	**123,006**	**446**	**8,626**	**0**	**132,078**
Depreciation of fiscal year	-4,398	-239	-2,211	-4	-6,852
Revaluation of fiscal year	0	0	159	0	159
Extraordinary depreciation of fiscal year	-315	0	-1,242	0	-1,557

23) Tax assets and liabilities

Euro thousand	31 Dec 2017 Tax assets	31 Dec 2017 Tax liabilities	31 Dec 2016 Tax assets	31 Dec 2016 Tax liabilities
Current tax	1,513	5,692	1,108	4,892
Deferred tax	45,917	1,151	47,429	1,077
Tax total	**47,429**	**6,843**	**48,538**	**5,968**

The table below shows the differences resulting from the balance sheet figures reported in accordance with Austrian tax legislation and IFRS giving rise to deferred tax assets.

	31 Dec 2017		31 Dec 2016		Net deviation 2017		
Euro thousand	Tax assets	Tax liabilities	Tax assets	Tax liabilities	Total	In income statement	In other compre-hensive income
Loans and advances to credit institutions	0	497	0	1,913	1,415	1,415	0
Loans and advances to customers, including risk provisions	22,976	0	27,851	192	-4,683	-4,695	0
Trading assets	124	0	162	18	-21	-21	0
Financial investments	0	69,354	0	78,893	9,539	14,987	-4,217
Investment property	0	1,894	0	1,864	-30	-30	0
Participations	3,756	0	4,608	0	-852	5,345	-6,434
Intangible and tangible fixed assets	722	9,644	1,005	9,766	-161	224	0
Amounts owed to credit institutions	0	0	80	368	288	288	0
Amounts owed to customers	13	0	29	0	-16	70	0
Debts evidenced by certificates and subordinated liabilities	17,880	1,710	27,952	2,583	-9,200	-9,200	0
Trading liabilities	0	32	0	52	19	19	0
Provisions for pensions, severance payments and other provisions	9,190	3,875	8,665	4,742	1,391	895	-658
Other assets and liabilities	75,893	20,204	92,095	29,835	-6,572	-6,123	0
Other balance sheet items	0	6,119	0	6,119	0	0	0
Tax loss carryforwards	27,544	0	20,248	0	7,295	3,529	0
Deferred taxes before netting	158,096	113,331	182,697	136,344	-1,587	6,705	-11,309
Offset between deferred tax asset and deferred tax liabilities	-112,180	-112,180	-135,268	-135,268	0	0	0
Reported deferred taxes	**45,917**	**1,151**	**47,429**	**1,077**	**-1,587**	**6,705**	**-11,309**

The remainder of the net difference in the annual comparison that is not reflected in either the income statement or other comprehensive income is primarily attributable to changes in the scope of consolidation.

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

For verification of the usability of tax loss carryforwards and the impairment of other deferred tax a period up to 4 years was taken as a basis according to the Group’s tax planning.

In accordance with IAS 12.39 deferred tax liabilities for temporary differences regarding partcipations in subsidiaries in the amount of euro 9,401 thousand (2016: euro 10,403 thousand) were not recognised since a reversal is not expected soon.

For tax loss carryforwards in the amount of euro 267,734 thousand (2016: euro 303,992 thousand) no deferred taxes were recognised. In the 2017 and 2016 business years, no deferred tax assets for tax loss carryforwards and other de-ferred tax assets (tax base) were impaired. Deferred tax assets were recognised only if their realisation appeared to be probable within an adequate period of time (4 years). Of these tax loss carry-forwards, euro 267,734 thousand (2016: euro 303,992 thousand) can be carried forward without restriction and especially concern VBW itself.

24) Other assets

Euro thousand	31 Dec 2017	31 Dec 2016
Deferred items	710	1,152
Other receivables and assets	24,692	33,030
Positive fair value from derivatives in the investment book	98,575	103,352
Other assets	**123,977**	**137,534**

Other receivables and assets essentially consist of open outgoing invoices and deferrals in the amount of euro 13,397 thousand (2016: euro 2,802 thousand), property sales in the amount of euro 4,090 thousand (2016: euro 12,518 thousand), auxiliary accounts of the banking business in the amount of euro 318 thousand (2016: euro 3,207 thousand) and other assets associated with the trust fund in the amount of euro 0 thousand (2016: euro 7,576 thousand).

The table below shows the fair values of derivatives which are included in the position other assets which are used in hedge accounting.

Euro thousand	31 Dec 2017 Fair value hedge	31 Dec 2016 Fair value hedge
Interest rate related transactions	69,144	65,372
Positive fair value from derivatives	**69,144**	**65,372**

25) Assets held for sale

This position includes all assets which are held for sale in accordance with IFRS 5. The amount consists of the following:

Euro thousand	31 Dec 2017	31 Dec 2016
Tangible fixed assets	2,319	0
Other assets	118	0
Assets held for sale	**2,437**	**0**

26) Amounts owed to credit institutions

Euro thousand	31 Dec 2017	31 Dec 2016
Central banks	169,541	139,855
Other credit institutions	2,574,010	3,198,193
Amounts owed to credit institutions	**2,743,551**	**3,338,048**

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
on demand	2,482,510	2,711,680
up to 3 months	133,891	220,956
up to 1 year	15,048	112,492
up to 5 years	17,275	111,246
more than 5 years	94,827	181,674
Amounts owed to credit institutions	**2,743,551**	**3,338,048**

The information about maturities of future cash flows are shown in note 34) Cash flows based on maturities.

27) Amounts owed to customers

Euro thousand	31 Dec 2017	31 Dec 2016
Measured at amortised cost	5,791,374	4,691,373
Saving deposits	2,215,024	2,019,400
Other deposits	3,576,349	2,671,974
Amounts owed to customers	**5,791,374**	**4,691,373**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
on demand	4,005,733	3,107,049
up to 3 months	320,241	83,195
up to 1 year	513,652	803,036
up to 5 years	349,852	375,009
more than 5 years	601,895	323,084
Amounts owed to customers	**5,791,374**	**4,691,373**

The information about maturities of future cash flows are shown in note 34) Cash flows based on maturities.

28) Debts evidenced by certificates

Euro thousand	31 Dec 2017	31 Dec 2016
Bonds	487,507	725,217
Debts evidenced by certificates	**487,507**	**725,217**

Debts evidenced by certificates are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
up to 3 months	11,758	870
up to 1 year	19,498	13,560
up to 5 years	143,155	203,374
more than 5 years	313,096	507,412
Debts evidenced by certificates	**487,507**	**725,217**

The information about maturities of future cash flows are shown in note 34) Cash flows based on maturities.

29) Trading liabilities

Euro thousand	31 Dec 2017	31 Dec 2016
Negative fair values from derivatives		
Exchange rate related transactions	0	15,022
Interest rate related transactions	82,010	398,521
Trading liabilities	**82,010**	**413,543**

30) Provisions

Euro thousand	Provisions for risk	Other provisions	Total
As at 1 Jan 2016	6,233	23,216	29,449
Changes in the scope of consolidation	432	456	888
Reclassification	0	0	0
Unwinding	-19	0	-19
Utilisation	-1	-2,815	-2,817
Release	-3,289	-11,630	-14,919
Addition	1,945	9,164	11,108
As at 31 Dec 2016	5,300	18,391	23,691
Change in the scope of consolidation	28	4,912	4,940
Reclassification	24	0	24
Unwinding	-4	0	-4
Utilisation	-44	-4,952	-4,996
Release	-1,798	-6,025	-7,823
Addition	707	5,650	6,356
As at 31 Dec 2017	**4,212**	**17,976**	**22,188**

Provisions for risk include provisions for off-balance transactions particularly for commitments and guarantees. Mainly these provisions are long-term provisions. The maturities of these provisions are included in note 43) Contingent liabilities and credit risks.

The other provisions item provides for liabilities that are likely to lead to an outflow of funds in the future. The restructuring provision fulfils the criteria given under IAS 37.10. and totalled euro 6,128 thousand (2016: euro 7,841 thousand) as at the reporting date. Other long-term provisions were recognised for pending litigation amounting to euro 8,018 thousand (2016: euro 3,826 thousand).

Provisions are recorded at the best possible estimate of the expected outflow of resources with economic benefits as at the balance sheet date, taking into account the risks and uncertainties expected in order to fulfil the obligation. Risks and uncertainties have been taken into account in making the estimates.

31) Long-term employee provisions

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
Net present value as at 1 Jan 2016	8,530	31,586	4,677	44,793
Changes in the scope of consolidation	3,373	6,655	878	10,906
Current service costs	45	1,654	338	2,037
Interest costs	145	708	106	958
Payments	-746	-2,851	-364	-3,962
Actuarial gains or losses	972	2,979	761	4,712
Net present value as at 31 Dec 2016	12,318	40,731	6,396	59,445
Changes in the scope of consolidation	109	6,203	774	7,086
Current service costs	49	2,089	484	2,622
Interest costs	137	505	80	721
Payments	-890	-3,342	-234	-4,466
Actuarial gains or losses	-381	-2,253	-299	-2,933
Net present value as at 31 Dec 2017	**11,342**	**43,933**	**7,202**	**62,476**

Net present value of plan assets

Euro thousand	Provisions for pensions
Net present value of plan assets as at 1 Jan 2016	862
Return on plan assets	4
Contributions to plan assets	11
Actuarial gains or losses	0
Net present value of plan assets as at 31 Dec 2016	877
Return on plan assets	31
Contributions to plan assets	-15
Actuarial gains or losses	0
Net present value of plan assets as at 31 Dec 2017	**892**

The pension provision is netted with the present value of plan assets.

In the 2018 business year, contribution payments to plan assets are expected in the amount of euro 4 thousand (2016: euro 4 thousand).

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
31 Dec 2016				
Long-term employee prvisions	12,318	40,731	6,396	59,445
Net present value of plan assets	-877	0	0	-877
Net liability recognised in balance sheet	**11,441**	**40,731**	**6,396**	**58,569**
31 Dec 2017				
Long-term employee prvisions	11,342	43,933	7,202	62,476
Net present value of plan assets	-892	0	0	-892
Net liability recognised in balance sheet	**10,449**	**43,933**	**7,202**	**61,584**

Historical Information

Euro thousand	2017	2016	2015	2014	2013
Net present value of obligation	62,476	59,445	44,793	23,575	20,408
Net present value of plan assets	892	877	862	0	0

Composition of plan assets

	31 Dec 2017			31 Dec 2016		
Euro thousand	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total
Bond issues regional administration bodies	301	0	301	289	0	289
Bond issues credit institutions	39	0	39	81	0	81
Other bond issues	178	0	178	130	1	131
Shares european countries	95	0	95	105	0	105
Shares USA and Japan	56	0	56	96	0	96
Other shares	104	0	104	72	1	73
Derivatives	24	27	51	32	20	52
Real estate	0	53	53	0	20	20
Cash in hand	0	16	16	0	30	30
Total	**797**	**95**	**892**	**804**	**72**	**877**

The column Plan assets - quoted shows all plan assets that have a market price that is quoted on an active market.

Sensitivity analysis

With all other variables held constant, possible changes that could reasonably be expected in one of the significant actuarial assumptions as of the reporting date would have influenced the defined benefit obligation as follows.

Euro thousand	Change in the present value increase of assumption	decrease of assumption
31 Dec 2016		
Discount rate (0.75 % modification)	-4,786	4,496
Future wage and salary increases (0.50 % modification)	2,871	-2,659
Future pension increase (0.25 % modification)	303	-290
Future mortality (1 year modification)	730	-703
31 Dec 2017		
Discount rate (0.75 % modification)	-4,737	5,511
Future wage and salary increases (0.50 % modification)	3,317	-3,055
Future pension increase (0.25 % modification)	277	-266
Future mortality (1 year modification)	676	-650

As of 31 December 2017, the weighted average term of defined-benefit obligations for pensions was 10.6 years (2016: 10.7 years) and for severance payment 12,4 years (2016: 11.9 years).

Although the analysis does not take into account the full distribution of cash flows expected based on the plan, it does provide an approximate value for the sensitivity of the assumptions presented.

32) Other liabilities

Euro thousand	31 Dec 2017	31 Dec 2016
Deferred items	391	276
Other liabilities	49,273	83,030
Negative fair values from derivatives in the investment book	378,484	167,949
Other liabilities	**428,148**	**251,255**

Other liabilities essentially consist of deferrals in the amount of euro 34,163 thousand (2016: euro 34,938 thousand) as well as taxes and fiscal liabilities in the amount of euro 5,504 thousand (2016: euro 23,386 thousand).

The table below shows the negative fair values of derivatives included in position other liabilities which are used in hedge accounting.

Euro thousand	31 Dec 2017 Fair value hedge	31 Dec 2016 Fair value hedge
Exchange rate related transactions	20,273	29,478
Interest rate related transactions	277,803	25,239
Negative fair value from derivatives	**298,076**	**54,718**

33) Subordinated liabilities

Euro thousand	31 Dec 2017	31 Dec 2016
Subordinated liabilities	407,209	10,503
Supplementary capital	18,569	18,378
Subordinated liabilities	**425,778**	**28,881**

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
up to 3 months	0	4,988
up to 1 year	7,498	0
up to 5 years	18,990	19,484
more than 5 years	399,290	4,409
Subordinated liabilities	**425,778**	**28,881**

34) Cash flows based on maturities

The table below presents the future cash flows from liabilities classified according to their maturity

Euro thousand	Amounts owed to credit institutions	Amounts owed to customers	Debts evidenced by certificates	Subordinated liabilities	Derivatives trading book	Derivatives investment book
31 Dec 2017						
Carrying amount	2,743,551	5,791,374	487,507	425,778	82,010	378,484
Undiscounted cash flows	**2,791,826**	**5,888,438**	**622,388**	**534,236**	**81,899**	**369,342**
up to 3 months	2,617,672	4,362,420	11,758	0	0	0
up to 1 year	17,467	543,591	35,770	18,770	1,307	2,676
up to 5 years	25,883	350,953	204,242	63,699	31,219	114,641
more than 5 years	130,803	631,475	370,618	451,767	49,373	252,024
31 Dec 2016						
Carrying amount	3,338,048	4,691,373	725,217	28,881	413,543	167,949
Undiscounted cash flows	**3,382,763**	**4,768,928**	**1,048,096**	**30,182**	**413,619**	**159,189**
up to 3 months	2,933,211	3,241,741	870	4,993	0	0
up to 1 year	115,262	812,738	40,284	345	2,305	22,237
up to 5 years	120,107	379,453	305,734	20,276	68,591	103,472
more than 5 years	214,183	334,996	701,207	4,569	342,723	33,481

Cash flows for contingent liabilities are displayed in note 43) Contingent liabilities and credit risks. In the column derivatives trading book only derivative instruments are included.

35) Equity

As at 31 December 2017, the subscribed capital of VBW before deduction of treasury stocks amounted to euro 132,894 thousand. It consists of registered shares as follows:

		Euro thousand
1,417,534	Non-par value shares	132,894

SPARDA-BANK AUSTRIA e.Gen. transferred its banking operations Sparda as a contribution in kind for 12,643 new shares with a value of euro 1,185 thousand through a transfer and contribution in kind agreement of 22 May 2017. The transfer was entered in the Commercial Register on 17 August 2017.

By resolution of the general meeting dated 18 May 2017, together with the contribution of the Sparda banking operations, a cash capital increase in the amount of euro 4,771 thousand was decided upon by issuing 50,890 no-par shares and maintaining the statutory subscription right. The capital increase was carried out in August 2017.

Changes in subscribed capital

Number of units	Shares	Participation certificates
Shares and participation certificates outstanding as at 1 Jan 2016	1,146,424	7,004
Reclassification	0	-7,004
Contribution VB Weinviertel	51,731	0
Contribution VB Südburgenland	57,032	0
Contribution VB NÖ Süd	98,814	0
Shares outstanding as at 31 Dec 2016	**1,354,001**	**0**
Contribution Sparda	12,643	0
Capital increase	50,890	0
Shares outstanding as at 31 Dec 2017	**1,417,534**	**0**

In the 2016 business year, the participation capital was reclassified to subordinated liabilities entirely. In the previous business year, 7,004 of the participation certificates outstanding and of the total participation certificates had a nominal value of euro 1 thousand per participation certificate.

Dividend payment including participation capital

Euro thousand	2017	2016
Dividend non-voting equity	13,395	393
Total	**13,395**	**393**

The dividend payment includes the distribution to the federal government from the participation right in RZG in the amount of euro 13,395 thousand (2016: euro 293 thousand). Further details regarding the participation right of the federal government are described in note 2).

A euro 8,310 thousand distribution on voting capital is planned for the 2018 business year.

Return on capital employed

The return on capital employed for the business year was 0.51% (2016: 0.25 %) and was calculated as the ratio of the result after taxes to total assets as at the reporting date.

Non-controlling interest

Company name	Minority interest 2017	2016	Assignment
3V-Immobilien Errichtungs-GmbH; Wien	<0,001 %	<0,001 %	Other companies
Gärtnerbank Immobilien GmbH; Wien	<0,001 %	<0,001 %	Other companies
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	<0,001 %	<0,001 %	Other companies
VB Services für Banken Ges.m.b.H.; Wien	1.110 %	1.110 %	Other companies
VB Verbund-Beteiligung Region Wien eG; Wien	9.580 %	9.630 %	Other companies
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	1.000 %	1.000 %	Other companies
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	0.005 %	0.005 %	Other companies

The following table presents the financial information for the companies in aggregated form as the latter are immaterial.

Additional information non-controlling interest

Euro thousand	Other companies 2017	2016
Assets		
Loans and advances to credit institutions (gross)	42,914	44,304
Loans and advances to customers (gross)	230	155
Financial investments	674	682
Other assets	76,280	80,941
Total assets	**120,099**	**126,082**
Liabilities and Equity		
Amounts owed to credit institutions	54,564	56,239
Amounts owed to customers	11	3
Other liabilities	14,353	19,268
Equity	51,171	50,573
Total liabilities and equity	**120,099**	**126,082**
Statement of comprehensive income		
Interest and similar income	105	2,961
Interest and similar expense	-1,941	-2,016
Income from investment property and operating leases	3,898	4,077
Net interest income	2,063	5,021
Risk provisions	0	-7
Result before taxes	2,037	20,670
Income taxes	-90	-3,785
Result after taxes	1,947	16,884
Other comprehensive income	130	-307
Comprehensive income	**2,077**	**16,577**

Since these companies do not hold liquid funds and their business activity can basically be described as operational business activities, no cash flow statement is presented in accordance with IAS 1.31.

36) Own funds

The own funds of the VBW credit institution group which were calculated pursuant to the Capital Requirement Regulations (CRR) can be broken down as follows:

Euro thousand	31 Dec 2017	31 Dec 2016
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	324,241	304,890
Retained earnings	145,730	103,223
Accumulated other comprehensive income (and other reserves)	96,190	70,571
Amount of capital instruments subject to phase out from CET1	9,907	9,907
Non-controlling interest	779	1,584
Common tier I capital before regulatory adjustments	576,846	490,175
Common tier I capital: regulatory adjustments		
Goodwill (net of related tax liability)	0	-8,262
Intangible assets (net of related tax liability)	-23,418	-23,390
Value adjustments due to the requirement for prudent valuation	-2,228	-2,465
Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability)	0	-747
Regulatory adjustments - transitional provisions	-5,294	5,975
Unrealised gains (20 %; 2016: 40 %)	-9,978	-6,810
Loss of the current financial year (20 %; 2016: 40 %)	0	0
Intangible assets (20 %; 2016: 40 %)	4,684	12,661
CET1 instruments of financial sector entities	0	124
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	-4,684	-12,723
Additional CET1 deductions pursuant to article 3 CRR	-7,788	0
Total regulatory adjustments	-43,411	-41,613
Common equity tier I capital - CET1	**533,435**	**448,562**
Additional tier I capital: instruments		
Capital instruments including share premium accounts, allowable as additional tier I capital	0	0
Additional tier I capital before regulatory adjustments	0	0
Additional tier I capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	-4,684	-12,723
Loss of the current financial year (20 %; 2016: 40 %)	0	0
Intangible assets (20 %; 2016: 40 %)	-4,684	-12,661
CET1 instruments of financial sector entities	0	-62
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	4,684	12,723
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**0**	**0**
Tier I capital (CET1 + AT1)	**533,435**	**448,562**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts, allowable as additional tier II capital	406,563	5,734
Capital instruments subject to phase out from tier II	649	1,620
Tier II capital before regulatory adjustments	407,212	7,354
Tier II capital: regulatory adjustments		
T2 instruments of financial sector entities where the institution has a significant investment	0	-200
Regulatory adjustments - transitional provisions	0	-62
CET1 instruments of financial sector entities	0	-62
Total regulatory adjustments	0	-262
Tier II capital - T2	**407,212**	**7,092**
Own funds	**940,647**	**455,654**
Common equity tier I capital ratio (tier I)	15.37 %	13.88 %
Tier I capital ratio	15.37 %	13.88 %
Equity ratio	27.11 %	14.10 %

each in relation to total risk exposure amount

The risk-weighted assessment amounts as defined in CRR can be broken down as follows:

Euro thousand	31 Dec 2017	31 Dec 2016
Risk weighted exposure amount - credit risk	2,720,792	2,432,708
Total risk exposure amount - settlement risk	77	0
Total risk exposure amount for position, foreign exchange and commodities risks	111,792	153,424
Total risk exposure amount for operational risk	578,570	586,132
Total risk exposure amount for credit valuation adjustment (cva)	59,092	60,451
Total risk exposure amount	**3,470,323**	**3,232,716**

The following table shows the own funds of the VBW credit institution group pursuant to CRR - fully loaded:

Euro thousand	31 Dec 2017	31 Dec 2016
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	324,241	304,890
Retained earnings	145,730	103,223
Accumulated other comprehensive income (and other reserves)	96,190	70,571
Common tier I capital before regulatory adjustments	566,160	478,684
Common tier I capital: regulatory adjustments		
Goodwill (net of related tax liability)	0	-8,262
Intangible assets (net of related tax liability)	-23,418	-23,390
Value adjustments due to the requirement for prudent valuation	-2,228	-2,465
Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability)	0	-1,896
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Additional CET 1 deductions pursuant to article 3 CRR	-9,735	0
Total regulatory adjustments	-35,381	-36,014
Common equity tier I capital - CET1	**530,780**	**442,670**
Additional tier I capital: instruments		
Capital instruments including share premium accounts, allowable as additional tier I capital	0	0
Additional tier I capital before regulatory adjustments	0	0
Additional tier I capital: regulatory adjustments		
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**0**	**0**
Tier I capital (CET1 + AT1)	**530,780**	**442,670**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts, allowable as additional tier II capital	416,470	15,641
Tier II capital before regulatory adjustments	416,470	15,641
Tier II capital: regulatory adjustments		
T2 instruments of financial sector entities where the institution has a significant investment	0	-200
Total regulatory adjustments	0	-200
Tier II capital - T2	**416,470**	**15,441**
Own funds	**947,250**	**458,111**

Common equity tier I capital ratio (tier I)	15.32 %	13.71 %
Tier I capital ratio	15.32 %	13.71 %
Equity ratio	27.33 %	14.18 %
each in relation to total risk exposure amount		

The risk-weighted assessment amounts as defined in CRR can be broken down as follows:

Euro thousand	31 Dec 2017	31 Dec 2016
Risk weighted exposure amount - credit risk	2,715,925	2,429,836
Total risk exposure amount - settlement risk	77	0
Total risk exposure amount for position, foreign exchange and commodities risks	111,792	153,424
Total risk exposure amount for operational risk	578,570	586,132
Total risk exposure amount for credit valuation adjustment (cva)	59,092	60,451
Total risk exposure amount	**3,465,456**	**3,229,843**

Group issues which are included in Tier I or Tier II

31 Dec 2017 ISIN	Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
CET1					
QOXDB4409005	Participation certificate 2006	subordinated liabilities	perpetual	Average 3m Euribor + 130 bp	9,907
Tier II issues					
QOXDB9961364	Subordinated 08/18	subordinated liabilities	25 Aug 2018	3m Euribor + 25 bp, max. 6.00 % p.a.	5,000
QOXDBA032238	Subordinated 12/22	subordinated liabilities	01 Dec 2022	3.50 % p. a.	600
AT000B121967	Subordinated 17/27	subordinated liabili-ties	06 Oct 2027	2.75% p.a.; from 6 Oct 2023 5Y-Mid Swap + 255 bp p.a.	400,000
QOXDBA000383	Supplementary capital 12/22	subordinated liabilities	01 Dec 2022	12m Euribor + 62.5 bp, max. 7.00 % p.a., at least 4.00 % p.a.	4,000
AT0000A09SS0	Supplementary capital 06/18	subordinated liabilities	16 Jun 2018	3m Euribor + 50 bp, not negative	2,630
AT0000A05QZ7	Supplementary capital 07/19	subordinated liabilities	16 Jul 2019	Average 3m Euribor + 35 bp, not negative	792
	Promissory note bond	subordinated liabilities	20 Mar 2021	3m Euribor + 75 bp p.q.	4,000

31 Dec 2016 ISIN	Name	Identification IFRS	Redemption date	Conditions	Nominal value in euro thousand
CET1					
QOXDB4409005	Participation certificate 2006	subordinated liabilities	perpetual	Average 3m Euribor + 130 bp	9,907
Tier II Emission					
QOXDB4449050	Subordinated 02/17	subordinated liabilities	27 Feb 2017	12m Euribor + 50 bp, max. 6,00 % p.a.	4,938
QOXDB9961364	Subordinated 08/18	subordinated liabilities	25 Aug 2018	3m Euribor + 25 bp, max. 6,00 % p.a.	4,905
QOXDBA032238	Subordinated 12/22	subordinated liabilities	01 Dec 2022	3,50 % p.a.	600
QOXDBA000383	Supplementary capital 12/22	subordinated liabilities	01 Dec 2022	12m Euribor + 62,5 bp, max. 7,00 % p.a., at least 4 % p.a.	3,809
AT0000A09SS0	Supplementary capital 06/18	subordinated liabilities	16 Jun 2018	3m Euribor + 50 bp, not negative	2,630
AT0000A05QZ7	Supplementary capital 07/19	subordinated liabilities	16 Jul 2019	Average 3m Euribor + 35 bp, not negative	792

In accordance with IFRS reporting, the scope of consolidation differs from the scope of consolidation under CRR as the IFRS provides for the inclusion of other entities not belonging to the financial sector. According to CRR, companies in the financial sector that are under the control of the parent or where the Group helds a majority of shares either direct or indirect, are fully consolidated. The carrying amount of institutions, financial institutions and subsidiaries providing bank-ingrelated auxiliary services that are controlled by the parent but that are not significant for the presentation of the group of credit institutions according to section 19 (1) of CRR is deducted from own funds. Subsidiaries which are managed jointly with non-Group companies are proportionately consolidated. Investments in companies in the financial sector with a share of between 10 % and 50 % that are not jointly managed are also deducted from own funds unless they are voluntarily consolidated on a pro rata basis. Investments in companies in the financial sector of less than 10 % are deducted from own funds considering the eligibility according to section 46 CRR. All other participating interests are included in the assessment base at their carrying amounts.

All credit institutions under control or where the Group holds a majority of shares either direct or indirect are considered in the scope of consolidation according to CRR.

In 2017, no substantial, practical or legal obstacles existed which would have prevented the transfer of equity or the repayment of liabilities between the parent institution and institutions subordinated to the former.

37) Financial assets and liabilities

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

Euro thousand	Held for trading	Held to maturity	Available for sale	Amortised cost	Carrying amount – total	Fair value
31 Dec 2017						
Liquid funds	0	0	0	1,813,951	1,813,951	1,813,951
Loans and advances to credit institutions	0	0	0	1,703,912	1,703,912	
Loans to credit institutions less individual impairments	0	0	0	1,703,912	1,703,912	1,708,992
Loans and advances to customers	0	0	0	4,810,325	4,810,325	
Individual impairments to customers	0	0	0	-44,047	-44,047	
Loans to customers less individual impairments	0	0	0	4,766,278	4,766,278	4,688,398
Trading assets	69,167	0	0	0	69,167	69,167
Financial investments	0	316,104	1,526,889	0	1,842,992	1,842,025
Participations	0	0	43,222	0	43,222	43,222
Derivatives - investment book	98,575	0	0	0	98,575	98,575
Financial assets total	**167,742**	**316,104**	**1,570,110**	**8,284,141**	**10,338,097**	**10,264,330**
Amounts owed to credit institutions	0	0	0	2,743,551	2,743,551	2,743,616
Amounts owed to customers	0	0	0	5,791,374	5,791,374	5,799,307
Debts evidenced by certificates	0	0	0	487,507	487,507	511,392
Trading liabilities	82,010	0	0	0	82,010	82,010
Derivatives - investment book	378,484	0	0	0	378,484	378,484
Subordinated liabilities	0	0	0	425,778	425,778	424,151
Financial liabilities total	**460,493**	**0**	**0**	**9,448,210**	**9,908,704**	**9,938,959**

Euro thousand	Held for trading	Held to maturity	Available for sale	Amortised cost	Carrying amount – total	Fair value
31 Dec 2016						
Liquid funds	0	0	0	1,119,252	1,119,252	1,119,252
Loans and advances to credit institutions	0	0	0	2,196,042	2,196,042	
Loans to credit institutions less individual impairments	0	0	0	2,196,042	2,196,042	2,197,326
Loans and advances to customers	0	0	0	4,351,134	4,351,134	
Individual impairments to customers	0	0	0	-55,156	-55,156	
Loans to customers less individual impairments	0	0	0	4,295,978	4,295,978	4,208,101
Trading assets	137,550	0	0	0	137,550	137,550
Financial investments	0	261,339	1,594,123	0	1,855,462	1,854,283
Participations	0	0	15,781	0	15,781	15,781
Derivatives - investment book	103,352	0	0	0	103,352	103,352
Financial assets total	**240,903**	**261,339**	**1,609,904**	**7,611,272**	**9,723,418**	**9,635,646**
Amounts owed to credit institutions	0	0	0	3,338,048	3,338,048	3,332,836
Amounts owed to customers	0	0	0	4,691,373	4,691,373	4,684,806
Debts evidenced by certificates	0	0	0	725,217	725,217	733,260
Trading liabilities	413,543	0	0	0	413,543	413,543
Derivatives - investment book	167,949	0	0	0	167,949	167,949
Subordinated liabilities	0	0	0	28,881	28,881	26,727
Financial liabilities total	**581,491**	**0**	**0**	**8,783,520**	**9,365,011**	**9,359,121**

Financial investments contain securities classified as held to maturity with a carrying amount of euro 184,744 thousand (2016: euro 183,663 thousand), a total of euro 3,977 thousand (2016: euro 4,792 thousand) above their fair value, as there is no objective evidence of impairment.

Financial investments available for sale in the amount of euro 3,300 thousand (2016: euro 4,674 thousand) and participations in the amount of euro 60 thousand (2016: euro 11,267 thousand) are measured at cost as their fair value cannot be reliably determined. Instruments measured at cost with a carrying amount of euro 74 thousand (2016: euro 153 thousand) were sold in the 2017 business year. A result of euro 0 thousand (2016: euro 410 thousand) was realised. The fair value cannot reliably be determined as there is no active market for these securities and it is not possible to make a reasonable assessment of the probabilities of different fair value estimates. This mainly involves assets that were issued in the sector.

Some financial investments and liabilities are assigned to categories in which they are not carried at fair value through profit or loss. However, such financial instruments are underlying instruments for fair value hedges of interest rate and foreign exchange risk, meaning that these instruments are measured at fair value with respect to the hedged interest rate and foreign exchange risk.

Carrying amounts of underlyings of fair value hedges

Euro thousand	Interest rate risk Available for sale	Interest rate risk Amortised costs	Foreign currency risk Available for sale	Foreign currency risk Amortised costs
31 Dec 2017				
Loans and advances to customers	0	0	0	27,786
Financial investments	1,040,120	0	40,815	0
Financial assets	**1,040,120**	**0**	**40,815**	**27,786**
Amounts owed to credit institutions	0	0	0	0
Debts evidenced by certificates	0	385,986	0	0
Financial liabilities	**0**	**385,986**	**0**	**0**
31 Dec 2016				
Loans and advances to customers	0	0	0	78,217
Financial investments	1,171,773	0	44,456	0
Financial assets	**1,171,773**	**0**	**44,456**	**78,217**
Amounts owed to credit institutions	0	17,320	0	0
Debts evidenced by certificates	0	630,420	0	0
Financial liabilities	**0**	**647,740**	**0**	**0**

The table below shows all assets and liabilities which are measured at fair value according to their fair value hierarchy.

Euro thousand	Level 1	Level 2	Level 3	Total
31 Dec 2017				
Trading assets	8,320	60,847	0	69,167
Financial investments	1,460,779	32,329	30,481	1,523,589
available for sale	1,460,779	32,329	30,481	1,523,589
Participations	0	0	43,161	43,161
Derivatives - investment book	0	98,575	0	98,575
Total	**1,469,100**	**191,751**	**73,642**	**1,734,493**
Trading liabilities	0	82,010	0	82,010
Derivatives - investment book	0	378,484	0	378,484
Total	**0**	**460,493**	**0**	**460,493**
31 Dec 2016				
Trading assets	11,766	125,784	0	137,550
Financial investments	1,498,969	61,096	29,384	1,589,449
available for sale	1,498,969	61,096	29,384	1,589,449
Participations	0	0	4,514	4,514
Derivatives - investment book	0	103,352	0	103,352
Total	**1,510,735**	**290,233**	**33,898**	**1,834,866**
Trading liabilities	0	413,543	0	413,543
Derivatives - investment book	0	167,949	0	167,949
Total	**0**	**581,491**	**0**	**581,491**

Available for sale financial investments totalling euro 3,300 thousand (2016: euro 4,674 thousand) and participations totalling euro 60 thousand (2016: euro 11,267 thousand) are measured at amortised cost because their fair value cannot be reliably determined.

Please refer to note 3) r) Participations for a description of the valuation procedures used for participations.

When determining market values for level 2 financial investments, VBW only uses prices based on observable market data. If systems deliver price information for inactive traded positions, this is checked based on secondary market data such as transactions in comparable products performed on active markets. The system prices are then adjusted accordingly if necessary. The main level 2 input factors are interest rates including associated interest rate volatilities, foreign exchange swap points, exchange rates, share prices, index rates, including related volatilities and credit spreads obtained from brokers on a daily basis. Market valuation adjustments are made through linear interpolations of the directly obtained broker data. The input factors used undergo daily quality assurance and are archived in the valuation system.

In 2017, financial instruments with a carrying amount of euro 6,071 thousand (2016: euro 2,278 thousand), which were still measured at Level 2 market value as at 31 December 2016, were reclassified as Level 1 financial instruments due to an increase in trading activity. In 2017 as well as 2016 no reclassifications from Level 1 into Level 2 were made.

Development of Level 3 fair values of financial assets

Euro thousand	Participations	Available for sale	Total
As at 1 Jan 2016	5,528	27,101	32,629
Changes in the scope of consolidation	0	0	0
Additions	4,038	2,180	6,217
Valuation			
through profit and loss	0	96	96
through other comprehensive income	-1,014	6	-1,008
As at 31 Dec 2016	8,552	29,384	37,935
Changes in the scope of consolidation	1,614	113	1,726
Additions	7,929	852	8,781
Valuation			
through profit and loss	-669	0	-669
through other comprehensive income	25,736	133	25,868
As at 31 Dec 2017	**43,161**	**30,481**	**73,642**

The valuations shown in the table above are included in the item income from financial investments (income statement) or available for sale reserve (other comprehensive íncome). The valuations recorded in the income statement include holdings of financial assets to the amount of euro -669 thousand (2016: euro 96 thousand) at the reporting date.

The portfolio of assets available for sale that are allocated to Level 3 of the fair value hierarchy as at 31 December 2017 comprises participation certificates with a carrying amount of euro 30,481 thousand (2016: euro 29,384 thousand). They are not traded on any active market and only allow for alternative measurement by means of unobservable input parameters.

Measurement is effected using the Hull-White one factor model within the scope of a Monte Carlo simulation, with the model being calibrated to the current environment of market data (interest rate and volatility) on a daily basis. The interest to be paid on these shares in the future is calculated by means of a variable coupon, consisting of the 3-month EURIBOR as base rate and a markup that constitutes an unobservable input. Other unobservable input factors included in the valuation are the duration and the expected redemption rate of the participation certificates.

End of December 2019 is assumed as the estimated final maturity. The extended redemption period results from the Managing Board's assessment that a redemption by the Volksbanks of the participation capital held by VB Regio as an asset is subject to approval by the ECB. Only after such approval will VB Regio be able to redeem its own participation certificates. Moreover, a valuation report is required for the redemption of participation certificates in each case. The Volksbanks have announced that they are going to attempt negotiations with the banking supervision authority regarding redemption in the coming year. Equally, the redemption of the participation certificates of the Volksbanks will also have effects on the reorganisation agreement, which need to be considered as well.

Based on the liquidity base of the issuer, a redemption rate of 100 is assumed. This assumption is supported by the asset impairment test performed. Discounting of cash flows is effected using a 3-month EURIBOR base rate plus markup reflecting the cost of capital.

The valuation of these financial instruments was performed by the treasury function of VBW. Determination of fair value according to the procedure described is effected daily. Within the scope of the sensitivity analysis, the input factors used during evaluation of the participation certificates are adjusted in order to reflect reasonable possible alternatives in the opinion of the management of VBW.

The following table shows the changes of the fair value after adjustment of these input factors:

31 Dec 2017

Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-1,375
Change in markup +/- 100 bp	621	-607
Change in redemption - 5 %	0	-1,485

31 Dec 2016

Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity +/- 1 year	1,752	-1,668
Change in markup +/- 100 bp	466	-459
Change in redemption - 5 %	0	-1,455

The uncertainty regarding the time of redemption is calculated with a parameter changes of + 1 year, resulting in a negative effect of euro 1,375 thousand (2016: euro 1,668 thousand) in case of a maturity extension. This adjustment is considered a reasonable possible alternative by the management of VBW, as maturity changes may arise due to the approval process of the collection of securities by the banking supervision authority on the one hand and actual settlement on the other hand. A maturity reduction of - 1 year is unrealistic due to the short maturity.

A range of +/- 100 bp is considered a reasonable possible alternative to the amount of the markup on the base rate. In case of an increase of the markup, the fair value would reduce by euro 607 thousand (2016: euro 459 thousand), and a reduction of the markup on the base rate would result in an increase of the fair value by euro 621 thousand (2016: euro 466 thousand).

Based on the available corporate planning of the issuer, a redemption value of 100 per cent was assumed during measurement of the participation certificates, considering a reasonable possible alternative for the same to deviate by not more than 5 %. In case of a reduction of the redemption amount by 5 %, the fair value would reduce by euro 1,485 thousand (2016: euro 1,455 thousand). Repayment above the nominal value is not intended, meaning that any excess liquidity of the issuer cannot result in any price increase of the participation certificates.

The underlying measurement procedures for determining the fair value are based on several input factors or parameters that may also show mutual interdependencies between unobservable parameters. Such mutual interdependencies were not considered in quantitative terms in the above-mentioned sensitivity analysis. The development of the markup on the risk-free interest rate curve for discounting the cash flows associated with the change of the estimated liquidation of the company constitutes one such essential interdependant relationship.

The development of sensitivity analyses for the fair values of participations is described in note 20) Participations.

The development of sensitivity analyses for the fair values of investment property (IAS 40) is described in note 18) Investment property.

For financial instruments not measured at fair value, the fair value is only calculated for disclosure purposes in the notes and has no influence on the consolidated statement of financial position or the consolidated statement of comprehensive income.

The following table assigns all financial assets and liabilities not measured at fair value to various fair value hierarchies.

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2017					
Liquid Funds	0	1,813,951	0	1,813,951	1,813,951
Loans and advances to credit institutions (gross)	0	0	0	0	1,703,912
Loans to credit institutions less individual impairments	0	0	1,708,992	1,708,992	1,703,912
Loans and advances to customers (gross)	0	0	0	0	4,810,325
Individual impairment to customers	0	0	0	0	-44,047
Loans to customers less individual impairments	0	0	4,688,398	4,688,398	4,766,278
Debt investments held to maturity	315,137	0	0	315,137	316,104
Financial investments	315,137	0	0	315,137	316,104
Financial assets total	**315,137**	**1,813,951**	**6,397,390**	**8,526,477**	**8,600,244**
Amounts owed to credit institutions	0	0	2,743,616	2,743,616	2,743,551
Amounts owed to customers	0	0	5,799,307	5,799,307	5,791,374
Debts evidenced by certificates	0	0	511,392	511,392	487,507
Subordinated liabilities	0	0	424,151	424,151	425,778
Financial liabilities total	**0**	**0**	**9,478,465**	**9,478,465**	**9,448,210**

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2016					
Liquid Funds	0	1,119,252	0	1,119,252	1,119,252
Loans and advances to credit institutions (gross)	0	0	0	0	2,196,042
Loans to credit institutions less individual impairments	0	0	2,197,326	2,197,326	2,196,042
Loans and advances to customers (gross)	0	0	0	0	4,351,134
Individual impairment to customers	0	0	0	0	-55,156
Loans to customers less individual impairments	0	0	4,208,101	4,208,101	4,295,978
Debt investments held to maturity	260,160	0	0	260,160	261,339
Financial investments	260,160	0	0	260,160	261,339
Financial assets total	**260,160**	**1,119,252**	**6,405,426**	**7,784,839**	**7,872,611**
Amounts owed to credit institutions	0	0	3,332,836	3,332,836	3,338,048
Amounts owed to customers	0	0	4,684,806	4,684,806	4,691,373
Debts evidenced by certificates	0	0	733,260	733,260	725,217
Subordinated liabilities	0	0	26,727	26,727	28,881
Financial liabilities total	**0**	**0**	**8,777,629**	**8,777,629**	**8,783,520**

For financial instruments that are largely short-term in nature, the carrying amount is an adequate estimate of fair value.

For long-term financial instruments, fair value is calculated by discounting contractual cash flows. In the case of assets, interest rates are used that could have been obtained for assets with similar residual durations and default risks (especially estimated defaults for lending receivables). For liabilities, the interest rates used are those with which corresponding liabilities with similar residual durations could have been assumed or issued as at the reporting date.

Fair value hierarchy

Financial instruments recognised at fair value are assigned to the three IFRS fair value hierarchy categories.

Level 1 – Financial instruments measured at quoted prices in active markets, whose fair value can be derived directly from prices on active, liquid markets and where the financial instrument observed on the market is representative of the financial instrument owned by the Group that requires measurement.

Level 2 – Financial instruments measured using procedures based on observable market data, whose fair value can be determined using similar financial instruments traded on active markets or using procedures whose inputs are observable.

Level 3 – Financial instruments measured using procedures based on unobservable parameters, whose fair value cannot be determined using data observable on the market. Financial instruments in this category have a value component that is not observable and which has a significant influence on fair value.

38) Derivatives

Derivative financial instruments

2017 Euro thousand	Face value up to 1 year	1 to 5 years	more than 5 years	Total	Fair value 31 Dec 2017
Interest related transactions	338,493	2,134,963	2,726,101	5,199,558	-229,871
Caps & Floors	41,354	501,434	332,948	875,737	-613
Futures - interest related	4,800	35,000	0	39,800	0
Interest rate swaps	292,339	1,598,529	2,393,152	4,284,021	-229,258
Currency related transactions	634,800	786,290	292,087	1,713,176	-70,882
Cross currency swaps	42,728	786,161	292,087	1,120,975	-70,882
FX Swaps	588,011	0	0	588,011	0
Forward exchange transactions	4,061	129	0	4,190	0
Other transactions	17,812	14,626	306,686	339,124	-318
Options	17,812	14,626	306,686	339,124	-318
Total	**991,105**	**2,935,879**	**3,324,874**	**7,251,857**	**-301,072**

2016 Euro thousand	Face value up to 1 year	1 to 5 years	more than 5 years	Total	Fair value 31 Dec 2017
Interest related transactions	991,520	2,624,021	3,278,787	6,894,328	-244,002
Caps & Floors	91,679	553,261	390,528	1,035,467	-615
Futures - interest related	524,000	427,000	0	951,000	0
Interest rate swaps	375,841	1,643,760	2,888,259	4,907,861	-243,387
Currency related transactions	1,339,113	1,062,646	266,704	2,668,463	-122,030
Cross currency swaps	530,787	1,055,474	266,704	1,852,965	-122,030
FX Swaps	777,195	5,754	0	782,948	0
Forward exchange transactions	31,132	1,418	0	32,550	0
Other transactions	19,315	16,143	384,765	420,223	1,282
Options	19,315	16,143	384,765	420,223	1,282
Total	**2,349,949**	**3,702,810**	**3,930,255**	**9,983,014**	**-364,750**

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

39) Assets and liabilities denominated in foreign currencies

On the balance sheet date, assets denominated in foreign currencies totalled euro 864,982 thousand (2016: euro 1,211,999 thousand), whereas liabilities denominated in foreign currencies stood at euro 155,406 thousand (2016: euro 200,344 thousand).

40) Trust transactions

Euro thousand	31 Dec 2017	31 Dec 2016
Assets from trust transactions		
Loans and advances to credit institutions	46,400	36,800
Loans and advances to customers	103,308	113,140
Liabilities arising from trust transactions		
Amounts owed to credit institutions	46,400	36,800
Amounts owed to customers	103,308	113,140

41) Subordinated assets

Euro thousand	31 Dec 2017	31 Dec 2016
Financial investments	5,208	4,138

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

Euro thousand	31 Dec 2017	31 Dec 2016
Assets pledged as collateral		
Loans and advances to customers	329,298	282,652
Financial investments	0	17,500
Liabilities for which assets have been pledged as collateral		
Amounts owed to credit institutions	312,075	285,152
Amounts owed to customers	17,223	15,000

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans and advances to customers in the amount of euro 79 million (2016: euro 70 million) have been provided as collateral. These loans and advances are guaranteed by means of Austrian government default guarantees, private insurance policies and draft guarantees. OeKB may not repledge or sell these loans and advances to customers if the Group performs in accordance with the contract.

Loans and advances to customers of euro 233 million were provided as collateral for OeNB refinancing of VBW in the 2017 business year (2016: euro 212 million).

Within the scope of gilt-edged savings deposits, financial investments in the amount of euro 17 million (2016: euro 15 million) are held as securities.

The remaining loans and advances to customers and financial investments have been provided as collateral in the context of funding provided by KfW Bankengruppe. This is subject to the same terms as for OeKB.

43) Contingent liabilities and credit risks

Euro thousand	31 Dec 2017	31 Dec 2016
Contingent liabilities		
Liabilities arising from guarantees	340,016	389,321
Guaranteed letter of credit	1,382	0
Others (amount guaranteed)	25,066	23,883
Commitments		
Unutilised loan commitments	4,375,600	4,283,838

The table below presents future cash flows of contingent liabilities classified according to their contractual maturity, concerning guarantees also according to their expected maturity.

Euro thousand	Loan commitments	Guarantees as contracted	Guarantees expected
31 Dec 2017			
Carrying amount	4,375,600	340,016	0
Undiscounted cash flows	**4,375,600**	**340,016**	**2,504**
up to 3 months	4,375,600	340,016	250
up to 1 year	0	0	1,002
up to 5 years	0	0	1,252
31 Dec 2016			
Carrying amount	4,283,838	389,321	0
Undiscounted cash flows	**4,283,838**	**389,321**	**4,081**
up to 3 months	4,283,838	389,321	408
up to 1 year	0	0	1,632
up to 5 years	0	0	2,040

As for credit risks, the first possible time of utilisation was used for the presentation of the contractual term. Contracted guarantees are reported when the utilisation is first possible, while column guarantees expected shows management estimates of the expected utilisation over the period.

If the management estimates a cash out flow for financial guarantees, a provision was built for off-balance risks to the amount of the probable cash out flow under consideration of possible available collaterals. Therefore the provision amounts to euro 2,504 thousand (2016: euro 4,081 thousand).

44) Repurchase transactions and other transferred assets

As at 31 December 2017, VBW as pledgor had buy-back commitments under genuine repurchase agreements to euro 101,571 thousand (2016: euro 103,210 thousand).

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

45) Related party disclosures

Euro thousand	Unconsolidated affiliates	Companies in which the Group has a participating interest	Associated companies	Companies which exercise a significant influence on the parent as shareholders
31 Dec 2017				
Loans and advances to credit institutions	0	0	18,020	0
Loans and advances to customers	284	2,916	16,169	0
Risk provisions (-)	0	-102	-49	0
Debt securities	0	0	0	759,712
Amounts owed to credit institutions	0	0	181,967	0
Amounts owed to customers	4,832	321	100,044	0
Provisions	0	11	10	0
Transactions	3,177	35,327	312,931	0
31 Dec 2016				
Loans and advances to credit institutions	0	0	72	0
Loans and advances to customers	169	44,001	4,529	0
Risk provisions (-)	0	-75	-24	0
Debt securities	0	0	202	833,288
Amounts owed to credit institutions	0	0	199,971	0
Amounts owed to customers	1,930	4,284	85,448	0
Provisions	0	10	53	0
Transactions	2,636	105,752	627,027	0

Total related party transactions are measured as the average receivables and liabilities from/to credit institutions and customers. The calculation is based on the figures at the quarterly reporting dates during the period under review, which are summed together irrespective of whether plus or minus figures.

Transfer prices between the VBW Group and its associated companies are geared to usual market conditions. As in previous year, VBW Group does not have any other liabilities for unconsolidated affiliates or associated companies on balance sheet date.

The shareholder Republic of Austria exercises a significant influence on the VBW Group.

Loans and advances granted to the key management personnel during the business year

Euro thousand	31 Dec 2017	31 Dec 2016
Outstanding loans and advances	8	310
Redemptions	65	31
Interest payments	0	0

At the VBW Group, the Management Board members as well as members of the supervisory board of the parent company are classified as management members in key positions. The presentation of the remuneration of key personel is included in note 8) General administrative expenses. No further contracts were closed with members in key positions.

As at 31 December 2017 loans and advances to credit institutions/customers contained transactions with the Volksbank-Sector amounting to euro 1,261,907 thousand (2016: euro 1,672,169 thousand) and amounts owed to credit institutions/customers included transactions with the Volksbank-Sector amounting to euro 2,388,510 thousand (2016: euro 3,010,615 thousand).

46) Disclosures on mortgage banking in accordance with the Austrian Mortgage Bank Act, including covered bonds

Euro thousand	Covering loans	Coverage requirements debts evidenced by certificates	Surplus cover
31 Dec 2017			
Covered bonds	2,021,282	1,280,304	740,978
Total	**2,021,282**	**1,280,304**	**740,978**
31 Dec 2016			
Covered bonds	2,165,745	1,407,600	758,145
Total	**2,165,745**	**1,407,600**	**758,145**

The required coverage for debts evidenced by certificates includes surplus cover of 2 % calculated based on the face value of all all outstanding covered bonds.

47) Branches

	31 Dec 2017	31 Dec 2016
Domestic	78	78
Foreign	0	0
Total number of branches	**78**	**78**

48) Events after the balance sheet date

On 19 February 2018, the international rating agency Fitch upgraded the long-term issuer default rating of the Association of Volksbanks from BBB- to BBB.

The intention is for the banking operations of Waldviertler Volksbank Horn reg.Gen.m.b.H. to be contributed to VBW. Provided the competent bodies agree, the contribution is meant to be completed in the first half of 2018.

49) Segment reporting

The VBW Group now has two business segments retail and CO which correspond to strategic business fields. These segments fulfil a variety of tasks and are controlled in varying ways in accordance with the internal management and reporting structure. In this process, a business unit is organised as a profit centre, which means that all results are allocated to the business unit, irrespective of whether these results are generated in the business unit itself or by the parent company.

A report is submitted to the Managment Board and management for each business segment. These reports are based on VBWs' and the subsidiaries' separate financial statements. Intrest results of the profit centre are calculated on the principles of the market interest method. Transfer prices for assessments and refinancing between entities within the Group are in line with standard market conditions. Expenses are divided between business segments based on the proportional service performance. The cost of Group projects is also allocated to business segments.

Retail

The retail segment comprises the standard banking services provided to private customers, SMEs and commercial clients in terms of investment and financing, advisory and investment services for securities, payment services, brokerage of insurance products, and foreign exchange business.

Services are typically performed through the branches as well as through internet and direct sales. Accordingly, this segment includes the results for the branches and the commercial clients profit centre.

CO

The CO segment comprises the top institution activities as well as the CO duties for the entire Austrian Association of Volksbanks. Treasury is primarily responsible for obtaining liquidity on the money and capital markets and for balancing liquidity within the Association of Volksbanks. Liquidity management in connection with regulatory requirements through management of the investment book in the areas of liquidity and interest rate risk is another key component of VBW's tasks as top institution and CO.

The syndicate financing division including large-scale house-building is another profit centre. VBW provides its services as a syndicate partner for large loan commitments held by commercial clients of the Volksbanks. The results of VB Services für Banken GmbH, which provides services to the Volksbanks for payment processing and settling securities transactions, are also included here.

Finally, all other activities are reported which are undertaken in managing the Association of Volksbanks and which VBW performs as CO in accordance with the CRR and Austrian Banking Act.

Consolidation

Consolidation matters are reported separately from other activities in the Consolidation column. These items contain amounts arising from consolidation processes that are not performed within a segment.

Segment reporting by business segments

1-12/2017 Euro thousand	Retail	ZO	Consolidation	Total
Net interest income	98,035	32,362	-3,171	127,226
Risk provisions	410	2,020	0	2,430
Net fee and comission income	58,904	-5,434	307	53,778
Net trading income	283	5,314	0	5,597
General administrative expenses	-121,517	-119,297	35,938	-204,876
Restructuring cost	321	955	0	1,276
Other operating result	8,775	89,505	-33,075	65,206
Of which impairment of goodwill	*-8,262*	*0*	*0*	*-8,262*
Income from financial investments	-505	-6,946	-7	-7,458
Income from companies measured at equity	-180	6,358	0	6,177
Annual result before taxes	**44,525**	**4,838**	**-7**	**49,356**
Income taxes	-2,328	6,952	2	4,626
Annual result after taxes	**42,197**	**11,790**	**-5**	**53,982**
31 Dec 2017				
Total assets	**5,952,603**	**6,008,002**	**-1,344,123**	**10,616,482**
Loans and advances to customers	4,465,571	399,318	-54,564	4,810,325
Companies measured at equity	21,992	8,761	0	30,753
Amounts owed to customers	5,234,090	623,209	-65,926	5,791,374
Debts evidenced by certificates, including subordinated liabilities	126,065	787,220	0	913,285

1-12/2016 Euro thousand	Retail	ZO	Consolidation	Total
Net interest income	73,116	31,251	-4,687	99,681
Risk provisions	-23,531	9,886	0	-13,645
Net fee and comission income	42,822	-2,203	501	41,120
Net trading income	463	4,570	-137	4,896
General administrative expenses	-98,341	-109,223	33,169	-174,394
Restructuring cost	-3,994	7,054	0	3,060
Other operating result	-2,507	72,003	-30,500	38,997
Of which impairment of goodwill	*-5,510*	*0*	*0*	*-5,510*
Income from financial investments	702	1,038	0	1,740
Income from companies measured at equity	7,420	2,831	0	10,252
Annual result before taxes	**-3,850**	**17,208**	**-1,653**	**11,705**
Income taxes	2,076	11,242	0	13,319
Annual result after taxes	**-1,774**	**28,450**	**-1,653**	**25,024**
31 Dec 2016				
Total assets	**4,713,257**	**6,189,832**	**-895,397**	**10,007,692**
Loans and advances to customers	3,872,835	534,538	-56,239	4,351,134
Companies measured at equity	20,720	1,325	0	22,046
Amounts owed to customers	4,044,482	703,969	-57,078	4,691,373
Debts evidenced by certificates, including subordinated liabilities	25,250	728,849	0	754,099

50) Risk report

The assumption and professional management of the risks associated with the business activities is a core function of any bank. In its capacity as CO of the association of credit institutions under section 30a BWG of VBW and the primary banks of the Volksbank-Sector, Volksbank Wien (VBW) has the central task to ensure that the association of credit institutions has in place administrative, accounting and control procedures for the recognition, assessment, management and monitoring of the risks associated with banking transactions and banking operations as well as of the remuneration strategy and practices (section 39 (2) BWG). The focus of control, and accordingly reporting, is on the Association including VBW as part of the Association. Implementation of control within the Association is effected by means of General Instructions.

The following risks are classified as material within the Association of Volksbanks:

- Credit risks
- Market risks
- Liquidity risks
- Operational risks
- Other significant risks (e.g. investment risk, strategic risk, reputational risk, equity risk, and business risk)

Current developments

In 2017, the Association of Volksbanks was again submitted to the Supervisory Review and Evaluation Process (SREP) within the scope of the Single Supervisory Mechanism of the ECB. Apart from the regular audit areas, this year's SREP also considered the stress test performed in 2016 and supplemented by the ECB's IRRBB sensitivity analysis.

By resolution of the ECB dated 19 December 2017, the VBW as the central organisation of the Association of Volksbanks was notified of the result of the SREP. As in the previous years, the additional capital ratios imposed by the ECB are met for 2018.

The CET 1 demand amounting to 10.925 % for 2018, as determined for the Association of Volksbanks, consists of the following: Pillar 1 CET requirement of 4.5 %, Pillar 2 requirement of 2.5 %, capital conservation buffer of 1.875 %, system risk buffer 0.25 % and Pillar 2 capital recommendation of 1.8 %. The total capital requirement for 2018 amounts to 12.625 % (Pillar 1 requirement of 8.0 %, Pillar 2 requirement of 2.5 %, capital conservation buffer of 1.875 %, system risk buffer 0.25 %). These requirements do not apply to the VBW Group.

Risk policy principles

The risk policy principles of VBW comprise the standards for the management of risks that are applicable within the Association of Volksbanks and are defined by the CO Managing Board together with the risk appetite. A common understanding of risk management across the Association is the basis for developing risk awareness and a risk culture within the company. The Association of Volksbanks carries on its activities subject to the principle that risks will only be accepted to the extent this is required to achieve strategic business goals. The associated risks will be managed overall subject to risk management principles by creating an appropriate organisational structure and corresponding business processes.

Organisation of risk management

VBW has taken all the required organisational precautions to comply with the requirements of modern risk management. There is a clear separation between trading and back office. A central and independent risk controlling function is in place. At Managing Board level, the Risk Controlling function is headed by the Chief Risk Officer (CRO). Within the

CRO's responsibility on the Managing Board there is a separation of risk controlling and operational risk management. Risk assessment, risk measurement and risk control are carried out according to the dual control principle. For the purpose of avoiding conflicts of interest, these tasks are performed by different organisational units.

The diversity of the business model requires risks to be identified, assessed, measured, aggregated and controlled effectively. Risks and capital are managed by means of a framework of principles, organisational structures as well as measuring and monitoring processes that are closely aligned with the activities of the departments and divisions. As a prerequisite of solid risk management, the Risk Appetite Framework (RAF) is developed on an ongoing basis by the Association of Volksbanks also within the VBW group, in order to define risk appetite and/or the level of risk tolerance that the group is prepared to accept to achieve its defined goals.

Regulatory requirements

Within VBW, the regulations regarding capital resources are implemented as follows:

Pillar 1: Minimum capital requirements

The implementation of Pillar 1 at VBW as the CO of the Association is aimed at meeting minimum regulatory requirements. With respect to both credit risk and market risk, and for operational risk, the respective regulatory standard approaches for determining the minimum capital requirements apply.

Pillar 2: Internal capital adequacy assessment

The regulatory control and minimum requirements of Pillar 2 are implemented within the scope of the Internal Capital Adequacy Assessment Process (ICAAP) and within the scope of the Internal Liquidity Adequacy Assessment Process (ILAAP). In this context, VBW implements all measures required to ensure sufficient capitalisation and liquidity, at all times, for current business activities and also for those planned in future, as well as the associated risks.

Pillar 3: Disclosure

The requirements of Pillar 3 are met by publishing the qualitative and quantitative disclosure regulations acc. to the FMA ordinance on implementation of the BWG regarding disclosure obligations of credit institutions (EU Regulation no. 575 / 2013 Part VIII Disclosure) on the bank's own website under Volksbank Wien / Offenlegung Volksbank Wien AG.

Risk management across the Association

The Risk Controlling function prepares the governance rules, methods and models for strategic risk management issues across the group, as well as the regulations for control at portfolio level. For the purpose of performing its steering function, the CO has issued General Instructions for the credit institutions included in the Association of Volksbanks. The General Instruction ICAAP & the GI ILAAP as well as the downstream manuals govern the risk management function in a binding and uniform manner across the entire Association. The objective of the GI ICAAP & GI ILAAP is to comprehensively and verifiably document and stipulate general conditions and principles, consistently throughout the Association, for the assessment and management of risks, and for the organisation of processes and organisational structures. Within the scope of their general duty of care, the members of the Managing Board and the managing directors of all members of the Association must ensure, without exception and restriction, in the interest of the respective companies, that the General Instructions are put into effect formally and de facto. Any deviations and special regulations concerning the General Instructions shall only be permissible in exceptional cases and must be coordinated with VBW as the CO in advance.

a) Internal capital adequacy process – ICAAP and stress testing

To ensure a sustainable, risk-adequate capital base, VBW has set up an internal capital adequacy assessment process (ICAAP) as a revolving control cycle, in line with international best practice. The ICAAP starts by identifying the key risks of VBW, undergoes a risk quantification and aggregation process, determination of risk-bearing capacity, and limitation, and concludes with ongoing risk monitoring and the measures derived therefrom. Explanations regarding the ILAAP are presented in item d) Liquidity risk.

The individual elements of the cycle are performed at varying intervals (e.g. daily for market risk / trading book risk measurement, quarterly for preparing the risk-bearing capacity statement, annually for risk inventory and determination of the risk strategy). All the activities described within the cycle are reviewed for up-to-dateness and adequacy at least annually, adjusted to the respective current general conditions if necessary, and approved by the Managing Board of the CO.

Risk inventory

The risk inventory process serves the purpose of determining the hazard potential of newly accepted significant risks and of measuring existing significant risks. The results of risk inventory are summarised and analysed for the group. The results of the risk inventory process are used to inform the risk strategy and form a starting point for the risk-bearing capacity statement, as significant types of risk must be taken into account within the risk-bearing capacity statement.

Risk strategy

The risk strategy of VBW is based on the risk and business strategy of the Association and provides for consistent general conditions and principles for uniform risk management. The risk strategy is reviewed for up-to-dateness and adequacy at least annually and adjusted to the respective current general conditions. It provides the rules for the handling of risks and ensures risk-bearing capacity within the group at all times.

Risk Appetite Statement (RAS) and limit system

A Risk Appetite Statement (RAS) aligned with the business strategy and an integrated limit system constitute the core elements of the risk strategy. The RAS set of indicators comprising strategic and other (operational) indicators helps the Managing Board to implement central strategic goals of VBW, making them operational.

The risk appetite, i.e. the indicators of the RAS, are derived from the risk profile, the risk-bearing capacity and the income expectations and/or from strategic planning. The limit system broken down by risk subtypes and the RAS provide the framework for the maximum risk that VBW is ready to accept to achieve its strategic targets. The RAS indicators are provided with a target, a trigger and a limit value and are monitored on an ongoing basis, as are the aggregate bank and partial risk limits. In this way, it can be ensured that deviations from the risk strategy are identified swiftly and that counter-measures can be initiated in a timely manner.

Risk-bearing capacity statement

The risk-bearing capacity statement forms the basis of the quantitative implementation of the ICAAP. It is used to provide evidence of the fact that the risks assumed are sufficiently covered by adequate risk covering potentials at all times and to ensure such cover also in future. For this purpose, all relevant individual risks are aggregated. This aggregate risk is then opposed to the available pre-defined risk covering potentials. Observation of the limits is monitored and reported on quarterly.

In determining risk-bearing capacity, different objectives are pursued that are reflected in three perspectives:

- Regulatory perspective (compliance with regulatory own funds ratios)
- Economic going-concern perspective
- Economic liquidation perspective (gone-concern perspective)

The regulatory Pillar 1 perspective compares the sum of all risks to be covered by capital under regulatory provisions, according to the methods provided for, with defined risk covering potentials (based on regulatory definitions). Ensuring regulatory risk-bearing capacity is a minimum requirement provided for under the law. The composition of the regulatory aggregate risk position of VBW corresponds to that of any typical retail bank. In the process, risk positions of credit, market and operational risk as well as the CVA Charge are taken into account.

Under the going-concern perspective, the continued existence of orderly business operations is meant to be ensured. Smaller risks that may occur with a certain probability should be absorbed without jeopardising current operations. Hidden reserves, the annual surplus/deficit achieved in the current financial year, the target profit/loss for the coming 12 months, as well as the capital that exceeds the CET 1 capital ratio of 8.25 % defined in the 2017 risk strategy are essentially recognised as risk coverage potential. During risk quantification, a confidence level of 95 % and a holding period of one year are applied. The aggregate bank risk limit is defined at 85 % of the available risk coverage potential under the economic going-concern perspective.

The economic liquidation perspective puts a focus on securing creditors' claims in case of liquidation. Under that perspective, the risk coverage potential is defined on the basis of internal capital. The latter is based on the regulatory definition, but comprises additional components, such as hidden liabilities/reserves. Also during determination of the aggregate risk position, internal procedures – normally VaR – are used. In doing so, not only the risks to be covered by own funds under regulatory provisions are considered, but all quantifiable risks identified as significant within the scope of risk inventory are included in the consideration. During quantification of risk under a liquidation perspective, a 99.9% confidence level, with a holding period of one year, is applied. The aggregate bank risk limit is defined at 85% of the available risk covering potential under the economic liquidation perspective.

Stress testing

Credit, market and liquidity risks regularly undergo risk type-specific stress tests, with crisis scenarios being conceived in such a way that the occurrence of events that are highly unlikely, but not impossible is simulated. By way of this approach, huge losses – among others – can be identified and analysed.

Apart from these risk type-specific stress tests and sensitivity analyses, internal stress tests and regulatory stress tests across the various types of risk are also carried out on a regular basis. Internal aggregate bank risk stress testing (performed semi-annually) consists of scenario analyses, sensitivity analyses and the reverse stress test. In the scenario analyses, economic crisis scenarios are defined and the changed risk parameters for the individual risk categories and areas of business derived therefrom. Apart from the risk side, the effects of crisis scenarios on risk covering potentials are also determined. Finally, in a stressed risk-bearing capacity analysis, the various effects of the crisis scenarios on risk-bearing capacity are summarised and analysed. Recommended actions are defined on the basis of the findings of the aggregate bank stress tests and the relevant measures are implemented. For instance, the reporting framework is extended by new aspects, additional limits are defined, special or high-risk industries are monitored more closely and planning requirements are derived for strategic risk indicators.

Risk reporting

The reporting framework implemented at VBW aims to ensure that all material risks are fully identified, monitored, and controlled efficiently and promptly. The reporting framework offers a holistic and detailed presentation of the risks and a specific analysis of the individual types of risk.

The monthly aggregate bank risk report serves as the core element of the reporting framework. The aggregate bank risk report provides a summary of the situation and the development of the RAS indicators, the utilisation of risk-bearing capacity, addressing all material risks and containing comprehensive qualitative and quantitative information, among others. The aggregate bank risk report provides the Managing Board with management-related information on a monthly basis and is submitted to the Supervisory Board of VBW quarterly.

Various risk-specific reports (e.g. analyses within credit risk about the development of individual sub-portfolios) supplementing the aggregate bank risk report serve to complement the reporting framework.

Restructuring and liquidation planning

As VBW belongs to the Association of Volksbanks, which was classified as a system-relevant credit institution, VBW has worked out a restructuring plan and submitted the same to the relevant regulatory authorities (e.g. ECB). This restructuring plan will be updated at least once a year and takes into account both changes of the bank's business activities and changes with respect to regulatory requirements.

b) Credit risk

Credit risk refers to potential losses that occur because a contract partner fails to meet its payment obligations.

Credit risk management organisation

At VBW, the tasks associated with credit risk are carried out by the operational Credit Risk Management units and certain subunits of the Risk Controlling function. The units Credit Risk Management Branches, Credit Risk Management Real Estate & Corporates, Restructuring Management & Collection are responsible for the operational credit risk functions. Risk Controlling is responsible for risk assessment, measurement and control, as well as for credit risk reporting.

Operational credit risk management

Lending principles

- Credit transactions absolutely require the conclusion of loan agreements with borrower-related limits. The definition and monitoring of the limits is regulated consistently at the level of the Association.
- The rating obligation applies to all exposures above the defined minimum amount. The rating process is based on the dual-control principle and is applicable across the Association.
- In selecting collateral securities, attention is paid to the cost-benefit ratio, and accordingly recoverable collateral securities that cause little administrative effort and are not very cost-intensive as well as actually realisable collateral securities will preferably be resorted to. For this reason, physical collateral, such as real estate collateral, and financial collateral, such as cash collateral or collateral in the form of securities, is given priority. The recoverability and enforceability of collateral securities must be assessed prior to each credit decision as a matter of principle. The principles for the management of collateral and/or uniform rules for the selection, provision, administration and valuation of collateral securities are applicable at the level of the Association.
- Foreign currency and repayment vehicle loans are no longer offered or granted as a matter of principle.

- The core market for credit business is the Austrian market. Lending activities to customers in the defined target countries of Germany, Switzerland, Liechtenstein and Slovenia may only take place within the locally allocated limits.

Decision-making process

In all units of VBW that generate credit risk, there is a strict separation of sales and risk management functions. All decisions in individual instances are taken strictly observing the dual-control principle. For transactions involving large volumes, processes have been established that ensure the involvement of the operational risk management function and the Managing Board in the risk analysis and/or loan decision. Limit systems play an important role in this context, as they provide a framework for the decision-making powers of the individual units.

Monitoring of exposure and collateral

The processes for monitoring exposure and collateral are governed by rules applicable across the Association and must be complied with by all assigned credit institutions.

Limits

The monitoring, control and limitation of the risk of individual exposures and of risk clusters is effected according to differentiated limit categories.

Within the Association of Volksbanks, the group of affiliated customers (GaC) is used as the basis for limits in case of new lending business and for lending reviews. As regards the limits, different requirements on the level of the Association of Volksbanks and on the level of the individual banks are applied. A review of the limits on individual transaction level takes place continuously within the operational risk management of the individual banks and is monitored by the operational risk management unit of VBW in its function as CO, using centralised analyses.

In connection with portfolio limits, within the Association, country risk limits and materiality limits for regions and industries are being defined at present. These limits are relevant to the lending process and are monitored by Risk Controlling monthly.

In order to achieve a sustainably healthy portfolio quality, there are credit rating-dependent requirements for transactions with new customers and increases of the exposure of existing customers, which are applicable across the Association.

Intensified credit risk management

Within the Association and accordingly also at VBW, intensified credit risk management means the special monitoring of customers with payment difficulties and/or of customers at risk of default. Intensified credit risk management comprises, among others, processes aimed at the early identification of customers at risk of default, dunning procedures, forbearance processes as well as the identification of default.

Early warning (EWS): Under the early warning system, customers who might have an increased risk of default within the next few months are systematically identified on the basis of certain indicators. In this way, VBW is able to counteract any potential defaults early. The early identification of customers threatened by default is governed by a uniform early warning system (EWS) throughout the Association.

Dunning procedures: Across the Association, and accordingly at VBW, the dunning process applied is effected on an automated and uniform basis. The criteria and requirements for the dunning system are defined centrally by VBW for the entire Association.

Forbearance: Forbearance refers to concessions made by the lender to the debtor in the context of financial difficulties or imminent financial difficulties of the debtor, which the lender would not grant otherwise. Debtors with transactions classified as forborne are subject to special (monitoring) regulations within the Association.

Identification of default: The process of default identification serves to identify defaults in time. A customer is deemed defaulted if, according to CRR I, a default of more than 90 days exists and/or full settlement of the debt is considered unlikely. The Association has defined 13 possible types of default events that are used for the uniform classification of default events across the Association. Default identification is also based, among others, on the early warning and forbearance processes described above. Additionally, there are further (checking) processes, such as the analysis of expected cash flows within regular or event-driven exposure checks, that may trigger classification to a default category.

Problem Loan Management

Within the scope of the Problem Loan Management system (PLM) implemented across the Association, the allocation of customers is effected according to clearly defined indicators that are applied consistently throughout the Association. A distinction is subsequently made between customers

- under intensive supervision (negative change of risk assessment, but not defaulted yet),
- subject to restructuring (immediate danger of default or defaulted already, but customer is eligible for restructuring), and
- subject to collection (defaulted customers and customers not eligible for restructuring)

and appropriately differentiated handling processes have been established consistently across the Association.

Quantitative credit risk management

Measurement and control of credit risk

The development of sophisticated models as well as of systems and processes tailored to the bank-specific portfolio is required for the measurement and control of credit risk. In this way, the credit decision is meant to be structured and improved on the one hand, on the other hand these instruments and/or their results also form the basis of portfolio management.

The results of credit risk measurement are reported to the Managing Board within the scope of the Risk Committee on a monthly basis. The most important objective of the use of the credit risk models and tools is to avoid losses through early identification of risks.

Rating systems

Across the Association, standardised models are applied to determine credit ratings (the VB rating family) and to determine the amount of loss in case of default. The expected probability of default of each customer is assessed via the VB rating family and expressed through the VB master scale, which comprises a total of 25 rating levels. The PD range used not only allows a comparison of internal ratings with classifications by external rating agencies, but especially enables a comparison of credit ratings across customer segments.

The rating classes in rating category 5 cover the reasons for default on loans as applied across the Association and are also used for the reporting of non-performing loans (NPL).

Credit Value at Risk

The calculation of the economic capital requirement necessary for the credit risk is effected by means of the Credit Value at Risk (CVaR) method. For this purpose, the Association has decided to apply an analytical calculation method. A refined CreditRisk+ model, adjusted to internal requirements, is used for modelling the credit exposures in the loan portfolio in detail.

Concentrations

The quantification and valuation of concentrations takes place monthly, on the one hand via the risk parameters identified, and on the other hand in the course of preparing the risk report. Additionally, the effects of concentration risk on the bank as a whole are considered.

Counterparty default risk

The counterparty risk for market values from unsecured derivatives is taken into account by way of credit value adjustments (CVA) or debt value adjustments (DVA) – as approximation function of the potential future loss regarding counterparty default risk. The expected future exposure (EFE) is determined by means of the Monte Carlo method. The probabilities of default for counterparties for which no credit spreads are observable on the market are based on internal ratings of the Association of Volksbanks. The Association does not use any internal model for calculating the counterparty default risk.

Reports on utilisation and overdrafts, if any, are provided to the credit departments concerned as well as to Treasury on a daily basis.

Credit risk mitigation

The collateral in the credit risk models for CVaR and in the expected loss calculations is primarily taken into account through the LGD models applied across the Association. The starting point for taking into account collateral securities is the respective current market value, fair value, nominal value or redemption value.

For the purpose of reducing the counterparty risk of derivative transactions, the Association uses credit risk mitigation methods such as netting and exchange of collateral securities. The Association strives to conclude standardised ISDA framework agreements for bilateral netting and a corresponding Credit Support Annex (CSA) with all key market participants. The fair values of derivative transactions with counterparties are reconciled daily. If the fair values exceed certain contractually agreed thresholds, such excess amounts must be covered by collaterals. These collaterals are recognised in regulatory terms and reduce the risk.

Credit risk reporting

Credit risk reporting takes place monthly, aiming to provide a detailed presentation of existing credit risk and to report the same to the entire Managing Board. Relevant reports are prepared for the group, for key units of the group, and for the key areas of business. The information is also included in the credit risk parts of the aggregate bank risk report.

The reports comprise a quantitative presentation of credit risk information relevant for risk control that is supplemented by a brief assessment of the situation and additional qualitative information, if applicable.

The following analyses are part of the monthly report:

- Portfolio distribution
- Development of new business
- Distribution of credit ratings

- Non-performing loans (NPL)
- Forbearance
- Credit risk concentrations
- Country group analysis
- Customer segments
- Distribution across sectors

Development of the credit risk-related portfolio in 2017

Definition: credit risk-related portfolio

The credit risk-related portfolio summarises all positions that include a credit risk in the narrower sense. Credit risk-related positions are included in the following balance sheet and off-balance sheet items:

- Liquid funds excl. cash in hand, since the latter does not include any credit risk
- Loans and advances to credit institutions, gross
- Loans and advances to customers, gross
- Trading assets: only fixed-income securities are included, but no positive market values from derivatives, as they do not include any credit risk in the narrower sense
- Financial investments: here, too, only fixed-income securities are included. Shares are excluded, as they do not include any credit risk in the narrower sense
- Contingent liabilities: liabilities arising from guarantees, contingencies and letters of credit are included, other liabilities are excluded
- Credit risks: include commitments not utilised yet

The following table shows the credit risk-related portfolio as at 31 December 2017 compared to the previous year. The relevant figure is the gross value before deduction of any impairments, collateral or other credit risk mitigating effects.

Credit-risk-relevant portfolio:

Euro thousand	31 Dec 2017	31 Dec 2016
Liquid funds	1,758,462	902,264
Loans and receivables to credit institutions	1,703,912	2,196,042
Loans and receivables to customers	4,810,325	4,351,134
Trading assets	8,320	24,162
Financial investments	1,803,197	1,791,041
Contingent liabilities	341,397	389,321
Credit risks	4,375,600	4,283,838
Total	**14,801,213**	**13,937,802**

As at 31 December 2017, the total credit risk-related portfolio amounted to euro 14,801 million (31 December 2016: euro 13,938 million). Loans and advances to customers constitute the biggest group of receivables, which corresponds to the business model of classic credit business with a focus on Retail and SME customers.

Loans and advances to credit institutions and liquid funds are primarily used to manage liquidity and include a comparatively low credit risk. Financial investments primarily include securities from the Treasury portfolio that are also primarily used to manage the liquidity of the entire Association. The majority of credit risk-related securities are Austrian and European government debentures and covered bonds of European banks in the investment grade range. A securities portfolio with the main objective of generating profits from market trends is not aimed at within the Association of Volksbanks.

As liquidity risk is controlled centrally by the CO, there are hardly any credit risk-related positions in these balance sheet items within the other Volksbanks.

Among off-balance sheet items, it is mainly loan commitments not utilised yet and liabilities from guarantees and contingencies that are of significance.

Therefore, the internal focus of credit risk control is on balance sheet and off-balance sheet loans and advances to customers.

Development by customer segments

The following tables show the distribution of the credit risk-related portfolio by balance sheet items and customer segments. As VBW assumes the central liquidity management function within the Association, the biggest customer segment of credit risk-related positions is the public sector. This segment includes the amount owed by the central bank and the major part of financial investments. As for loans and advances to customers, the SME segment (which internally further breaks down into SME Retail, SME and SME Corporate) is the strongest with euro 2,478 million as at 31 December 2017 (31 December 2016: euro 2,315 million), followed by the Retail Private segment, which includes loans and advances to private customers.

Portfolio sub-divided by customer segments:

31 Dec 2017 Euro thousand	Banks	Retail	SME	Corporates	Public sector	Others
Liquid funds	0	0	0	0	1,758,462	0
Loans and receivables to credit institutions	1,703,912	0	0	0	0	0
Loans and receivables to customers	0	1,926,128	2,478,425	164,670	76,317	164,784
Trading assets	6,079	0	0	2,241	0	0
Financial investments	434,208	0	6	17,642	1,351,341	0
Contingent liabilities	2,434	32,254	289,978	3,733	51	12,947
Credit risks	3,382,635	301,260	448,052	34,635	141,368	67,649
Total	**5,529,269**	**2,259,642**	**3,216,462**	**222,921**	**3,327,539**	**245,380**

31 Dec 2016 Euro thousand	Banks	Retail	SME	Corporates	Public sector	Others
Liquid funds	0	0	0	0	902,264	0
Loans and receivables to credit institutions	2,196,042	0	0	0	0	0
Loans and receivables to customers	0	1,693,350	2,315,162	136,196	117,339	89,087
Trading assets	12,582	0	0	0	11,580	0
Financial investments	351,734	0	3	957	1,438,348	0
Contingent liabilities	1,921	23,175	356,592	6,728	53	851
Credit risks	3,487,622	173,332	449,677	31,449	131,041	10,718
Total	**6,049,900**	**1,889,858**	**3,121,434**	**175,329**	**2,600,624**	**100,656**

Development by currencies

In line with the risk strategy, the major part of the loan portfolio is denominated in euros; the FX holdings within loans and advances to customers – especially FX loans – are gradually reduced.

Portfolio sub-divided by currencies:

31 Dec 2017

Euro thousand	EUR	CHF	USD	GBP	Others
Liquid funds	1,758,462	0	0	0	0
Loans and receivables to credit institutions	1,171,267	477,030	2,128	515	52,972
Loans and receivables to customers	4,518,379	275,489	1,151	0	15,306
thereof Retail	1,737,361	181,505	460	0	6,802
thereof SME	2,398,733	70,497	691	0	8,503
thereof Corporates	164,670	0	0	0	0
thereof Others	217,615	23,487	0	0	0
Trading assets	8,320	0	0	0	0
Financial investments	1,762,157	22,475	0	0	18,565
thereof Banks	434,208	0	0	0	0
thereof Corporates	17,642	0	0	0	0
thereof Public sector	1,310,301	22,475	0	0	18,565
thereof Others	6	0	0	0	0
Contingent liabilities	340,172	51	1,174	0	0
Credit risks	4,374,037	2	1,134	0	428
Total	**13,932,794**	**775,047**	**5,587**	**515**	**87,271**

31 Dec 2016

Euro thousand	EUR	CHF	USD	GBP	Others
Liquid funds	902,264	0	0	0	0
Loans and receivables to credit institutions	1,433,970	709,972	5,445	611	46,044
Loans and receivables to customers	3,944,845	382,885	2,000	0	21,405
thereof Retail	1,462,889	220,788	865	0	8,808
thereof SME	2,210,191	91,325	1,050	0	12,597
thereof Corporates	136,111	0	84	0	0
thereof Others	135,654	70,772	0	0	0
Trading assets	24,162	0	0	0	0
Financial investments	1,742,553	25,258	0	0	23,229
thereof Banks	351,734	0	0	0	0
thereof Corporates	957	0	0	0	0
thereof Public sector	1,389,860	25,258	0	0	23,229
thereof Others	3	0	0	0	0
Contingent liabilities	389,265	56	0	0	0
Credit risks	4,280,857	519	2,091	0	371
Total	**12,717,916**	**1,118,690**	**9,536**	**611**	**91,049**

Development of repayment vehicle and foreign currency loans

As at 31 December 2017, the total borrowings under repayment vehicle and foreign currency loans amounted to euro 368,955 thousand (31 December 2016: euro 438,395 thousand).

Development by countries

The core business activity of the Association and accordingly of VBW takes place within the Austrian market. This is also evident from the following tables: at 31 December 2017, Austrian exposures accounted for 90.2 % of the credit risk-related portfolio (31 December 2016: 89.0 %). According to the risk strategy, foreign receivables in the customer portfolio are basically not expanded. Special rules apply to the four defined target countries of Germany, Switzerland, Liechtenstein and Slovenia within the customer portfolio.

In the bank and securities portfolio, foreign receivables may continue to exist, provided they have very good credit ratings. The major part of the securities portfolio consists of LCR-eligible securities.

Portfolio sub-divided by countries:

31 Dec 2017

Euro thousand	Austria	Germany	Switzerland	Liechtenstein	Slovenia	EEA	EU CEE	Others
Liquid funds	1,758,462	0	0	0	0	0	0	0
Loans and receivables to credit institutions	1,279,468	122,810	2,043	6	0	255,575	1,074	42,937
Loans and receivables to customers	4,691,329	35,648	28,632	5	208	21,964	20,805	11,733
thereof Retail	1,899,007	12,384	1,139	5	208	3,368	6,271	3,747
thereof SME	2,443,484	18,516	4,007	0	0	1,521	10,201	696
thereof Corporates	144,457	1,008	0	0	0	17,075	2,131	0
thereof Others	204,382	3,741	23,487	0	0	0	2,201	7,290
Trading assets	8,320	0	0	0	0	0	0	0
Financial investments	899,649	58,121	1,095	0	1,557	584,272	225,160	33,343
thereof Banks	126,300	49,116	1,095	0	0	253,394	0	4,303
thereof Corporates	8,468	0	0	0	0	0	0	9,174
thereof Public sector	764,875	9,005	0	0	1,557	330,878	225,160	19,865
thereof Others	6	0	0	0	0	0	0	0
Contingent liabilities	340,635	381	38	0	0	27	62	255
Credit risks	4,372,349	1,563	28	0	12	35	1,346	266
Total	**13,350,212**	**218,522**	**31,837**	**11**	**1,777**	**861,874**	**248,446**	**88,533**

31 Dec 2016

Euro thousand	Austria	Germany	Switzerland	Liechtenstein	Slovenia	EEA	EU CEE	Others
Liquid funds	902,264	0	0	0	0	0	0	0
Loans and receivables to credit institutions	1,689,196	156,827	8,406	0	0	292,654	514	48,445
Loans and receivables to customers	4,155,658	49,161	75,494	23	234	32,186	25,918	12,461
thereof Retail	1,667,826	11,427	549	23	234	3,636	6,351	3,305
thereof SME	2,259,379	33,252	4,173	0	0	1,731	15,673	954
thereof Corporates	104,811	671	0	0	0	26,820	3,894	0
thereof Others	123,642	3,811	70,772	0	0	0	0	8,201
Trading assets	24,162	0	0	0	0	0	0	0
Financial investments	968,897	41,578	0	0	0	524,978	234,607	20,980
thereof Banks	107,099	32,665	0	0	0	207,665	0	4,305
thereof Corporates	957	0	0	0	0	0	0	0
thereof Public sector	860,839	8,913	0	0	0	317,313	234,607	16,675
thereof Others	3	0	0	0	0	0	0	0
Contingent liabilities	388,141	896	40	0	0	27	88	128
Credit risks	4,282,344	1,092	15	0	9	29	225	124
Total	**12,410,661**	**249,554**	**83,956**	**23**	**243**	**849,874**	**261,353**	**82,139**

Development by sectors

The most important sector within loans and advances to customers of VBW are the private households with 40.3 % as at 31 December 2017 (31 December 2016: 34.9 %). The largest commercial sector within VBW is the real estate sector as at 31 December 2017. It accounts for a share of 31.5 % (31 December 2016: 32.7 %). The definition of sectors mainly follows the NACE Codes and is not directly comparable with customer segments, for which a different classification logic is used.

Portfolio sub-divided by industries:

31 Dec 2017 Euro thousand	Private households	Financial services incl. banks	Public authorities	Real estate	Construction industry
Liquid funds	0	1,758,462	0	0	0
Loans and receivables to credit institutions	0	1,703,912	0	0	0
Loans and receivables to customers	1,936,387	92,438	79,234	1,514,547	141,009
Trading assets	0	6,079	0	0	0
Financial investments	0	425,317	1,367,377	0	0
Contingent liabilities	32,282	204,805	480	29,960	10,740
Credit risks	301,365	3,457,557	113,741	256,102	37,253
Total	**2,270,034**	**7,648,569**	**1,560,831**	**1,800,610**	**189,002**

31 Dec 2017 Euro thousand	Tourism	Trade and repairs	Physicians/ healthcare	Agriculture and forestry	Others
Liquid funds	0	0	0	0	0
Loans and receivables to credit institutions	0	0	0	0	0
Loans and receivables to customers	97,085	207,145	82,662	142,694	517,124
Trading assets	0	0	0	0	2,241
Financial investments	0	0	0	0	10,503
Contingent liabilities	7,969	19,020	11,929	2,209	22,004
Credit risks	12,533	50,633	6,719	27,963	111,733
Total	**117,586**	**276,798**	**101,310**	**172,866**	**663,606**

31 Dec 2016 Euro thousand	Private households	Financial services incl. banks	Public authorities	Real estate	Construction industry
Liquid funds	0	902,264	0	0	0
Loans and receivables to credit institutions	0	2,196,042	0	0	0
Loans and receivables to customers	1,519,971	94,508	125,411	1,423,809	137,866
Trading assets	0	12,582	11,580	0	0
Financial investments	0	334,729	1,440,443	14,996	0
Contingent liabilities	21,947	254,772	469	22,810	12,518
Credit risks	168,266	3,542,548	106,198	197,741	33,896
Total	**1,710,184**	**7,337,444**	**1,684,101**	**1,659,355**	**184,280**

31 Dec 2016 Euro thousand	Tourism	Trade and repairs	Physicians/ healthcare	Agriculture and forestry	Others
Liquid funds	0	0	0	0	0
Loans and receivables to credit institutions	0	0	0	0	0
Loans and receivables to customers	95,608	217,533	89,825	147,060	499,545
Trading assets	0	0	0	0	0
Financial investments	0	0	0	0	873
Contingent liabilities	9,758	22,430	13,547	1,910	29,160
Credit risks	7,103	50,809	7,974	24,866	144,437
Total	**112,469**	**290,772**	**111,346**	**173,836**	**674,015**

Development by ratings

The allocation of the individual risk categories is effected according to the internal rating levels applicable within the Association. Receivables of risk category 1 have the highest credit rating (lowest expected default rate), while receivables of risk category 4 have the lowest credit rating, and receivables of risk category 5 constitute defaulted receivables (non-performing loans, NPLs). The NR category primarily comprises small exposures below the threshold for mandatory rating.

Portfolio sub-divided by ratings:

31 Dec 2017 Euro thousand	Risk category 1 (1A - 1E)	Risk category 2 (2A - 2E)	Risk category 3 (3A - 3E)	Risk Category 4 (4A - 4E)	Risk category 5 (5A - 5E)	Risk category 6 (NR)
Liquid funds	1,758,462	0	0	0	0	0
Loans and receivables to credit institutions	133,750	1,511,400	36,066	4,775	0	17,922
Loans and receivables to customers	126,444	1,522,676	2,603,736	395,936	157,156	4,378
thereof Retail	2,346	1,124,148	649,275	86,776	62,370	1,213
thereof SME	37,886	294,284	1,753,645	303,481	86,073	3,056
thereof Corporates	21,959	66,064	72,750	2,872	952	72
thereof Others	64,252	38,180	128,066	2,807	7,761	36
Trading assets	0	0	8,320	0	0	0
Financial investments	1,061,492	683,343	58,331	0	6	25
thereof Banks	110,261	313,970	9,978	0	0	0
thereof Corporates	0	17,366	251	0	0	25
thereof Public sector	951,231	352,008	48,102	0	0	0
thereof Others	0	0	0	0	6	0
Contingent liabilities	723	69,223	223,149	16,382	4,000	27,920
Credit risks	163,194	3,669,791	492,773	43,489	2,393	3,960
Total	**3,244,063**	**7,456,433**	**3,422,376**	**460,581**	**163,555**	**54,205**

31 Dec 2016 Euro thousand	Risk category 1 (1A - 1E)	Risk category 2 (2A - 2E)	Risk category 3 (3A - 3E)	Risk category 4 (4A - 4E)	Risk category 5 (5A - 5E)	Risk category 6 (NR)
Liquid funds	902,264	0	0	0	0	0
Loans and receivables to credit institutions	71,644	364,328	1,734,628	7,263	0	18,179
Loans and receivables to customers	148,574	1,080,469	2,382,281	545,626	191,913	2,272
thereof Retail	3,661	757,210	721,188	158,641	51,543	1,108
thereof SME	36,939	218,664	1,551,326	377,584	129,635	1,013
thereof Corporates	6,374	70,790	56,531	1,040	1,355	105
thereof Others	101,600	33,804	53,236	8,361	9,380	45
Trading assets	11,580	6	12,576	0	0	0
Financial investments	1,283,842	280,734	226,462	0	3	0
thereof Banks	126,373	225,361	0	0	0	0
thereof Corporates	620	0	337	0	0	0
thereof Public sector	1,156,850	55,373	226,125	0	0	0
thereof Others	0	0	0	0	3	0
Contingent liabilities	55	59,011	281,774	19,493	6,904	22,085
Credit risks	145,913	168,470	3,905,142	57,450	4,637	2,227
Total	**2,563,871**	**1,953,016**	**8,542,863**	**629,832**	**203,456**	**44,764**

Development of NPL portfolio

The defaulted loans or NPLs are allocated to risk category 5. Internal control is effected according to the NPL ratio for balance sheet and off-balance sheet loans and advances to customers. While defaults are monitored for the remaining types of receivables as well, in the past they have been of minor importance for the purpose of control.

As at 31 December 2017, the NPL ratio within internal risk control amounted to 2.52 % for VBW (2016: 3.45 %).

The NPL coverage ratio through risk provisions or Coverage Ratio I for internal reporting amounts to 26.95 % for VBW as at 31 December 2017 (2016: 25.26 %).

The NPL coverage ratio through risk provisions and collateral securities or Coverage Ratio III for internal reporting amounts to 103.7 % for VBW as at 31 December 2017 (2016: 96.23 %).

These ratios exclusively refer to loans and advances to customers as well as credit risks and contingent liabilities towards customers excluding internal transactions within the Association and the portion of the Association's guarantee that is not allocated to VBW. Therefore, these values differ from those shown in the following table. Credit risks and contingent liabilities in the following table also include transactions which were carried out with other Volksbanks. The positions significantly increase the NPL denominator and thereby significantly reduce the NPL ratio (see further details below), meaning that this view is less relevant for risk control. Furthermore, the following table shows the full amounts of those transactions which are covered by the Association`s guarantee. However, since VBW, as CO of the Association of Volksbanks, transfers part of the risk arising from taking over a credit portfolio to other Volksbanks, these parts are not considered in VBW´s internal risk control view.

The credit risk volume relevant for calculating the NPL ratio amounted to euro 5,667,142 thousand in internal reporting (2016: euro 5,038,587 thousand). As mentioned already, this amount excludes the pro rata guarantee of the Association as well as the internal transactions of the Association and is accordingly much lower than the euro 9,527,322 thousand shown in the following table as at 31 December 2017 (2016: euro 9,024,293 thousand).

The NPL total in internal reporting amounted to euro 143,077 thousand as at 31 December 2017 (2016: euro 173,803 thousand). The NPL amount is lower than the euro 163,549 thousand shown in the following table as at 31 December 2017 (2016: euro 203,454 thousand). This is due to the pro rata allocation of defaulted guarantee transactions of the Association to the remaining Volksbanks. The NPL portfolio does not include any internal transactions within the Association.

Total risk provisions within the NPL portfolio in internal reporting amounted to euro 38,555 thousand as at 31 December 2017 (2016: euro 43,905 thousand). This amount is lower than the euro 49,482 thousand shown in the following table as at 31 December 2017 (2016: euro 59,753 thousand). This is due to the pro rata allocation of defaulted guarantee transactions of the Association to the remaining Volksbanks.

The amount of collateral securities in the NPL portfolio in internal reporting amounted to euro 109,820 thousand as at 31 December 2017 (2016: euro 123,346 thousand). This amount is lower than the euro 117,346 thousand shown in the following table as at 31 December 2017 (2016: euro 137,675 thousand). This is due to the pro rata allocation of defaulted guarantee transactions of the Association to the remaining Volksbanks.

NPL Portfolio:

31 Dec 2017 Euro thousand	Credit risk volume - total	NPL	NPL Ratio	Risk provisions for NPL	NPL coverage ratio	Collateral for NPL
Liquid funds	1,758,462	0	0.00 %	0	0.00 %	0
Loans and receivables to credit institutions	1,703,912	0	0.00 %	0	0.00 %	0
Loans and receivables to customers	4,810,325	157,156	3.27 %	46,555	29.62 %	115,553
thereof Retail	1,926,128	62,370	3.24 %	12,343	19.79 %	51,898
thereof SME	2,478,425	86,073	3.47 %	26,616	30.92 %	61,455
thereof Corporates	164,670	952	0.58 %	440	46.26 %	703
thereof Others	241,102	7,761	3.22 %	7,156	92.21 %	1,497
Trading assets	8,320	0	0.00 %	0	0.00 %	0
Financial investments	1,803,197	6	0.00 %	0	0.00 %	0
Contingent liabilities	341,397	4,000	1.17 %	2,400	60.01 %	1,793
Credit risks	4,375,600	2,393	0.05 %	526	22.00 %	0
Loans and receivables to customers, contingent liabilities, credit risks	9,527,322	163,549	1.72 %	49,482	30.26 %	117,346
Liquid funds, loans and receivables to credit institutions and customers	8,272,699	157,156	1.90 %	46,555	29.62 %	115,553

31 Dec 2016 Euro thousand	Credit risk volume - total	NPL	NPL Ratio	Risk provisions for NPL	NPL coverage ratio	Collateral for NPL
Liquid funds	902,264	0	0.00 %	0	0.00 %	0
Loans and receivables to credit institutions	2,196,042	0	0.00 %	0	0.00 %	0
Loans and receivables to customers	4,351,134	191,913	4.41 %	55,785	29.07 %	133,296
thereof Retail	1,693,350	51,550	3.04 %	10,049	19.49 %	38,574
thereof SME	2,315,162	129,635	5.60 %	38,269	29.52 %	91,231
thereof Corporates	136,196	1,355	0,99 %	701	51.77 %	737
thereof Others	206,426	9,373	4.54 %	6,765	72.17 %	2,755
Trading assets	24,162	0	0.00 %	0	0.00 %	0
Financial investments	1,791,041	3	0.00 %	0	0.00 %	0
Contingent liabilities	389,321	6,904	1.77 %	2,385	34.55 %	4,379
Credit risks	4,283,838	4,637	0.11 %	1,583	34.14 %	0
Loans and receivables to customers, contingent liabilities, credit risks	9,024,293	203,454	2.25 %	59,753	29.37 %	137,675
Liquid funds, loans and receivables to credit institutions and customers	7,449,440	191,913	2.58 %	55,785	29.07 %	133,296

Development forbearance portfolio

In relation to customer loans prior to allocation of the Association's guarantee, concessions were made for economic reasons for a total carrying amount of euro 95,902 thousand (2016: euro 102,549 thousand). This amount relates to performing forborne credit exposures in the amount of euro 41,299 thousand (2016: euro 30,870 thousand) and non-performning forborne credit exposures in the amount of euro 54,603 thousand (2016: euro 71,679 thousand).

Development of positions past due

The following tables show the positions past due within the credit risk-related portfolio:

31 Dec 2017 Euro thousand	Not past due	1-30 days past due	31-90 days past due	91-180 days past due	181-365 days past due	365 days past due
Liquid funds	1,758,462	0	0	0	0	0
Loans and receivables to credit institutions	1,698,734	5,172	6	0	0	0
Loans and receivables to customers	4,679,534	36,658	31,622	5,536	9,109	47,866
thereof Retail	1,897,570	6,639	2,224	1,476	3,997	14,222
thereof SME	2,401,123	29,932	12,320	4,055	5,112	25,882
thereof Corporates	147,504	83	17,078	5	0	0
thereof Others	233,337	4	0	0	0	7,761
Trading assets	8,320	0	0	0	0	0
Financial investments	1,803,197	0	0	0	0	0
Contingent liabilities	341,397	0	0	0	0	0
Credit risks	4,375,600	0	0	0	0	0
Total	**14,665,244**	**41,830**	**31,628**	**5,536**	**9,109**	**47,866**

31 Dec 2016 Euro thousand	Not past due	1-30 days past due	31-90 days past due	91-180 days past due	181-365 days past due	365 days past due
Liquid funds	902,264	0	0	0	0	0
Loans and receivables to credit institutions	2,195,270	771	1	0	0	0
Loans and receivables to customers	4,140,153	98,902	29,162	7,295	18,588	57,036
thereof Retail	1,650,833	13,083	6,229	2,795	5,402	15,008
thereof SME	2,184,407	57,334	13,735	4,499	13,165	42,021
thereof Corporates	109,017	26,897	254	0	21	6
thereof Others	195,895	1,587	8,943	0	0	0
Trading assets	24,162	0	0	0	0	0
Financial investments	1,791,041	0	0	0	0	0
Contingent liabilities	389,321	0	0	0	0	0
Credit risks	4,283,838	0	0	0	0	0
Total	**13,726,048**	**99,673**	**29,163**	**7,295**	**18,588**	**57,036**

All receivables that have been past due for at least 90 days are allocated to the NPL portfolio. The following tables provide information about (among others)

- receivables that are individually impaired, but not past due,
- the positions that have been past due for at least 90 days and are not individually impaired, and
- positions that are neither individually impaired nor past due.

As the major part of past due positions is included in the customer portfolio, the analysis for this sub-portfolio of the credit risk-related portfolio was restricted.

Loans and receivables past due:

31 Dec 2017 Euro thousand	Loans and receivables to customers (gross)	Collaterals	NPL	Collateral for NPL	NPL not impaired	Collateral for NPL not impaired	NPL impaired	Collateral for NPL impaired	Impairment for NPL
Not past due	4,679,534	4,294,975	89,200	67,924	15,134	13,433	74,066	54,491	22,785
1-30 days past due	36,658	22,300	1,211	931	0	0	1,211	931	325
31-90 days past due	31,622	28,051	4,234	2,581	638	635	3,596	1,946	2,011
91-180 days past due	5,536	3,991	5,536	3,991	1,729	1,729	3,806	2,262	1,457
181-365 days past due	9,109	7,286	9,109	7,286	772	772	8,338	6,514	2,600
365 days past due	47,866	32,841	47,866	32,841	7,701	7,696	40,164	25,145	17,377
Total	**4,810,325**	**4,389,444**	**157,156**	**115,553**	**25,975**	**24,265**	**131,181**	**91,288**	**46,555**

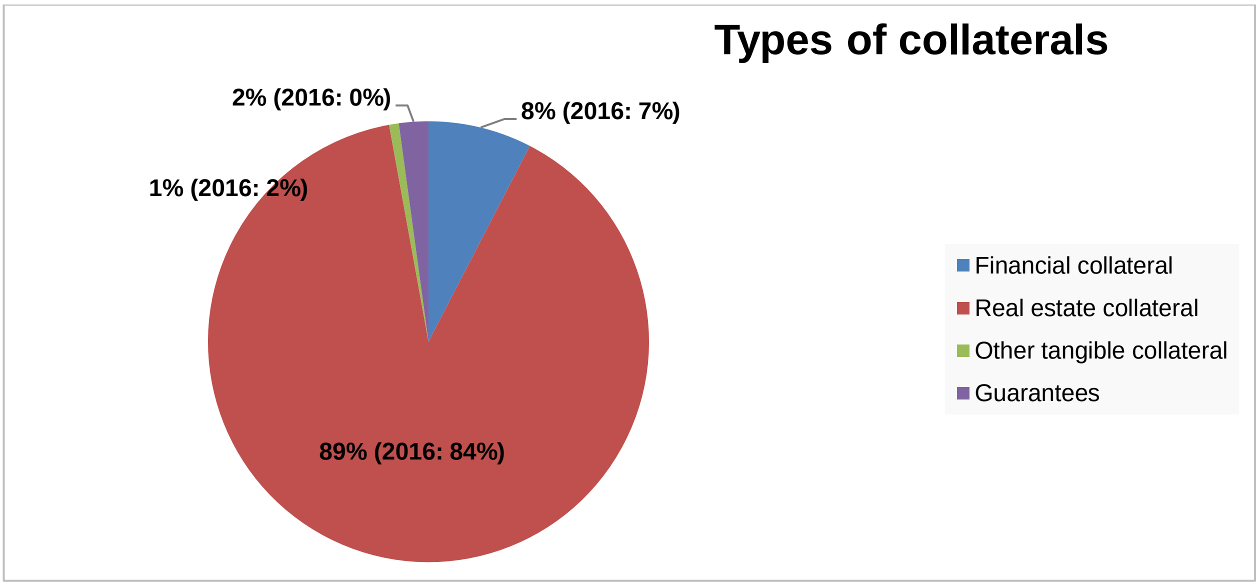
31 Dec 2016 Euro thousand	Loans and receivables to customers (gross)	Collaterals	NPL	Collateral for NPL	NPL not impaired	Collateral for NPL not impaired	NPL impaired	Collateral for NPL impaired	Impairment for NPL
Not past due	4,140,153	3,708,947	94,025	67,522	18,804	18,404	75,222	49,117	24,397
1-30 days past due	98,902	76,764	1,369	1,016	256	256	1,113	760	254
31-90 days past due	29,162	15,885	13,601	6,029	1,460	1,441	12,141	4,588	8,341
91-180 days past due	7,295	5,307	7,295	5,307	1,497	1,514	5,797	3,793	1,642
181-365 days past due	18,588	13,907	18,588	13,907	3,795	3,792	14,793	10,115	4,099
365 days past due	57,036	39,515	57,036	39,515	10,320	10,266	46,716	29,249	17,052
Total	**4,351,134**	**3,860,325**	**191,913**	**133,296**	**36,132**	**35,674**	**155,782**	**97,622**	**55,785**

NPL = Non Performing Loans

Development of the collateral securities portfolio

Real estate collateral is the most important type of collateral within VBW by far. The values reported represent the credited value of the collateral securities (after measurement and cap based on the amount of the receivable secured).

The eligibility of personal securities essentially depends on the quality of the collateral provider and on the closeness of his/her relationship with the borrower.



The following tables show collateral securities in the customer portfolio, as usually no collateral securities are contained or accounted for in the bank portfolio (incl. liquid funds) and the securities portfolio.

31 Dec 2017 Euro thousand	Credit risk volume - total	Allowable collateral amount - total	Real estate collateral	Financial collateral	Personal Collaterals	Other tangible collateral	Loan loss allowances	Provisions
Loans and receivables to customers	4,810,325	4,389,444	3,938,613	325,938	93,679	31,214	57,944	0
thereof Retail	1,926,128	1,854,358	1,678,607	173,411	1,150	1,189	15,524	0
thereof SME	2,476,738	2,213,277	2,000,936	137,220	66,344	8,777	33,877	0
thereof Corporates	164,670	116,594	68,627	11,175	17,778	19,015	1,126	0
thereof Others	242,788	205,214	190,443	4,132	8,407	2,232	7,416	0
Contingent liabilities	341,397	60,981	45,984	12,537	2,233	227	0	2,829
Credit risks	4,375,600	0	0	0	0	0	0	1,383
Total	**9,527,322**	**4,450,425**	**3,984,597**	**338,475**	**95,912**	**31,441**	**57,944**	**4,212**

31 Dec 2016 Euro thousand	Credit risk volume - total	Allowable collateral amount - total	Real estate collateral	Financial collateral	Personal Collaterals	Other tangible collateral	Loan loss allowances	Provisions
Loans and receivables to customers	4,351,134	3,860,325	3,398,391	326,085	103,895	31,954	69,099	0
thereof Retail	1,655,243	1,514,272	1,328,104	182,025	2,798	1,345	11,169	0
thereof SME	2,408,328	2,144,216	1,921,263	141,528	76,777	4,647	50,249	0
thereof Corporates	136,196	107,790	65,771	492	15,565	25,961	838	0
thereof Others	151,367	94,048	83,252	2,041	8,755	0	6,843	0
Contingent liabilities	389,321	75,110	56,558	15,157	2,277	1,119	0	2,784
Credit risks	4,283,838	0	0	0	0	0	0	2,516
Total	**9,024,293**	**3,935,436**	**3,454,949**	**341,242**	**106,172**	**33,073**	**69,099**	**5,300**

Development of the netting positions

The following tables show the netting positions within the portfolio of the group:

31 Dec 2017 Euro thousand Derivatives	Assets	Liabilities	Net Values
Investment book	69,407	-88,133	-18,726
Trading book	68,568	-346,331	-277,764
	Pledged	**Received**	**Net Values**
Cash collaterals	345,513	-47,709	297,804
Total			**1,314**

31 Dec 2016 Euro thousand Derivatives	Assets	Liabilities	Net Values
Investment book	85,715	-144,233	-58,518
Trading book	93,584	-405,493	-311,909
	Pledged	**Received**	**Net Values**
Cash collaterals	413,608	-44,176	369,431
Total			**-996**

c) Market risk

Market risk is the risk of changing prices or rates (e.g. interest rates, exchange rates, interest and foreign exchange volatilities). The VBW group distinguishes the following types of market risk:

- Interest rate risk in the investment book
- Credit spread risk
- Market risk in the trading book

- Foreign exchange risk (open FX positions)

No material market risks or concentration risks beyond that exist. Monitoring of the market risk is carried out in the Market and Liquidity Risk Controlling department of the Risk Controlling division, which is separate, in organisational terms, from the Treasury division on the level of the Managing Board.

Interest rate risk in the investment book

Interest rate risks emerge through term transformation, which arises from deviations of fixed interest rate periods between assets and liabilities. Term transformation is a source of income for the bank in the form of a maturity structure contribution.

The interest rate risk in the investment book comprises all interest-bearing transactions (on balance and off balance), except for transactions in the trading book. The interest rate risk position from the client business of VBW mainly arises from variable index-linked credit business and variable-interest deposits (in the form of sight and savings deposits), as well as from implicit floors, in both the asset side and the liabilities side client business. In credit business, a shift takes place from index-linked positions towards fixed-interest positions, as mostly fixed-interest loans are granted in the new business segment. Additional decisive factors are bond positions of the bank's own portfolio, own issues and the interest-rate swaps used to control the interest rate position. At the end of 2017, the VBW group reports a relatively low positive term transformation. As at 31 December 2017, the present-value interest rate risk (regulatory interest rate risk statistics according to the OeNB standard procedure) amounted to 6.4 % of own funds, which is clearly below the regulatory limit of 20 %. The interest rate sensitivity in the form of the present value of a basis point (PVBP) amounts to approx. euro -0.5 million.

The Asset-Liability-Committee (ALCO) is responsible for controlling the interest rate position of VBW within the scope of risk limits defined by Risk Controlling and by the Managing Board within the ALCO. The ALCO is the central body for the management of interest rate risks. It is convened monthly or ad hoc as required. The Asset Liability Management (ALM) function, which belongs to the Treasury function in organisational terms, is responsible for the management of the ALCO. Proposed measures to control the interest rate position are worked out by the ALM in cooperation with Risk Controlling. The aim is to create a maturity structure contribution by way of positive term transformation. Effects on both income and present value are considered in managing the interest rate position. Interest rate risk reporting within the ALCO is taken care of by the Market and Liquidity Risk department.

The main tasks of Risk Controlling include risk modelling and its permanent development, determination of the limit structure based on the economic capital allocated, review of limits, parametrisation of systems, and risk reporting. Within the ALCO, the reports prepared serve as a decision-making basis for control measures.

At VBW, present-value risk measurement and limitation are mainly done on the basis of the interest rate gap (net position of the contractual or modelled fixed-interest rates per maturity band), a banking book VaR based on historical simulations, the interest rate sensitivity in the form of a PVBP, and regulatory interest rate statistics. P&L risk measurement is implemented in the form of a net interest income (NII) simulation. In the process, the NII of the next years is calculated for five potentially unfavourable interest rate scenarios. For 2018, the NII decreases by euro 48 million in the least favourable scenario (a marked interest rate reduction (parallel 200 BP)). The results of the NII simulation and the banking book VaR are taken into account in the ICAAP. Under both perspectives, positions with indefinite interest rates (e.g. in the form of sight and savings deposits, current account facilities) are consistently included in the risk measurement process by replication assumptions. The assumptions are determined on the basis of statistical analyses, supplemented by expert opinions. They are regularly reviewed for validity and validated in a group that is independent of the modelling process.

Concentration risk

No concentration risks exist within the interest rate risk.

Credit spread risk

The credit spread is defined as additional charge on the risk-free interest rate. The credit spread risk arises from fluctuations of the present values of assets due to credit spreads changing over the course of time.

The transactions relevant to credit spread risk are investments in the bank's own portfolio, and not loans and advances to customers. This essentially comprises bonds, funds, credit default swaps (CDS), as well as bonded loans. For these positions, a credit spread VaR and credit spread sensitivities are calculated. Within the scope of the ICAAP, credit spread risk is considered during calculation of the risk-bearing capacity and aggregate bank risk stress testing.

The calculation of the credit spread VaR is based on a historical simulation. In this context, the portfolio is broken down into 30 risk clusters, depending on rating, sector, product type and seniority. The plausibility and reliability of the VaR indicators are reviewed by way of backtesting and validated in a group independent from the modelling approach on a recurring basis.

The risk ratios for the group are as follows (the credit spread value at risk is calculated for a 99.9 % confidence level and a holding period of 1 year):

Euro thousand 31 Dec 2017	Credit Spread Value at Risk	10 basis point-shift
	110,485	-13,384
31 Dec 2016		
	126,842	-14,198

In line with the investment strategy, the bank's own portfolio includes highly liquid assets of the public sector and covered bonds with a high credit rating. It is primarily held as a liquidity buffer and eligible for the regulatory liquidity coverage ratio (LCR) for the major part.

Concentration risk

Concentration risks can only arise on the level of issuers or risk clusters in the sense of similar issuers. Within Credit Spread Risk, risk clusters are monitored. At present, the biggest concentration exists within the Sovereign Austria risk cluster (42 % of the bank's own portfolio). There are 23 % in covered bonds and 8 % in Sovereign Italy. Concentrations with individual issuers are limited by the issuer lines within credit risk.

Portfolio structure by credit rating:

Euro thousand	31 Dec 2017	31 Dec 2016
1A	1,188,136	1,174,990
1B-1C	147,339	206,428
1D-2A	81,439	75,587
2B-3A	375,014	392,543
3B-4E (NIG)	251	337
5A-5E (Default)	0	0
no rating	0	0
Total	**1,792,179**	**1,849,885**

Portfolio structure by sectors:

Euro thousand	31 Dec 2017	31 Dec 2016
Financial sector	442,470	349,439
Public sector	1,336,037	1,457,005
Corporates	3,175	15,952
No classification	10,497	27,489
Total	**1,792,179**	**1,849,885**

Top 10 exposures in the public sector:

Euro thousand	Available for sale	Held to maturity and loans & receivables	Loans and receivables	Total
31 Dec 2017				
Austria	735,443	10,308	0	745,751
Italy	116,057	20,000	0	136,057
Poland	95,559	0	0	95,559
Belgium	51,466	15,686	0	67,152
Czech Republic	53,697	0	0	53,697
Portugal	48,102	0	0	48,102
Spain	42,105	0	0	42,105
France	0	34,812	0	34,812
Switzerland	0	0	25,637	25,637
Slovakia	1,765	21,746	0	23,511
Total	**1,144,194**	**102,552**	**25,637**	**1,272,383**
31 Dec 2016				
Austria	794,658	10,343	0	805,001
Italy	119,867	20,000	0	139,867
Poland	98,015	4,310	0	102,325
Switzerland	0	0	74,495	74,495
Czech Republic	49,698	15,766	0	65,464
Belgium	52,978	0	0	52,978
Portugal	40,128	0	0	40,128
Spain	43,860	0	0	43,860
Hungary	31,183	0	0	31,183
Lithuania	0	30,190	0	30,190
Total	**1,230,388**	**80,608**	**74,495**	**1,385,492**

The major part of the portfolio has been allocated to the category ‘available for sale’ (afs). In line with the investment strategy, new investments are allocated to the ‘held to maturity’ (htm) category for the major part.

Portfolio structure according to IAS 39 categories:

Euro thousand	Bond	Syndicated & bonded loans	Fund & Equity	Total
31 Dec 2017				
Available for sale	1,455,414	0	3,175	1,458,589
Held to maturity and loans & receivables	307,953	25,637	0	333,590
Total	**1,763,367**	**25,637**	**3,175**	**1,792,179**
31 Dec 2016				
Available for sale	1,495,933	0	27,489	1,523,422
Held to maturity and loans & receivables	251,968	74,495	0	326,463
Total	**1,747,901**	**74,495**	**27,489**	**1,849,885**

Market risk in the trading book

The market risk in the trading book of the VBW group is of minor importance. The main responsibilities of the Risk Controlling function include determination of the limit structure based on the allocated economic capital and the daily review of the limits, the administration of the front-office systems, and the development of the systems and models. The regulatory capital adequacy requirements of the trading book are calculated according to the standard approach – the VBW group does not apply any internal model for market risk in the trading book. The limit structure reflects the risk and Treasury strategy.

Within the scope of the ICAAP, market risk is considered within calculation of the risk-bearing capacity and aggregate bank risk stress testing. Reporting is done daily by the Market and Liquidity Risk department to Treasury, and monthly to the ALCO.

A VaR is calculated every day for the trading book according to the method of historical simulation for the purpose of risk monitoring. In the historical simulation, historical market price changes are taken to evaluate the current portfolio. A 99 % VaR is calculated for a holding period of 10 days. The plausibility and reliability of the VaR indicators are reviewed daily by way of backtesting and validated in a group independent from the modelling approach on a recurring basis.

The following table shows the VaR in the trading book (for 99 % confidentiality niveau, holding period 1 day) divided by risk types for the 2017 and 2016 business year:

Euro thousand	Interest	Currency	Volatility	Total
31 Dec 2017				
Trading book	19	0	39	**42**
31 Dec 2016				
Trading book	108	0	59	**120**

Apart from VaR, a series of other risk indicators are calculated daily and used for limitation. They essentially comprise interest rate sensitivities and option risk indicators (delta, gamma, vega, rho). Additionally, there are management action triggers and stop-loss limits.

Since extreme situations are not covered by the VaR so calculated, comprehensive stress tests are carried out monthly or on an ad hoc basis across all portfolios in the trading book. Non-portfolio-specific scenarios, such as parallel shifts, curve rotations or reconstructions of historical crises are applied to the current portfolio without changes during each crisis test. Portfolio-specific scenarios attempt to find the most unfavourable effects on the current portfolio.

The systems used ensure the daily unbiased valuation of the trading book items.

Foreign exchange risk (open FX positions)

The foreign exchange risk from open FX positions is of minor importance within the VBW group. It arises due to changes of the value of outstanding receivables and liabilities in foreign currencies through exchange rate fluctuations.

Currency Euro thousand	31 Dec 2017	31 Dec 2016
CZK	2,891	4,268
CHF	1,085	1,597
USD	65	135
JPY	-32	116
GBP	12	29
Others	574	901
Total	**4,594**	**7,046**

d) Liquidity risk

As the CO of the Association of Volksbanks, VBW is responsible for liquidity management across the entire Association and acts as lender of last resort for the primary banks. The primary banks cover their funding requirements and invest their excess liquidity via VBW. Both operational, short-term liquidity management and medium- to long-term liquidity management are performed in a centralised manner at VBW, in the Treasury division, through the Liquidity Management department. Monitoring and limitation of liquidity risk, as well as the methodological requirements regarding risk measurement are performed or stipulated by the Market and Liquidity Risk Controlling department at VBW.

The ALCO is responsible for controlling the liquidity position of VBW within the scope of risk limits defined by Risk Controlling and approved by the Managing Board within ALCO. The ALCO is the central body for the management of liquidity risks. Liquidity risk reporting within ALCO is taken care of by the Market and Liquidity Risk Controlling department.

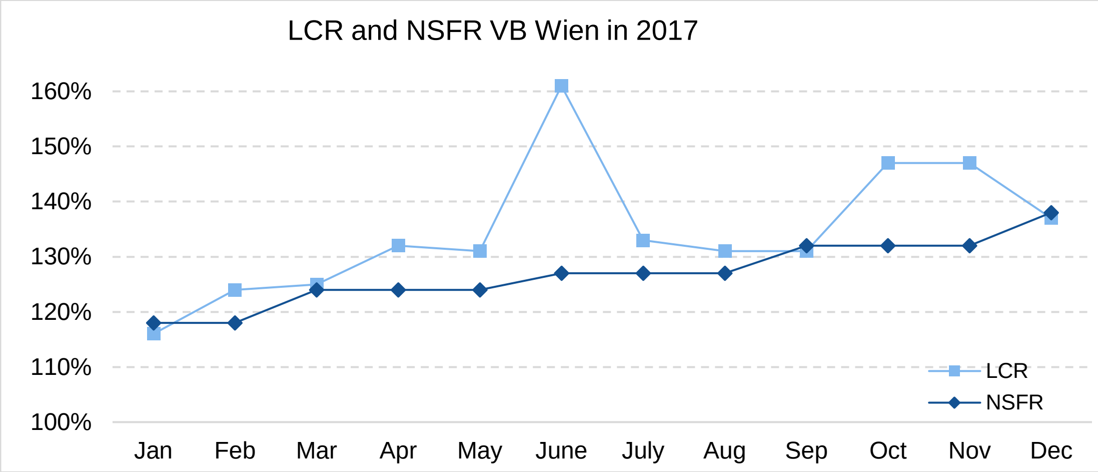
Within liquidity risk, VBW distinguishes between illiquidity risk and funding cost increase risk. Illiquidity risk is the risk to be unable to settle payment obligations when they are due. In case of illiquidity risk, additional subcategories, e.g. refinancing risk (roll-over risk), call risk and market liquidity risk are distinguished, which are of relevance especially in the context of liquidity stress testing. For VBW as a retail bank, illiquidity risk typically consists in the risk of a bank run. This occurs when, due to a loss of confidence, customers withdraw large deposit volumes and at the same time alternative funding sources are not accessible (any more).

Illiquidity risk is managed by holding a sufficient liquidity buffer. VBW is responsible for the central management of the liquidity buffer for the whole of the Association. The liquidity buffer mainly consists of highly liquid bonds that are LCR-eligible for the major part, of deposits with the national bank, of ECB tender potential, and covered bond issue potential. The liquidity of the liquidity buffer is tested regularly. The Liquidity Management department within the Treasury division is responsible for the current management of the liquidity buffer.

At VBW, the risk of funding cost increases is defined as a negative income statement effect that occurs due to potential future increases of refinancing costs on the money and capital markets as well as in the retail business. This risk is taken into account in the risk-bearing capacity calculation within the scope of the ICAAP. Said risk is of minor importance at VBW, as the company is hardly dependent on the capital market, and little price sensitivity is observed from customer deposits.

The risk measurement and limitation of illiquidity risk is done through the regulatory indicators LCR and NSFR, the survival period from internal liquidity stress testing, and through additional operational business ratios. The LCR aims to ensure the short-term financial solvency of banks under stressed conditions over a short-term horizon of 30 calendar days. The calculation of the LCR takes place weekly and at the end of the month in the Market and Liquidity Risk Controlling department. The NSFR restricts the permissible extent of liquidity term transformation by determining a minimum of stable refinancing, depending on the liquidity characteristics of the assets and other (off-balance sheet) operations of a bank. Currently, calculation takes place weekly and at the end of the month in the Market and Liquidity Risk Controlling department at VBW. In 2017, both business ratios were always clearly above the regulatory limits. Since March, the LCR has always been above 125 % at end of month, indicating a comfortable liquidity situation.

Regulatory liquidity ratio LCR and NSFR in 2017:



The marked increase of the LCR in June is mainly due to internal money market transactions of the Association.

The survival period is the period during which, under a given stress scenario, the liquidity buffer held is sufficient to cover cumulated net liquidity outflows. Five stress scenarios of various degrees of severity are calculated: one low and one severe bank stress, one low and one severe market stress, and one combined scenario. The least favourable of the scenarios calculated is applied to the survival period. In 2017, the survival period always exceeded 128 days, thus providing evidence of the comfortable liquidity position.

Concentration risk

Due to diversified funding through customer deposits, concentration risk is not material. The only risk clusters exist at customer level. Accordingly, the largest deposits at customer level are monitored both in risk controlling and also within operational liquidity management. All of them amount to less than 1 % of total assets. There are only a few temporary exceptions with some major accounts for implementing payment transactions or balancing liquidity peaks. All of these are clearly below 5 % of total assets and do not constitute any long-term funding position for VBW. No other risk clusters with similar characteristics exist.

Operational liquidity management

The Liquidity Management department in the Treasury division is responsible for operational liquidity management. The department is the central unit at VBW and within the Association of Volksbanks for matters regarding the pricing of liquidity (transfer pricing), the central management of collateral across the Association, the determination of the funding structure, the disposal of available liquid funds, and compliance with the refinancing strategy; it comprises the following essential duties:

- Cash management (settlement of all transactions of the Association as well as disposition of the banking connections maintained by VBW)
- Collateral management: ECB-eligible collateral of the Association (bonds and credit claims) and underlying stock management for covered bonds
- Issue planning
- Daily liquidity forecast for the following 31 days, and weekly for the following 12 months
- Monitoring of refinancing positions of the Association, and the control system put into effect by VBW as CO with the approval under section 30a BWG, for the individual banks of the Association – a.o. liquidity reports, refinancing management, collateral utilisation, early warning system

- Compliance with minimum reserve regulations for the Association of Volksbanks
- Reporting to the CO Managing Board and to the ALCO

e) Operational risk

The VBW Group defines operational risk as the risk of losses due to the inadequacy or failure of internal procedures (processes), people, systems or to external events, and the associated legal risks. The reputational, conduct, model, IT and security risks are closely associated with operational risk and are actively taken into account. The calculation of regulatory capital adequacy requirements is effected acc. to the standard approach. Until 31 December 2017, this method was used for both the regulatory and the economic presentation (ICAAP). As of 1 January 2018, an internal method based on a loss allocation approach is used for the economic perspective.

Organisation

Within the VBW group, line management is responsible for the management of operational risks. It is supported in this function by centrally or decentrally based experts from the spheres of operational risk and internal control system. The aim is to optimise processes in order to reduce the probability of the occurrence of operational risks and/or to reduce the effect of operational losses. Apart from close cooperation with the security, safety, business continuity planning and insurance management functions, at least one annual analysis of potential operational risks within the scope of quantitative risk analysis as well as the ongoing adjustment of the internal control system to the risk situation of the bank ensure optimal and comprehensive control of operational risks.

Methods for the management of operational risks

Within the scope of operational risk management, both quantitative and qualitative methods are used. Quantitative elements comprise – for instance – the execution of risk analyses, the performance of stress tests, the determination and monitoring of risk appetite and of the risk indicators, as well as the preparation of the incident database. Qualitative control measures are reflected in the implementation of training events, awareness-building measures, risk analyses, the preparation of the incident database incl. analysis of causes, the implementation of uniform ICS checks, as well as in the preparation and analysis of the risk reports.

If the key indicators defined for operational risk are exceeded, the defined escalation process is applied. This process provides for a detailed analysis of causes and subsequently initiation of adequate measures.

The following principles, derived from the risk strategy, apply in OpRisk Management within the group:

- The primary aim of the entire OpRisk Management system is to optimise processes to decrease the likelihood of incidents occurring and/or the impact of operational losses.
- Incidents are documented fully and in a sufficiently transparent manner via an electronic platform to enable third-party experts to benefit from the documentation. Operational incidents are recorded in a uniform manner across the group. The resulting transparency with respect to the occurrence of incidents allows for risk assessment to be derived from historical facts.
- The methods, systems and processes within OpRisk Management need to be adjusted to the respective bank, in compliance with the requirements of the group, following the principle of proportionality.
- The appropriateness of the risk control and monitoring measures and other risk-minimising measures is assessed on a current basis, but at least once a year, and reported to the Managing Board. For example, risk control measures include awareness-building measures/training events, monitoring of the operational risk indicators, implementation of the annual risk analysis. Operational (residual) risks that cannot be avoided, reduced or transferred must be accepted formally and demonstrably by the management.

- The efficiency of OpRisk Management is confirmed through periodic and independent internal audits.

Internal control system

Within the VBW group, an internal control system (ICS) has been put in place according to the principles of the internationally recognised standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Detailed descriptions of ICS processes and control measures are available. The responsibilities and roles relating to the ICS are clearly defined. Regular reporting takes place for the ICS. Control activities are documented and reviewed, ICS-relevant risks are regularly evaluated and adjusted. Accordingly, a continuous optimisation process is ensured. Internal Audit, in its capacity as independent supervisory body, audits the internal control system. Both the effectiveness and adequacy of the ICS, as well as compliance with instructions are audited. The OpRisk and ICS framework describes the inter-related components implemented within the Association of Volksbanks with a view to identifying, measuring, monitoring and controlling operational risk. The close interlocking of OpRisk Management with the internal control system ensures appropriate consideration of operational risks within the Association.

One focus in 2017 was on the development of the risk analysis regarding quantitative and qualitative elements, as well as the review of the training concept and uniform controls across the Association. Additionally, an internal method for the quantification of OpRisk in the ICAAP was developed for use in internal stress testing and in the ICAAP.

f) Other risks

In terms of other risks, the VBW Group is confronted with investment risk, strategic risk, reputational risk, equity risk and business risk.

Investment risk is defined as the risk that any participation held is lost or impaired. This risk is quantified and taken into account within the scope of the risk-bearing capacity calculation.

Strategic risk is the risk of a negative impact on capital and income due to business-policy decisions or failure to adapt to changes in the economic environment.

Reputational risk is the risk of negative effects on the Bank’s result due to a loss of reputation and associated negative effects on stakeholders (regulator, owners, creditors, employees, customers).

The Group defines equity risk as the risk of an unbalanced composition of internal equity in relation to the type and size of the Bank or difficulties in absorbing additional risk-covering capital quickly in case of need.

Business risk (yield risk) is the risk arising from earnings volatility and hence the risk of being unable to (fully) cover unavoidable fixed costs.

Non-standard risks and/or non-financial risks (reputational risks, conduct risks, compliance risks, legal risks, model risks, as well as IT and system risks) are taken into account by the compliance framework and the framework for operational risks, amongst others.

Mainly organizational and procedural measures are implemented for the management of other risks.

51) Fully consolidated companies[1)]

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
3V-Immobilien Errichtungs-GmbH; Wien	HD	100.00 %	100.00 %	35
Gärtnerbank Immobilien GmbH; Wien	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	HD	100.00 %	100.00 %	35
VB Rückzahlungsgesellschaft mbH; Wien	HO	100.00 %	100.00 %	35
VB Services für Banken Ges.m.b.H.; Wien	HD	98.89 %	98.89 %	327
VB Verbund-Beteiligung Region Wien eG; Wien	HO	90.42 %	90.42 %	3,857
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	HD	99.00 %	99.00 %	36
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	872

[1)] All fully consolidated companies are under control.

52) Companies measured at equity

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VB Verbund-Beteiligung eG; Wien	HO	21.85 %	21.85 %	51,949
Volksbank Kärnten eG; Klagenfurt	KI	25.36 %	25.36 %	34,746

53) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousend
ARZ-Volksbanken Holding GmbH; Wien	HO	73.79 %	73.79 %	256
Immo-Contract Baden Maklergesellschaft m.b.H.; Baden	SO	100.00 %	100.00 %	175
Immo-Contract Weinviertel GmbH; Mistelbach an der Zaya	SO	56.90 %	56.90 %	35
UVB-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VB ManagementBeratung GmbH; Wien	SO	100.00 %	100.00 %	36
VBKA-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VOME Holding GmbH; Wien	HO	100.00 %	100.00 %	35

*Abbreviations Type

KI	credit institution
FI	financial institution
HD	ancillary banking service
SO, HO	other enterprise

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

We have audited the consolidated financial statements of

VOLKSBANK WIEN AG,
Vienna, Austria,

and its subsidiaries (the Group) which comprise the Consolidated Statement of Financial Position as at 31 December 2017, and the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and Section 59a BWG (Austrian Banking Act).

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 („EU Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

Valuation of loans and advances to customers

Risk for the Consolidated Financial Statements

Loans and advances to customers represent a significant line item in the consolidated statement of financial position. As of 31 December 2017, the carrying amount of loans and advances to customers (gross) amounts to EUR 4,810.3 million, accounting for 45 % of total assets of EUR 10,616.5 million. The credit risk provisions for loans and advances to customers amount to EUR 57.9 million.

The Managing Board of VOLKSBANK WIEN AG describes the approach to determine credit risk provisions in Note 3 f).

The general specific risk provision and portfolio risk provision are based on statistically calculated parametes, such as historical default probabilities and loss rates.

For individually significant loans and advances, the calcualtion of the individual bad debt allowance is based on the present value of the expected cash flows representing the recoverable amount. For loans and advances with a defined event of default, which are not subject to the individual bad debt allowance process due to their exposure amount, a general specific credit risk provision is recognized. A portfolio credit risk provision is recognized for loans and advances for which no events of default were identified.

The risk in determining the credit risk provision is the identification of events of default, estimation of expected cash flows taking into account the financial situation of the counterparty, the valuation of loan collateral and the assumptions in respect of the statistical parameters used. Therefore, risk provisions are subject to significant uncertainties and as such, represent a risk to the consolidated financial statements.

AUDITOR'S REPORT

Our response
We analysed the process documentation and internal guidelines regarding the allocation, monitoring and recognition of credit risk provisions and evaluated whether they are suitable to identify events of default and to adequately determine the recoverability of these loans and advances. We compiled the relevant key controls, assessed their design and implementation, and tested their effectiveness on a sample basis.

For individual bad debt allowances for individually significant loans and advances, we evaluated on a sample basis whether events of default exist, and whether individual bad debt allowances have been recognized in adequate amounts. In selecting the sample, rating levels with higher default risk were particularly taken into account. In case of identified events of default, we assessed the group's estimates regarding the amount and timing of future cash flows and whether the assumptions were appropriate and evaluated them on the basis of external evidence – if any – such as appraisal reports or going-concern forecasts.

With respect to the general specific credit risk provision and the portfolio credit risk provision, we evaluated the models and the parameters used therein – taking account of the results of the backtesting performed by the group – as to whether they are suitable to determine provisions in adequate amounts. We consulted our financial mathematicians to assess the adequacy of the calculation methods used to determine the probabilities of default and loss rates. They assessed in particular, the adequacy of the statistical models used, the mathematical functionalities and the validation of the parameters. We assessed the accuracy of the provisions on a sample basis. Additionally, our IT specialists evaluated the underlying systems and interfaces for completeness and correctness of data transfer.

Finally, we evaluated the adequacy of the disclosures on the determination of bad debt allowances for loans and advances to customers in the notes to the consolidated financial statements.

Recognition of deferred tax assets on tax loss carryforwards
Risk for the Consolidated Financial Statements
As of 31 December 2017, tax loss carry forwards amount to EUR 377.9 million. Taking into account the corporate income tax rate of 25 %, there are potential deferred tax assets on tax loss carryforwards amounting to EUR 94.5 million. Based on future expected taxable income, the group recognized deferred tax assets on tax loss carryforwards amounting to Euro 27.5 million as of 31 December 2017.

The Managing Board of VOLKSBANK WIEN AG describes the approach to determine deferred tax assets on tax loss carryforwards in Note 23.

Recognition of deferred tax assets on tax loss carryforwards highly depends on estimates made by the Managing Board in respect of the future availability of sufficient taxable profit and the reversal of deferred tax liabilities. The assessment of the realisation of tax loss carryforwards, which were mainly recognized in VOLKSBANK WIEN AG, is based on the forecasts and is subject to uncertainties and therefore represents a risk to the consolidated financial statements.

Our response
Our procedures included the assessment of the process for the recognition of deferred tax assets.

We evaluated the assumptions underlying the forecast of future taxable profits on which deferred tax assets are expected to be realized. For this purpose, we compared the key input parameters for the forecast of future taxable profits with internal budgeting and with an externally prepared valuation report of VOLKSBANK WIEN AG as of 31 December 2017 and assessed them. Moreover, we assessed the appropriateness of the assumptions made, using externally available data, such as macroeconomic forecasts, and the company's past results is respect of their planning accuracy.

Finally, we evaluated the adequacy of the disclosures on the on deferred tax assets on tax loss carryforwards, particular with respect to unused tax loss carryforwards, in the notes to the consolidated financial statements.

Presentation of the business combination SPARDA-BANK AUSTRIA eGen
Risk for the Consolidated Financial Statements
The contribution of SPARDA-BANK AUSTRIA eGen into the parent company VOLKSBANK WIEN AG was registered in the companies' register on 17 August 2017.

AUDITOR'S REPORT

For the purpose of initial consolidation, in a first step, the transferred assets and assumed liabilities were identified. Then, the identified assets and liabilities of SPARDA-BANK AUSTRIA eGen were measured in the course of a purchase price allocation, taking into account planning and other assumptions and recognized at their fair values in the consolidated financial statements as of 31 December 2017. Both steps were based on estimates and judgement made by the management board of VOLKSBANK WIEN AG, both of which are subject to significant uncertainties and therfore, represent a risk to the consolidated financial statements.

Our response
In the course of our audit of the initial recognition and measurement of the assets and liabilites recognized in initial consolidation of SPARDA-BANK AUSTRIA eGen into the consolidated financial statements, we assessed the existence of control as of 17 August 2017 by evaluating compliance with the terms of the acquisition agreement in respect of the closing and whether the identified acquired assets and assumed contingent liabilities and liabilities qualify for recognition under IFRS 3. Additionally, we evaluated the appropriateness of the purchase price, which was paid for 100 % of the shares.

We evaluated the assumptions used in the purchase price allocation including the planned earnings for SPARDA-BANK AUSTRIA eGen, taking into account general and industry specific market expectations and market studies. Additionally, we assessed whether the method of measurement and its application in the valuation models as well as the key parameters such as cash flows, useful lives, cost of capital and the economic assessment of profits derived from enterprise values are appropriate.

We evaluated the appropriateness of the presentation of the transaction in the consolidated financial statements as well as the accuracy of the discounted cash flow model used for the determination of the fair values.

Finally, we evaluated the adequacy of the disclosures on the busness combination SPARDA-BANK AUSTRIA eGen in the notes to the consolidated financial statements.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) as well as Section 59a BWG and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

AUDITOR'S REPORT

Moreover:
- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Group Management Report

In accordance with the Austrian Generally Accepted Accounting Principles, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with the Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

AUDITOR'S REPORT

Other Information
Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report and the auditor's report. We expect the annual report to be provided to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any kind of assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact.

Additional Information in accordance with Article 10 EU Regulation
At the Annual General Meeting dated 18 May 2016, we were elected as group auditors. We were appointed by the Supervisory Board on 12 July 2017. We have been the Group's auditors from the year ended 31 December 2015 without interruption.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

Engagement Partner
The engagement partner is Mr. Walter Reiffenstuhl.

Vienna, 13 March 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Walter Reiffenstuhl
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid.

STATEMENT OF ALL LEGAL REPRESENTATIVES

VOLKSBANK WIEN AG
Statement of all Legal Representatives

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

Vienna, 13 March 2018

Gerald Fleischmann
Chairman of the Managing Board

Digitalisation, General Secretariat, Front Office Service Center / Customer Service Center,
Organisation & IT, HR Management, PR & Communication, Private Banking / Treasury,
Retail, Audit, Banking Association Strategy, Sales Management / Marketing

Josef Preissl
Deputy Chairman of the Managing Board

Corporates, Property Subsidiaries, Real Estate,
VB Services for Banks

Rainer Borns
Member of the Managing Board

Control, Financial Data Steering,
Finance, Legal and Compliance

Thomas Uher
Member of the Managing Board

Credit risk management, Risk controlling,
Transition Credit

INDIVIDUAL ANNUAL FINANCIAL STATEMENTS VOLKSBANK WIEN AG

BALANCE SHEET

Assets	Euro	31 Dec 2017 Euro	Euro Thousand	31 Dec 2016 Euro Thousand
1. Cash in hand, balances with central banks		1,813,950,924.90		1,119,253
2. Debt instruments issued by public bodies and similar securities		1,031,280,223.39		1,092,087
3. Loans and advances to credit institutions				
a) Due on demand	249,670,432.49		300,441	
b) Other receivables	1,461,855,320.78	1,711,525,753.27	1,904,804	2,205,245
4. Loans and advances to customers		4,879,881,059.60		4,426,192
5. Bonds and other fixed-income securities				
a) From public issuers	38,589,377.62		44,023	
b) From other issuers	1,290,917,443.53	1,329,506,821.15	1,185,320	1,229,343
Of which: In-house issues Euro 855,046,557.49 (2016: Euro thousand 855,057)				
6. Shares and other variable-yield securities		39,189,118.91		62,640
7. Participations Of which: in credit institutions Euro 15,744,928.36 (2016: Euro thousand 6,901)		50,727,487.42		26,389
8. Investments in affiliates Of which: in credit institutions Euro 0,00 (2016: Euro thousand 0)		26,412,717.48		25,991
9. Intangible non-current assets		532,048.43		272
10. Fixed assets Of which: Land and buildings used by the credit institution within the scope of its own activities Euro 46,163,986.77 (2016: Euro thousand 41,975)		79,524,142.35		75,452
11. Other assets		373,990,333.04		464,746
12. Deferred items		2,127,944.01		2,372
13. Deferred tax assets		30,257,659.94		26,221
Total assets		**11,368,906,233.89**		**10,756,203**

Off-balance sheet items				
1. Foreign assets		1,322,203,646.23		1,435,893

Liabilities	Euro	31 Dec 2017 Euro	Euro Thousand	31 Dec 2016 Euro Thousand
1. Amounts owed to credit institutions				
a) Due on demand	2,482,510,408.21		2,711,680	
b) With agreed term or period of notice	261,041,032.89	2,743,551,441.10	627,518	3,339,198
2. Amounts owed to customers				
a) Saving deposits				
aa) Due on demand	1,309,883,540.28		990,057	
bb) With agreed term or period of notice	905,140,912.85		1,029,343	
	2,215,024,453.13		2,019,400	
b) Other liabilities				
aa) Due on demand	2,729,049,509.65		2,164,767	
bb) With agreed term or period of notice	913,163,951.25		564,165	
	3,642,213,460.90	5,857,237,914.03	2,728,932	4,748,332
3. Debts evidenced by certificates				
a) Issued debt securities	974,976,890.94		953,445	
b) Other debts evidenced by certificates	308,201,067.51	1,283,177,958.45	524,413	1,477,858
4. Other liabilities		445,719,518.50		611,063
5. Deferred items		7,078,382.08		8,011
6. Provisions				
a) Provisions for severance payments	21,025,871.00		19,988	
b) Provisions for pensions	8,707,394.59		9,299	
c) Provisions for taxes	6,891,712.52		4,892	
d) Other	88,925,063.61	125,550,041.72	95,788	129,967
7. Supplementary capital pursuant to Part Two, Title 1, Chapter 4 of Regulation (EU) No 575/2013		424,643,411.02		23,175
8. Subscribed capital		132,893,812.50		126,938
9. Capital reserves				
a) Appropriated	222,892,603.76			
b) not appropriated	0.00	222,892,603.76		214,375
10. Retained earnings				
Other reserves		74,532,125.80		26,637
11. Liability reserve pursuant to section 57 (5) BWG		36,972,247.86		35,878
12. Net profit		14,656,777.07		14,771
Total liabilities and equity		**11,368,906,233.89**		**10,756,203**

Off-balance sheet items	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
1. Contingent liabilities and liabilities from sureties, guarantees and provision of collateral	369,083,223.42	412,935
2. Credit risks Of which: Liabilities from repurchase agreements Euro 0.00 (2016: Euro thousand 0)	4,376,099,757.89	4,331,388
3. Liabilities from fiduciary transactions	149,758,094.77	149,940
4. Eligible capital pursuant to Part Two of Regulation (EU) No 575/2013 Of which: Supplementary capital pursuant to Part Two, Title 1, Chapter 4 of Regulation (EU) No 575/2013 Euro 437,184,306.51 (2016: Euro thousand 35,579)	907,329,558.81	450,270
5. Capital requirement pursuant to Article 92 of Regulation (EU) No 575/2013	3,394,265,936.70	3,171,322
Of which: Capital requirement pursuant to Article 92 (1)		
(a) of Regulation (EU) No 575/2013 (Common Equity Tier 1 capital ratio in %)	13.83%	13.03%
(b) of Regulation (EU) No 575/2013 (Tier 1 capital ratio in %)	13.83%	13.03%
(c) of Regulation (EU) No 575/2013 (Total capital ratio in %)	26.73%	14.20%
6. Foreign liabilities	514,694,039.34	148,581

INCOME STATEMENT

	Euro	1-12 2017 Euro	Euro Thousand	1-12 2016 Euro Thousand
1. Interest and similar income		139,553,946.43		141,228
Of which: From fixed-income securities	8,393,281.80		8,849	
2. Interest and similar expenses		-31,138,983.52		-34,122
I. NET INTEREST INCOME		108,414,962.91		107,106
3. Income from securities and investments				
a) Income from shares, other ownership interests and variable-yield securities	818,020.09		915	
b) Income from investments	2,232,806.18		1,868	
c) Income from shares in affiliates	1,700,631.96	4,751,458.23	1,852	4,635
4. Fee and commission income		89,234,379.21		79,860
5. Fee and commission expenses		-28,182,921.31		-29,987
6. Net trading income/expenses		3,074,960.51		4,715
7. Other operating income		87,475,922.62		122,241
II. OPERATING INCOME		264,768,762.17		288,570
8. General administrative expenses				
a) Staff expenses				
aa) Wages and salaries	-78,772,744.94		-63,303	
bb) Expenses for statutory social contributions and remuneration-related charges and compulsory contributions	-20,608,253.41		-18,595	
cc) Other social expenses	-1,573,302.29		-1,431	
dd) Expenses for retirement benefits and support	-2,521,087.78		-2,328	
ee) Allocation to provision for pensions	677,514.00		1,080	
ff) Allocation to provision for severance payments and employee welfare funds	-7,096,784.73		-2,966	
	-109,894,659.15		-87,543	
b) Other administrative expenses (administrative expenses)	-101,533,383.78	-211,428,042.93	-79,748	-167,291
9. Value adjustments on assets within items 9 and 10		-6,599,796.01		-10,719
10. Other operating expenses		-25,330,563.70		-52,127
III. OPERATING EXPENSES = AMOUNT CARRIED FORWARD		-243,358,402.64		-230,137

	Euro	1-12 2017 Euro	Euro Thousand	1-12 2016 Euro Thousand
III. OPERATING EXPENSES = AMOUNT CARRIED FORWARD		-243,358,402.64		-230,137
IV. OPERATING PROFIT		21,410,359.53		58,433
11. Balance from impairments on receivables and allocations to provisions for contingent liabilities and for credit risks as well as from securities held within the liquidity reserve as well as income from the reversal of impairments on receivables and from provisions for contingent liabilities and for credit risks as well as from securities held within the liquidity reserve		6,915,633.11		6,187
12. Balance from impairments on securities measured as financial assets, as well as on participations and shares in affiliates and income from impairments on securities measured as financial assets, as well as on participations		12,290,742.42		-34,192
V. RESULT FROM ORDINARY OPERATIONS		40,616,735.06		30,428
13. Income taxes		-321,432.78		22,132
14. Other taxes not shown under item 13		-2,254,159.26		-26,128
VI. ANNUAL RESULT AFTER TAXES		38,041,143.02		26,432
15. Reduction in net assets through reorganisation		0.00		-12,019
16. Movement in reserves		-38,041,143.02		0
Of which: Other retained earnings	1,094,576.49		0	
Release of retained earnings			0	
VII. ANNUAL RESULT		0.00		14,413
17. Profit carried forward		14,656,777.07		358
VIII. NET PROFIT		14,656,777.07		14,771

NOTES TO THE 2017 FINANCIAL STATEMENTS

Due to the contribution of the banking operation of SPARDA-BANK AUSTRIA eGen (Sparda), the previous year's figures are of limited significance only.

1. Accounting and valuation principles

General information

Since the 2015 business year, apart from retail business, VOLKSBANK WIEN AG (hereinafter also referred to as "VBW" or the "Company") has been performing the function of the central organisation of the Austrian Association of Volksbanks according to section 30a of the Austrian Banking Act (BWG), which is associated with far-reaching management and steering functions (in particular within the sphere of risk and liquidity management). The members of the Association of Volksbanks have unlimited liability among themselves, the pro-rata assumption of the costs and risks of the central organisation has been contractually agreed between the members. The regulatory provisions of Parts 2 to 8 of Regulation (EU) no. 575/2013 as well as section 39a BWG must be met by the Association of Volksbanks on the basis of the consolidated financial situation (section 30a (7) BWG). Furthermore, VBW must meet all regulatory provisions on single-entity and consolidated levels.

The annual financial statements of VBW as at 31 December 2017 were prepared by the Managing Board in accordance with the Austrian Commercial Code (UGB) and the Austrian Banking Act (BWG). The annual financial statements have been prepared in accordance with the principles of proper accounting, as well as in compliance with the general standard to present a true and fair view of the net worth, financial and earning position of the Company.

According to section 221 (3) UGB, the Company is classified as a large corporation.

The principle of completeness was observed during preparation of the annual financial statements, and the principle of individual valuation and the going-concern principle were observed during valuation of assets and debts.

The principle of prudence was taken into account in that only profits already realised on the balance sheet date are included in particular. All identifiable risks and imminent losses that have arisen in the 2017 business year or in any of the previous business years were taken into account, if known.

The previous form of presentation was basically retained during preparation of the present annual financial statements, observing the provisions of the Accounting Amendment Act (RÄG) 2014, which have been applied since the 2016 business year.

Loans and advances to credit institutions and to customers were reported at their nominal value.

The risk provision is determined in line with the impairment method applied in the consolidated financial statements according to IFRS (IAS 39). An impairment occurs if, after initial recognition of the loan receivable, objective information suggests an event that impacts on the future cash flows from the receivable and the effects of which can be estimated reliably.

For the purpose of determining provision requirements, loan receivables are reviewed individually for the above-mentioned indications within the scope of credit and default monitoring both regularly and on an ad hoc basis. The default criteria include, among others, forbearance measures as well as indicators suggesting a potential default of payment (e.g. unlikeliness to pay).

In case of receivables that meet any default criteria and exceed the defined amount of exposure ("significant" receivables), determination of the risk provision is effected using the discounted cash flow method (specific loan loss provision). In this context, the present value of expected future cash flows is calculated on the basis of the original effective interest rate of the receivable. It depends on the assessment of the current and future economic situation of the customer, the estimated amount of realisation proceeds of collateral securities, and the timing of cash flows resulting therefrom.

The risk provision for non-significant credit exposures meeting any default criterion is determined on a flat-rate basis (flat-rate specific loan loss provision). For credit exposures that do not show any default criteria a portfolio risk provision is set up. The flat-rate specific loan loss provision and the portfolio risk provision are determined on single-transaction level using valuation models. These valuation models are based on statistically calculated parameters, such as historical default and loss ratios. The methods and parameters used are validated regularly in order to approximate the estimated and actual defaults and losses.

The process for determining the impairment is computer-aided, using an impairment tool specifically developed for the purpose.

As in the previous year, use was made of the option under section 57 (1) BWG.

The main currencies were evaluated at the average exchange rates of the European Central Bank (ECB) as published on 31 December 2017. Other currencies were converted at the average rate of exchange of the balance sheet date. The currency portfolios were converted at the average foreign exchange rate.

The criterion for any security to be reported under financial assets is the intention for it to be held in the portfolio in the long term. Securities permanently earmarked for operations were measured as fixed assets, while current assets were measured strictly according to the lower of cost or market, taking account of the fair value if lower. No use was made of the option under section 204 (2) UGB to effect write-downs even if the impairment is not expected to be permanent.

VBW holds participations in various companies. None of these participations is listed at a stock exchange, and accordingly there is no active market. The participations are valuated by means of valuation methods and, to a certain extent, non-observable input factors. The valuations are effected according to the discounted cash flow method and peer group approach. Various calculation models are applied. The income approach is used if VBW is in control or exercises any management function and if, accordingly, budgets are available. If the Company is not in control, the fair value calculation is effected on the basis of the dividend disbursed, as well as of the annual results of the last five years. In case of companies whose object does not permit any regular income or the result of which is controlled by the parent company through settlements, the net assets are used as valuation criterion. In case of participations in co-operatives, the share capital is used as the market value, provided the subscription of new shares and the cancellation of existing shares are possible at any time. If valuation reports for participations are prepared by external valuators, they will be used for current valuation. To the extent that discounted cash flow methods are applied, the discount rates used are based on the respective current recommendations of the Fachsenat der österreichischen Kammer der Wirtschaftstreuhänder as well as of international financial data service providers and, in the 2017 business year, range between 6.9 and 8.9% (2016: 7.0 to 8.3%). The market risk premium used for the calculation is 6.75% (2016: 6.75%), the beta values used range between 0.8 and 1.1 (2016: 0.9 to 1.1). Additional country risks did not have to be considered. Discounts due to fungibility and exercise of control are effected for two participations.

The valuation of tangible fixed assets (land, buildings, equipment and fixtures) was performed at the cost of acquisition or production less scheduled depreciation. Intangible assets are capitalised at the cost of acquisition, if they were acquired for money. Scheduled depreciation/amortisation is effected on a straight-line basis. The depreciation/amortisation period ranges between 10 and 66 years for buildings, between 3 and 20 years for equipment and fixtures, and between 2 and 5 years for intangible assets. Non-scheduled write-downs to a fair value that is lower on the reporting date are performed where the impairments are likely to be permanent. Write-ups are performed if the reasons for the unscheduled write-down have lapsed. The write-down is effected to not more than the net carrying amount derived after taking account of the ordinary depreciation/amortisation that would have had to be effected in the meantime. Low-value assets of an individual acquisition value of up to euro 400.00 are written down in full in the year of addition and shown in the fixed asset movement schedule as additions and disposals.

Accounting of deferred taxes is effected by the asset and liability approach based on the temporary concept. Deferred tax assets for future tax receivables from tax loss carried forward are not recognised.

Liabilities from banking business are measured at the amount repayable, at amortised cost, on the balance sheet date.

At the balance sheet date, charge money savings deposits amount to euro 12,377,209.61 (31 December 2016: euro 11,657,000). The underlying stock dedicated to this purpose consists of investment grade securities and amounts to euro 17,223,200.00 (31 December 2016: euro 15,000,000).

Premiums and discounts for debts evidenced by certificates accrue over the term of the liabilities. Issuing costs and commissions for additional contributions are recognised as fundraising expenditure at the time of issuing the bond.

Provisions for severance payments, long-term service bonuses and pensions are determined according to generally recognised actuarial principles, using the entry age normal method.

Provisions for pensions and severance payments are determined according to generally recognised actuarial principles using the entry age normal method based on a discount rate of 2.91% (previous year: 3.37%), planned salary increases of 3% (previous year: 3%) and a retirement age of 60-65 years (previous year: 60 years) for women and 65 years (previous year: 65 years) for men. The measurement of retirement pension obligations includes legitimate claims of employees that were in active service at the measurement date, as well as the entitlements of current pension recipients. The accrual period extends until retirement age is reached. As regards expected mortality, the calculation tables "AVÖ 2008 P-Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, Angestelltenbestand" are applied. Termination of employment due to reaching the age limit and also due to invalidity or death, as well as the vested rights of surviving dependants are taken into account, but no fluctuation discount.

At 31 December 2017, as in the previous year, the discount rate is derived from the 7-year average interest rate (for 15-year maturities), as published by Deutsche Bundesbank (cf. AFRAC statement 27 "Provisions for staff costs (UGB)"). Interest expenses as well as the effects from a change of interest rate are reported in the item Staff costs together with allocations and reversals.

Other provisions were recorded in the expected amount repayable; they take account of all identifiable risks and liabilities of yet uncertain amount. Long-term provisions were discounted at an average interest rate of 1.5% (previous year: 2%).

Other provisions include obligations to pay long-term service bonuses under the collective bargaining agreement. Said provisions are determined according to the accounting and valuation methods applied to provisions for severance payments.

The item Supplementary capital according to Part 2 Title I Chapter 4 of Regulation (EU) no. 575/2013 shows those supplementary capital instruments that are eligible as Tier 2 capital without restrictions according to the conditions of the CRR. Moreover, participation capital that is only eligible as CET 1 capital within the scope of the transitional regulations is reported in the balance sheet in the item Supplementary capital according to Part 2 Title I Chapter 4 of Regulation (EU) no. 575/2013. Supplementary capital that is only eligible as own funds under transitional regulations is included in the item debts evidenced by certificates.

The nominal values of off-balance sheet transactions are reported in the off-balance sheet items. Provisions for expected losses are recorded for the latter in case of imminent use.

The comparable prior-year figures are rounded to the nearest thousand euros and added in brackets in the Notes; accordingly rounding differences cannot be excluded in the totals stated.

Measurement and accounting of derivative financial instruments

Derivative financial instruments of the banking book

In case of interest rate swaps, interest is accrued pro rata up to the balance sheet date.

Currency futures and currency swaps are measured at the average exchange rates published by the ECB. Accrual/deferral of the swap rate is effected pro rata over the term to maturity.

The provisions regarding corporate-law accounting acc. to AFRAC statement 15 "Derivatives and hedging instruments (UGB)" of December 2015, as well as the FMA Circular on accounting issues relating to derivatives (December 2012) are applied. The hedging of interest rate risks is exclusively effected through micro-hedges. For negative fair values of derivatives, provisions are basically recorded if there were open positions or no effective hedging relationships.

As at 31 December 2017, only margins were provided by way of hedging in connection with derivatives. The option to pledge other financial instruments was not made use of.

As for the positions in the banking book, VBW is exposed to the risk of fair value fluctuations due to changes of interest rates and exchange rates.

One key instrument used by VBW to hedge these risks in economic terms and to control the balance sheet structure are derivative financial instruments. Interest rate swaps are used as primary hedging instruments for own fixed-income issues and for hedging against fair value fluctuations of investments in fixed-income securities as well as loans and advances to customers.

Moreover, cross currency swaps, currency futures, currency swaps and, in exceptional cases, currency options serve to hedge against interest rate and foreign exchange risks from loans and advances, as well as amounts owed, to banks and customers, as well as from issues denominated in foreign currencies.

As standard, hedging instruments are directly concluded with the counterparty. External and internal derivatives are used for the accounting of evaluation units. No new internal derivatives are concluded for hedging relationships.

The evaluation units established according to AFRAC statement 15 "Derivatives and hedging instruments (UGB)" comprise own fixed-income issues as well as loans and advances, and amounts owed, to banks and customers. The hedging instruments exclusively used in that connection are interest rate swaps, caps and floors, as well as cross currency swaps. The hedging relationship is based on the full term of the underlying transaction.

The dollar offset method is exclusively used to measure the retrospective effectiveness of the accounting groups. Under the dollar offset method, the value changes of underlying and hedging transaction that are due to the risk hedged are set in relation to each other.

Derivatives contained in the banking book that serve for hedging purposes are measured at cost.

Derivative financial instruments of the trading book

Derivative financial instruments of the trading book comprise trading positions of stock exchange traded futures, options, interest rate swaps, swaptions, caps/floors/collars, and currency options. Measurement is effected at fair value, and the measurement result is reported in the income statement in profit or loss.

The business strategy for the trading book is based on the product and customer requirements of the Association of Volksbanks. The focus is on servicing the primary level, on the transformation and hedging of risk positions, as well as on generating profits.

The monitoring of market risks in trading is performed by a market-independent unit within Risk Management.

The measurement and accounting of the financial instruments used in the trading book takes place at fair value. The fair value corresponds to the stock exchange price or market value.

Determination of fair value

The fair value is the amount at which an asset can be exchanged between knowledgeable arm's length business partners willing to conclude a contract, or at which an obligation can be settled between such partners. In case of quoted/listed instruments, the fair value is equal to the market price. If no market price is available, the future cash flows of a financial instrument are discounted to the measurement date according to the respective interest rate curve. In doing so, internationally common mathematical calculation methods are used for the calculation.

VBW has administrated all trading book positions of derivatives in its MUREX front-office and risk management system, which is directly connected to various price information systems. That means that the market prices of different products are updated in real time. Products for which no direct price is available are measured using valuation models based on market data (market risk factors) within this standard software. Structured or exotic products whose model prices cannot be determined using the standard software are measured in external price calculators that are regularly re-calibrated using liquid tradeable products in the market.

2. Explanatory notes on the balance sheet

2.1 Explanatory notes on assets

Breakdown of loans and advances to credit institutions:

Remaining time to maturity:	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
repayable on demand	249,670,432.49	300,441
more than 3 months up to 1 year	205,455,716.94	593,795
more than 1 year up to 5 years	469,277,168.54	387,851
more than 5 years	62,364,046.59	83,621
not repayable on demand	1,461,855,320.78	1,904,804
Loans and advances to credit institutions, total	1,711,525,753.27	2,205,245

Breakdown of loans and advances to customers:

Remaining time to maturity:	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
repayable on demand	64,472,955.16	92,779
up to 3 months	107,269,091.36	180,356
more than 3 months up to 1 year	309,432,079.43	260,453
more than 1 year up to 5 years	730,866,554.98	730,544
more than 5 years	3,667,840,378.67	3,162,060
not repayable on demand	4,815,408,104.44	4,333,413
Loans and advances to credit institutions, total	4,879,881,059.60	4,426,192

Loans and advances to affiliates and participating interests:

		31 Dec 2017		31 Dec 2016
	towards affiliates Euro	towards participating interests Euro	towards affiliates Euro Thousand	towards participating interests Euro Thousand
Loans and advances to credit institutions	0.00	777,766,548.74	0	960,549
Loans and advances to customers	54,590,599.44	70,252,956.61	56,283	43,532
Shares and other non-fixed interest securities	0.00	1,279,765.94	0	1,500
	54,590,599.44	849,299,271.29	56,283	1,005,581

Composition of risk provisions:

		31 Dec 2017		31 Dec 2016
	Risk provision Euro	General allowance for credit risks under section 57 (1) BWG Euro	Risk provision Euro Thousand	General allowance for credit risks under section 57 (1) BWG Euro Thousand
Loans and advances to credit institutions	688,456.64	0.00	1,044	0
Loans and advances to customers	57,648,721.97	29,598,665.55	68,833	32,771
Provisions for off-balance sheet transactions	4,240,287.26	0.00	5,252	0
	62,577,465.87	29,598,665.55	75,130	32,771

Breakdown of securities, participations and shares in affiliates admitted for stock exchange trading of the balance sheet items 2, 5, 6, 7 and 8 into listed and unlisted securities:

31 Dec 2017:	**Listed Euro**	**Not listed Euro**
Debt instruments issued by public bodies and similar securities	1,004,641,279.24	0.00
Bonds and other fixed-income securities	1,324,606,992.34	0.00
Shares and other non-fixed interest securities	745,770.67	38,443,348.24

31 Dec 2016:	**Listed Euro Thousand**	**Not listed Euro Thousand**
Debt instruments issued by public bodies and similar securities	1,063,980	0
Bonds and other fixed-income securities	1,225,422	0
Shares and other non-fixed interest securities	779	61,861

As at 31 December 2017, VBW holds own supplementary capital within assets with a carrying amount of euro 96,910.97 (31 December 2016: euro 288,000), no own subordinate capital (31 December 2016: euro 97,000), as well as own bonds with a carrying amount of euro 855,000,000.00 (31 December 2016: euro 855,000,000).

Breakdown of securities admitted to stock exchange trading of balance sheet items 2, 5 and 6 in fixed and current assets:

31 Dec 2017:	**Fixed assets Euro**	**Current assets (incl. trading book) Euro**
Debt instruments issued by public bodies and similar securities	877,095,803.64	127,545,475.60
Bonds and other fixed-income securities	464,375,206.59	860,231,785.75
Shares and other non-fixed interest securities	724,917.25	20,853.42

31 Dec 2016:	**Fixed assets Euro Thousand**	**Current assets (incl. trading book) Euro Thousand**
Debt instruments issued by public bodies and similar securities	932,558	131,422
Bonds and other fixed-income securities	370,422	855,000
Shares and other non-fixed interest securities	725	54

The classification into fixed or current assets is effected as determined within the Asset Liability Committee (ALCO).

The difference between the acquisition cost and the fair value, if higher, of securities not classified as fixed assets (current assets without trading book) and admitted to stock exchange trading amounts to euro 10,385,366.54 as at 31 December 2017 (31 December 2016: euro 14,234,000).

Other information on securities

The difference, to be written down pro rata temporis over the remaining term to maturity, between historical cost and redemption amount in case of securities held as fixed assets amounts to euro 25,536,569.60 in total. As at 31 December 2017, euro 18,254,678.29 of that amount (31 December 2016: euro 15,618,000) need to be written down over the remaining term to maturity yet.

The difference, to be written up pro rata temporis over the remaining term to maturity, between historical cost and redemption amount in case of securities held as fixed assets amounts to euro 25,213,349.55 in total. As at 31 December 2017, euro 16,927,344.28 of that amount (31 December 2016: euro 17,289,000) need to be written up over the remaining term to maturity yet.

With respect to the below-mentioned securities held as fixed assets that were reported above fair value, unscheduled depreciation was omitted, as an intention to hold them and service them in full – accordingly full recoverability – is assumed. In the 2017 business year, as in the 2016 business year, no contractual violations and no delays in payment were found due to serious financial difficulties of the issuers.

31 Dec 2017:	Fair value Euro	Carrying amount Euro	Difference Euro
Debt instruments issued by public bodies and similar securities	53,962,200.00	55,017,678.90	-1,055,478.90
Bonds and other fixed-income securities	137,619,441.00	140,600,021.91	-2,980,580.91
Shares and other non-fixed interest securities	687,485.01	724,917.26	-37,432.25
	192,269,126.01	196,342,618.07	-4,073,492.06

31 Dec 2016:	Fair value Euro Thousand	Carrying amount Euro Thousand	Difference Euro Thousand
Debt instruments issued by public bodies and similar securities	120,539	123,596	-3,057
Loans and advances to banks	3,945	4,155	-210
Bonds and other fixed-income securities	110,254	113,171	-2,917
Shares and other non-fixed interest securities	866	916	-50
	235,604	241,838	-6,234

Securities with market prices from inactive markets are primarily classified as fixed assets and are periodically reviewed with a view to any required unscheduled write-downs.

An inactive market exists if due to a decline in trading volume and/or trading activity, there is no market liquidity any more.

Externally provided fair values are reviewed for plausibility according to available market data on an ongoing basis. In case of deviating estimates, the fair value measurement is effected by considering previous transactions, by comparison with current fair values of another essentially identical financial instrument or by means of the discounted cash flow method. Overall, such adjusted fair values are of subordinate importance.

In 2018, receivables from bonds and other fixed-income securities in the amount of euro 147,612,248.09 will mature (in 2016 for 2017: euro 15,737,000).

In the 2017 business year, there were genuine repurchase transactions with a carrying amount of euro 94,915,540.20 (PY: euro 96,537,000).

The credit institution has been keeping a trading book since 2015. As at 31 December 2017, securities with a market value of euro 8,206,327.58 (31 December 2016: euro 23,797,000) and other financial instruments with a market value including accrued/ deferred interest in the amount of euro 40,674,078.79 (31 December 2016: euro 15,514,000) have been earmarked for this trading book, of which an amount of euro -243,477,951.76 (31 December 2016: euro -299,700,000) with external counterparties.

In 2017, no securities were reclassified from current assets to fixed assets.

By resolution of the Managing Board, the following securities were reclassified from fixed assets to current assets: VB WIEN FRN 08-18 (ISIN AT0000A09SS0) with a carrying amount of euro 96,010.97, as well as VVBBADEN ERKP.SCHV. 07-22 (ISIN QOXDBA000383), both no longer part of the portfolio as at 31 December 2017.

Subordinated assets:

	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
Loans and advances to credit institutions	4,220,976.93	4,453
Bonds and other fixed-income securities	251,672.69	342
	4,472,649.62	4,795

Participations and shares in affiliates

Composition of participations:

Name of the company	Share %	Annual accounts	Total equity Euro Thousand	Annual result Euro Thousand	Carrying amount as at 31 Dec 2017 Euro
Wiener Landwirtschaftliche Siedlungsgesellschaft mbH 1220 Vienna, Kagraner Platz 48	33.33%	31 Dec 2016	213	-1	71,139.55
VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram e.Gen. 2120 Obersdorf, Hauptstraße 57	32.36%	31 Dec 2016	9,093	-186	160,040.00
ARZ Allgemeines Rechenzentrum GmbH 6020 Innsbruck, Tschamlerstraße 2	25.99%	31 Dec 2016	8,664	35	294,473.45
Volksbanken - Versicherungsdienst - Gesellschaft m.b.H. 1071 Vienna, Lindeng. 5	25.42%	31 Dec 2016	4,035	375	64,032.29
Volksbank Kärnten eG 9020 Klagenfurt, Pernhartgasse 7	25.21%	31 Dec 2016	85,197	6,195	8,759,031.98
VB Südburgenland Verwaltung eG 7423 Pinkafeld, Marktplatz 3	22.32%	31 Dec 2016	17,875	-11	318,772.50
VB Verbund-Beteiligung eG (formerly: Verwaltungsgenossenschaft der start:gruppe e.Gen.) 1090 Vienna, Kolingasse 14-16	21.86%	31 Dec 2016	95,788	-2,774	11,342,927.58
VB-Beteiligungsgenossenschaft der Obersteiermark eG 8700 Leoben, Hauptplatz 4	20.54%	31 Dec 2016	19,476	-91	1,500,047.27
Volksbanken Holding eGen 1030 Vienna, Löwelstraße 14	15.69%	30 June 2017	5,871	-103	12,980,000.00
PSA Payment Services Austria GmbH 1030 Vienna, Marxergasse 1B	6.89%	31 Dec 2016	47,412	21,555	3,828,767.48
Schulze-Delitzsch Ärzte und Freie Berufe e.Gen. 1010 Vienna, Schottengasse 10	5.38%	31 Dec 2016	23,837	-1	1,220,100.00
Volksbank Steiermark AG 8010 Graz, Schmiedgasse 31	4.83%	31 Dec 2016	132,291	1,504	5,437,872.96
Österreichische Kontrollbank Aktiengesellschaft 1010 Vienna, Am Hof 4	1.50%	31 Dec 2016	539,691	57,406	1,180,061.00
CEESEG Aktiengesellschaft 1010 Vienna, Wallnerstraße 8	1.41%	31 Dec 2016	374,173	41,238	1,377,582.14
Remaining participations					2,192,639.22
					50,727,487.42

Information about total equity and annual result corresponds to the most recent UGB annual financial statements available.

Information on mutual participations:

Share of VBW	Participations	Share in VBW
32.360%	VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram eG	1.78%
25.207%	Volksbank Kärnten eG	3.04%
22.324%	VB Südburgenland Verwaltung eG (formerly: Volksbank Südburgenland eG)	4.29%
21.856%	VB Verbund-Beteiligung eG (formerly: Verwaltungsgenossenschaft der start:gruppe e.Gen)	5.20%
15.685%	Volksbanken Holding eGen	0.87%
8.258%	VB Ost Verwaltung eG	8.96%
4.833%	Volksbank Steiermark AG	6.98%
0.443%	Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung	0.64%
0.060%	VB Wien Beteiligung eG	14.33%
0.005%	Volksbank Salzburg eG	6.13%
0.001%	Marchfelder Bank eG	0.26%

Composition of shares in affiliates:

Name of the company	Share %	Annual accounts	Total equity Euro Thousand	Annual result Euro Thousand	Carrying amount as at 31 Dec 2017 Euro
Immo-Contract Baden Maklergesellschaft m.b.H. 2500 Baden, Hauptplatz 9-12	100.00%	31 Dez 2016	299	116	182,798.25
VOME Holding GmbH 1090 Vienna, Kolingasse 14-16	100.00%	31 Dez 2016	557	133	325,000.00
VB ManagementBeratung GmbH 1090 Vienna, Kolingasse 14-16	100.00%	31 Dez 2016	256	-295	36,336.40
VBKA-Holding GmbH 1090 Vienna, Kolingasse 14-16	100.00%	31 Dez 2016	31	-2	1.00
UVB-Holding GmbH 1090 Vienna, Kolingasse 14-16	100.00%	31 Dez 2016	35	-2	0.00
VB Rückzahlungsgesellschaft mbH (business year 1 April 2017-30 June 2017) 1010 Vienna, Schottengasse 10	100.00%	30 Jun 2017	13,709	-3	61,000.00
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H. 1010 Vienna, Schottengasse 10	99.50%	31 Dez 2016	1,616	-4	867,713.64
VOBA Vermietungs- und Verpachtungsges.m.b.H. 2500 Baden, Hauptplatz 9-13	99.00%	31 Dez 2016	7,706	1,079	5,679,448.53
3V-Immobilien Errichtungs-GmbH 1090 Vienna, Kolingasse 14-16	99.00%	31 Dez 2016	8,371	73	14,969,000.00
Gärtnerbank Immobilien GmbH 1220 Vienna, Kagraner Platz 48	99.00%	31 Dez 2016	226	52	34,650.00
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH 1220 Vienna, Kagraner Platz 48	99.00%	31 Dez 2016	2,678	34	84,650.00
VB Services für Banken Ges.m.b.H. 1090 Vienna, Kolingasse 14-16	98.89%	31 Dez 2016	4,455	1,726	436,983.01
VB Verbund-Beteiligung Region Wien eG (formerly: Verwaltungsgenossenschaft der IMMO-BANK eG) 1090 Vienna, Kolingasse 14-16	90.50%	31 Dez 2016	21,100	14,363	3,486,307.30
ARZ-Volksbanken Holding GmbH 1090 Vienna, Kolingasse 14-16	73.62%	30 Jun 2017	281	-6	230,979.35
Immo-Contract Weinviertel GmbH 2130 Mistelbach an der Zaya, Hauptplatz 11-12	51.00%	31 Dez 2016	81	12	17,850.00
					26,412,717.48

Relationships with affiliates

Since 2010, VBW has been the group leader of a group of companies acc. to section 9 KStG (Corporate Income Tax Act). The stand-alone method is applied, which starts from the assumption of fiscal independence of the individual group member when calculating the distribution of the tax burden. Furthermore, the tax liability of the group members must be paid to VBW on 30 September of the following year, tax receivables will either be carried forward by VBW in years when the group makes a profit, or the group member may offset its tax liabilities against tax liabilities in subsequent years. Any final settlement of tax receivables is compensated with the present value of the (notional) future tax saving from the respective member's as yet unused loss carry-forwards. Discounting of loss carry-forwards is effected based on an adequate interest rate linked to the 12-month EURIBOR or, if this is not available any more, any comparable reference interest rate. As of the 2015 business year, almost all group charge arrangements provide for an allocation rate of 6.25% based on existing loss carry-forwards.

As at 31 December 2017, the number of group members amounts to 9 (31 December 2016: 9). In the 2017 business year, no change occurred in the group of companies acc. to section 9 KStG.

Fixed assets

The value of developed and undeveloped land amounts to euro 12,644,032.20 (31 December 2016: euro 12,192,000). As for the development of fixed assets, please refer to page 172.

Breakdown of other assets:

	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
Receivables from derivative financial instruments	352,779,641.94	433,448
Receivables from taxes and charges	1,883,549.92	1,276
Auxiliary accounts of banking business	318,364.82	3,207
Land and buildings acquired to secure receivables	140,290.00	850
Sundry other receivables	18,868,486.36	25,966
	373,990,333.04	464,746

Income in the amount of euro 22,025,978.55 (31 December 2016: euro 31,380,000) is included in the item Other assets, which will be received only after the balance sheet date. For the major part, this concerns accrued interest.

Other assets include items with a remaining term to maturity of more than one year in the amount of euro 401,496.27 (31 December 2016: euro 951,000).

Prepayments and accrued income

Prepayments and accrued income in the amount of euro 2,127,944.01 (previous year: euro 2,372,000) essentially include premiums from issued supplementary capital.

Deferred tax assets

As at the balance sheet date, deferred tax assets were established for temporary differences between the value set for the following items under fiscal and under company law:

	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
Portfolio impairments	45,202,029.56	32,771
Flat-rate provisions acc. to section 9 (3) EStG (Income Tax Act)	24,154,743.09	33,662
Participating interests	24,365,992.71	19,551
Provision for severance payments	7,051,130.00	8,369
Provision for expenses	6,868,258.71	0
Provision for pensions	2,685,868.59	2,705
Provision for long-term service bonuses	2,886,648.55	2,401
Issuing cost bond	1,365,000.00	0
Fifth part of severance payments	1,132,411.86	0
Long-term provisions	1,039,570.37	1,255
LIVEBank	566,666.67	490
Tangible fixed assets and intangible assets	449,220.42	443
Transfer of pensions	36,242.90	72
	117,803,783.43	101,720
Deferred tax assets from difference amounts determined (25%)	29,450,945.86	
Deferred tax assets of group members from (contractual) tax rate differences	806,714.08	
Deferred tax assets (25%)	30,257,659.94	

As regards the income-statement effects of movements in deferred taxes as well as the valuation effect included therein, as follows:

	EUR
As at 31 Dec 2016	26,220,455.53
Addition from Sparda merger	1,166,885.00
Change in profit or loss	2,870,319.41
As at 31 Dec 2017	30,257,659.94

2.2 Explanatory notes on liabilities

Breakdown of amounts owed to credit institutions:

Remaining time to maturity:	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
repayable on demand	2,482,510,408.21	2,711,680
up to 3 months	133,890,656.55	220,956
more than 3 months up to 1 year	15,048,406.14	113,930
more than 1 year up to 5 years	17,274,673.66	110,958
more than 5 years	94,827,296.54	181,674
not repayable on demand	261,041,032.89	627,518
Amounts owed to credit institutions, total	2,743,551,441.10	3,339,198

Breakdown of amounts owed to customers:

Remaining time to maturity:	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
repayable on demand	4,038,933,049.93	3,154,824
up to 3 months	323,246,298.17	85,195
more than 3 months up to 1 year	543,309,900.44	810,292
more than 1 year up to 5 years	349,852,814.72	374,936
more than 5 years	601,895,850.77	323,084
not repayable on demand	1,818,304,864.10	1,593,507
Amounts owed to credit institutions, total	5,857,237,914.03	4,748,332

Amounts owed to affiliates and participating interests:

	31 Dec 2017 towards affiliates Euro	31 Dec 2017 towards participating interests Euro	31 Dec 2016 towards affiliates Euro Thousand	31 Dec 2016 towards participating interests Euro Thousand
Amounts owed to credit institutions	0.00	932,425,127.34	0	1,454,316
Amounts owed to customers	119,026,475.92	69,450,300.03	58,799	107,748
Debts evidenced by certificates	0.00	1,279,765.94	0	233
Supplementary capital acc. to Part 2 Title 1 Chapter 4 of Regulation (EU) no. 575/2013	0.00	1,630,000.00	0	942
	119,026,475.92	1,004,785,193.31	58,799	1,563,238

Debts evidenced by certificates
Issued bonds will mature in the 2018 business year in the amount of euro 120,000,000.00 (in 2016 for 2017: euro 0).

Debts evidenced by certificates include subordinated bonds in the amount of euro 5,014,583.33 (previous year: euro 5,015,000), described in detail in the explanatory notes on the issued subordinated liabilities and supplementary capital.

The breakdown of issued subordinated liabilities and supplementary capital in the amount of euro 429,656,637.42 (previous year: euro 23,064,000) into supplementary capital according to Part 2 Title I Chapter 4 of Regulation (EU) no. 575/2013 and debts evidenced by certificates is explained in the table on page 155.

Other liabilities

	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
Liabilities from derivative financial instruments	423,846,921.57	539,578
Liabilities from taxes and charges	5,090,583.06	21,273
Accrued interest	8.31	6,736
Sundry other liabilities	16,782,005.56	43,476
	445,719,518.50	611,063

Expenses in the amount of euro 35,577,311.39 (31 December 2016: euro 46,873,000) are included in the item Other liabilities, which will be cash effective only after the balance sheet date. They mainly consist of accrued interest.

Other liabilities (except for fair values of derivative financial instruments) include items with a remaining term to maturity of less than one year in the amount of euro 55,527,530.74 (31 December 2016: euro 108,729,000).

The decrease in other liabilities essentially concerns the decrease from the fair value measurement of derivative financial instruments in the amount of euro 113,940,578.75 compared to the previous year, which is reflected in the item Other assets.

Deferred income

Deferred income in the amount of euro 7,078,382.08 (previous year: euro 8,011,000) essentially includes premiums for loans.

Other provisions

Other provisions break down as follows:

	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
for repayment of subsidies from the reorganisation agreement	26,361,992.79	35,998
for outstanding supplier invoices	14,608,829.31	7,350
for restructuring (redundancy programme, transformation, restoration of leased property to its original condition)	14,255,854.20	8,605
for losses and risks due to the granting of loans and guarantees	10,500,000.00	11,230
for imminent losses from derivative financial instruments	8,740,949.47	16,627
for long-term service bonuses	5,416,882.00	4,657
for leave not yet taken	4,037,794.94	4,217
for other obligations	5,002,760.90	7,103
	88,925,063.31	95,788

The item 'for repayment of subsidies from the reorganisation agreement' includes euro 26,361,992.79 (31 December 2016: euro 35,999,000) for future shareholder contributions to VB RZG on the basis of the reorganisation agreement concluded with the federal government in 2015.

Issued subordinated liabilities and supplementary capital

31 Dec 2017:	Supplementary capital according to Part 2 Euro	Debts evidenced by certificates Euro
Subordinated liabilities	407,194,021.41	5,014,583.33
Supplementary capital, eligible without restrictions	7,541,032.68	0.00
Participation capital not meeting the criteria of CET 1 capital	9,907,000.00	0.00

31 Dec 2016:	Supplementary capital according to Part 2 Euro Thousand	Debts evidenced by certificates Euro Thousand
Subordinated liabilities	602	5,015
Supplementary capital, eligible without restrictions	7,540	0
Participation capital not meeting the criteria of CET 1 capital	9,907	0

As at 31 December 2017, the terms of the issued subordinated liabilities and supplementary capital are as follows:

ISIN	Name	Nominal value	Currency	Interest rate (Dec 31)	Redemption
AT000B121967	2.75% VBWIEN FIX TO FIX 17-27	400,000,000	euro	2.750%	6 Oct 2027
QOXDB4408833	PC 2006	6,744	qty		perpetual
QOXDBA000383	TIER 2 CAPITAL DEB. 2007-2022	4,000,000	euro	4.000%	1 Dec 2022
AT0000A09SS0	FRN TIER 2 CAPITAL BOND 2008-2018	2,735,000	euro	0.171%	16 June 2018
SSD, no security	Subordinated liabilities Sparda	2,000,000	euro	3M Eurib. +0.75%	19 Mar 2021
SSD, no security	Subordinated liabilities Sparda	2,000,000	euro	3M Eurib. +0.75%	19 Mar 2021
QOXDB4408908	PC 2006	1,370	qty		perpetual
QOXDB4409195	PC 2006	962	qty		perpetual
AT0000A05QZ7	VAR. TIER 2 CAP. DEB. 2007-2019	792,000	euro	0.025%	16 July 2019
QOXDBA032238	3.50% Volksbank Wien-Baden AG Subordinated Tier 2 bond 2014-2022	600,000	euro	3.500%	1 Dec 2022
QOXDB4409039	PC 2006	341	qty		perpetual
QOXDB4409005	PC 2006	260	qty		perpetual
QOXDB4409120	PC 2006	230	qty		perpetual
QOXDB9961364	3% Variable subordinated liabilities – bank bond 2003-2018	5,000,000	euro	3.000%	25 Aug 2018

The supplementary capital is subordinated acc. to section 45 (4) BWG and accordingly, in case of liquidation or bankruptcy, must only be paid back after satisfying or securing the claims of the other – not subordinated – creditors.

Expenses for subordinated liabilities and supplementary capital amount to euro 2,976,636.35 (2016: euro 497,000).

The subordinated bond with identification number ISIN QOXDBA032238 includes a clause regarding early redemption for regulatory or fiscal reasons. In case of a change of the regulatory classification of the bond which is likely to result in the latter's exclusion from own funds or its reclassification as own funds of low quality, or in case of a change of the applicable tax treatment of the bond, the issuer is entitled at any time to prematurely terminate the bond.

At the value date of 6 October 2017, a subordinated Tier 2 bond (WKN A19P69 or ISIN AT000B121967) in the nominal amount of euro 400 million and with an issue price of 99.747% was issued, which represents supplementary capital according to Article 63 of the CRR. The bond will mature on 6 October 2027 and will be redeemed at a rate of 100% of the nominal value. Up to 6 October 2022, the fixed interest rate will amount to a maximum of 2.750% p.a. After that date, the annual coupon will be newly fixed in the amount of the 5-year swap rate then prevailing plus additional charge of 2.55%. Interest payments will be effected on 6 October of each year. The issuer may unilaterally terminate the bond on 6 October 2022. If the right of termination is exercised, repayment shall be effected at a rate of 100% of the nominal amount.

Continuous issue	Right of termination	Conversion into equity	Carrying amount as at 31 Dec 2017	Balance sheet item
no	issuer	no	402,591,780.82	Supplementary capital acc. to Part 2 Title 1 Chapter 4
no	impossible	no	6,744,000.00	Supplementary capital acc. to Part 2 Title 1 Chapter 4
yes	issuer	no	4,012,888.89	Supplementary capital acc. to Part 2 Title 1 Chapter 4
yes	impossible	no	2,736,143.79	Supplementary capital acc. to Part 2 Title 1 Chapter 4
no sec.	impossible	no	2,000,257.28	Supplementary capital acc. to Part 2 Title 1 Chapter 4
no sec.	impossible	no	2,000,257.28	Supplementary capital acc. to Part 2 Title 1 Chapter 4
no	impossible	no	1,370,000.00	Supplementary capital acc. to Part 2 Title 1 Chapter 4
no	impossible	no	962,000.00	Supplementary capital acc. to Part 2 Title 1 Chapter 4
yes	impossible	no	792,000.00	Supplementary capital acc. to Part 2 Title 1 Chapter 4
no	impossible	no	601,726.03	Supplementary capital acc. to Part 2 Title 1 Chapter 4
no	impossible	no	341,000.00	Supplementary capital acc. to Part 2 Title 1 Chapter 4
no	impossible	no	260,000.00	Supplementary capital acc. to Part 2 Title 1 Chapter 4
no	impossible	no	230,000.00	Supplementary capital acc. to Part 2 Title 1 Chapter 4
yes	issuer	no	5,014,583.33	Debts evidenced by certificates

Equity
As at 31 December 2017, the subscribed capital of VBW amounted to euro 132,893,812.50 (31 December 2016: euro 126,937,593.75) and consisted of 1,417,534 (31 December 2016: 1,354,001) no-par shares.

The following shareholders participate in the share capital as at 31 December 2017:

	Euro Thousand	%
Volksbanks	39,948	30.06
Republic of Austria	33,224	25.00
VB Wien Beteiligung eG	14,425	10.86
VB Baden Beteiligung e.Gen.	11,383	8.57
VB Ost Verwaltung eG	8,968	6.75
VB Niederösterreich Süd eG	7,271	5.47
VB Verbund-Beteiligung eGen	5,237	3.94
VB Südburgenland Verwaltung eG	4,283	3.22
VB Weinviertel Verwaltung eG	3,860	2.90
VB Beteiligungsgen. Obersdorf-Wolkersdorf-Deutsch-Wagram eG	1,779	1.34
Verwaltungsgenossenschaft Gärtnerbank e.Gen.	1,053	0.79
Volksbank Holding eGen	851	0.64
SPARDA AUSTRIA Verwaltungsgenossenschaft eGen	355	0.27
Marchfelder Bank eG	257	0.19
	132,894	100.00

By way of the transfer and contribution in kind agreement dated 22 May 2017, the banking operation of SPARDA-BANK eGen (FN 116073 x) was taken over into VBW acc. to section 92 BWG by way of universal succession. The contribution was effected according to Art. III UmGrStG (Reorganisation Tax Act) applying the continuation of carrying amounts, and was entered in the Companies' Register on 17 August 2017.

By resolution of the General Meeting dated 18 May 2017, a capital increase was resolved upon, and carried out, in that context by issuing 12,643 registered no-par shares in the nominal amount of 1,185,281.25 (contribution of Sparda banking operation).

By resolution of the General Meeting dated 18 May 2017, together with the contribution of the Sparda banking operation, a cash capital increase in the nominal amount of euro 4,770,937.50 was decided upon and carried out by issuing 50,890 registered no-par shares and maintaining the statutory subscription right.

Participation capital
The participation capital was paid up in full and is available to the issuer for the duration of the company, waiving ordinary and extraordinary termination. Just like the share capital, the participation capital participates in loss up to the full amount (section 23 (4) (4) BWG). There is no additional payment liability. The participants participate in the liquidation proceeds and/or the company value. The participants will only be satisfied after satisfaction or securing of all other creditors (incl. holders of subordinated capital and supplementary capital). The participation capital includes a right of information and participation in shareholders' meetings.

Liability reserve under section 57 (5) BWG
As at 31 December 2017, the liability reserve amounts to euro 36,792,213.37 (31 December 2016: euro 35,878,000).

2.3 Explanatory notes on contingent liabilities

Composition of contingent liabilities:

	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
Sureties and guarantees	342,074,520.58	389,534
Haftsummenzuschläge (guaranteed amounts)	28,553,740.19	26,903
Letters of credit	1,381,722.69	467
less: provisions	-2,926,760.04	-3,968
	369,083,223.42	412,935

Composition of credit risks:

	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
Loan commitments	4,319,808,993.39	4,331,388

2.4 Other financial obligations

Composition of liabilities from trust transactions

	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
Loans on a trust basis/deposits	100,382,094.77	105,679
Other trust assets	46,400,000.00	36,808
Export fund loans	2,976,000.00	7,453
	149,758,094.77	149,940

Reorganisation agreement

The reorganisation agreement 2015 between, among others, the Republic of Austria ("federal government") and VBW, which was supplemented by an implementation agreement between (among others) VBW, the Volksbanks and other shareholders of VBW, regulates, among others, a participation rights issue (the "federal government's participation right") through VB Rückzahlungsgesellschaft mbH ("VB RZG"), a direct subsidiary of VBW. The federal government's participation right was issued for the purpose of meeting those commitments that were made by the EU Commission to the federal government for the purpose of obtaining approval of the reorganisation under the funding guidelines. In 2017, an adjustment of the reorganisation agreement 2015 and of the implementation agreement was carried out, which, however, does not have any influence on the federal government's participation right.

Distributions of VB RZG on the federal government's participation right are effected at the discretion of VBW as the sole shareholder of VB RZG. No claim for profit shares exists under the federal government's participation right. In that context, shareholders of VBW have transferred VBW stocks (at a rate of 25% of the share capital plus 1 share) to the federal government without consideration. The transfer of the shares to the federal government was effected on 28 January 2016. The federal government is obliged to transfer said shares back to the respective shareholders without consideration, as soon as the sum of the dividends, on the federal government's participation right, received by the federal government and other creditable amounts, as defined, reaches a certain amount. Should the dividends received by the federal government in respect of the federal government's participation right not reach certain minimum amounts defined, taking into account certain creditable amounts (such as any dividends on the shares held by the federal government in VBW) on certain contractually agreed effective dates (a "control event"), the federal government shall be entitled to freely dispose of such shares without any further consideration and to claim additional ordinary shares of VBW at a rate of 8% of the share capital of VBW without further consideration from the VBW shareholders. Overall, accordingly, in case the control event occurs, up to 33% plus 1 share of the shares in VBW may pass into the (legal and beneficial) ownership of the federal government, and the federal government is entitled to freely dispose of said shares (subject to the pre-emptive right granted). In case that the pre-emptive right granted by the federal government is exercised by a purchaser nominated by VBW and that a minimum threshold for the sum of the distributions in respect of the federal government's participation right and of the creditable amounts is missed again, the shareholders of VBW have undertaken to transfer to the federal government additional ordinary shares of VBW in the amount of the VBW shares previously transferred to the federal government and acquired by the purchaser nominated by VBW, with immediate unrestricted power of disposition of the federal government.

According to its contractual obligations towards the federal government, VBW shall submit to the Volksbanks, by 30 November of each year, a proposal regarding the total amount to be distributed by VB RZG in respect of the federal government's participation right in the following calendar year and for the total amount of the primary banks' contributions required in this respect (indirect contributions of Volksbanks and direct contribution of VBW to VB RZG). VBW is charged according to the share of its retail segment in the Association of Volksbanks (total assets UGB/BWG).

In the 2017 business year, further payments were effected to the federal government under the reorganisation agreement. In this way, the first threshold determined for the creditable amounts and dividends for the business year ending on 31 December 2017 has already been exceeded. The next threshold must be reached with the distribution in respect of the business year ending on 31 December 2019.

In the 2017 business year, item 4.1. of the reorganisation agreement 2015 was amended by the rider dated 12 December 2017 to the effect that profit distributions to unconsolidated holding companies are admissible under certain conditions.

Legal risks from the spin-off of CO operations into VBW

According to the spin-off agreement dated 1 June 2015 ("Spin-off Agreement"), VBW has assumed the "central organisation and central institution function" operations from Österreichische Volksbanken-Aktiengesellschaft (now immigon portfolioabbau ag, "immigon").

Following this spin-off, claims for damages were filed against immigon. VBW is a co-defendant in these proceedings on the basis of section 15 (1) SpaltG (Spin-off Act); the liability of VBW is limited in terms of amount to the net assets assumed through the spin-off (within the meaning of section 15 (1) SpaltG). The total amounts in dispute from pending complaints under section 15 (1) SpaltG are euro 6,883,587.80.

Moreover, complaints for provision of collateral (section 15 (2) SpaltG) were filed against immigon and VBW, in total for liabilities in the amount of euro 7,000,000.00 still pending. The prerequisite for the claim for provision of collateral is endangerment of the performance of the respective claim due to the spin-off. Based, among others, on expert opinions prepared in the course of the spin-off, for instance by a judicially appointed expert auditor, VBW does not see any such endangerment. VBW has unrestricted liability (in terms of amount) as joint and several debtor for said liabilities as of the time of the respective judicial demand for provision of collateral, until either the collateral has been provided or the complaint has been dismissed finally and absolutely (section 15 (3) SpaltG).

The obligations underlying the claims for damages and provision of collateral, respectively, are attributed to immigon in the Spin-off Agreement. VBW has indemnification claims towards immigon, especially as agreed in the Spin-off Agreement, if VBW is itself subject to any such claims. Based on the semi-annual result of immigon published as at 30 June 2016, VBW expects immigon to be in a position to service its liabilities. Should any economic stress of VBW occur nevertheless, it would not have to cope with this on its own, but – according to agreements made within the Association of Volksbanks – only pro rata together with the other members of the Association of Volksbanks.

2.5 Additional disclosures

Breakdown of assets pledged as collateral for liabilities:

	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
Loans and advances to customers	2,333,356,420.82	2,445,897
Debt instruments issued by public bodies, bonds and other fixed-income securities	17,223,200.00	17,500
	2,350,579,620.82	2,463,397
Assets were pledged as collateral for the following obligations		
Amounts owed to credit institutions	312,074,724.15	282,652
Debts evidenced by certificates	2,021,281,696.67	2,165,745
Amounts owed to customers (savings deposits)	17,223,200.00	15,000
	2,350,579,620.82	2,463,397

Assets pledged as collateral include the underlying stock for covered bonds in the amount of euro 2,021,281,696.67 (31 December 2016: euro 2,165,745,000).

The total amount of obligations from using tangible fixed assets not reported in the balance sheet is (for the following business year) euro 9,663,393.55 (31 December 2016: euro 9,030,000), of which affiliates euro 3,805,046.76 (31 December 2016: euro 3,805,000) and for the following five business years euro 44,979,535.10 (31 December 2016: euro 40,544,000), of which affiliates euro 19,025,233.80 (31 December 2016: euro 19,025,000).

Total amount of assets and liabilities denominated in foreign currencies:

	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
Foreign currency assets	862,872,450.04	1,215,405
Foreign currency liabilities	155,683,441.66	200,346

An amount of euro 4,687,000.00 (PY: 5,666,000) is included in the liquid funds which is earmarked for the purposes of the trust fund (Leistungsfonds)

This table contains information on derivative financial instruments (fair values including accrued interest):

TOTAL								**31 DEC 2017**
Euro thousand	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value 31 Dec 2017	thereof hedge 31 Dec 2017	Other receiveables 31 Dec 2017	Other liabilities 31 Dec 2017
INTEREST RATE RELATED TRANSACTIONS	**338,493**	**2,134,963**	**2,726,101**	**5,199,558**	**-194,303**	**-234,471**	**338,497**	**342,810**
Caps&Floors	41,354	501,434	332,948	875,737	-578		1,499	1,783
FRA's	0	0	0	0	0	0	0	0
Interest Futures	4,800	35,000	0	39,800	28,536	0	0	0
IRS	292,339	1,598,529	2,393,152	4,284,021	-222,262	-234,471	336,998	341,028
Swaptions	0	0	0	0	0	0	0	0
EXCHANGE RATE RELATED TRANSACTIONS	**634,800**	**786,290**	**292,087**	**1,713,176**	**-70,911**	**-20,284**	**11,769**	**81,036**
Cross Currency Interest Rate Swaps	42,728	786,161	292,087	1,120,975	-70,650	-20,284	11,849	80,965
Foreign exchange options	0	0	0	0	0	0	0	0
Foreign exchange transactions/FX SWAPS	592,072	129	0	592,201	-261	0	-80	72
CREDIT RELATED TRANSACTIONS	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Credit Default Swap Long	0	0	0	0	0	0	0	0
Credit Default Swap Short	0	0	0	0	0	0	0	0
OTHER TRANSACTIONS	**17,812**	**14,626**	**306,686**	**339,124**	**73**	**0**	**2,489**	**0**
Market price guarantees								
Pension provision/guarantee funds	0	0	299,657	299,657	-2,774	0	0	0
Options	17,812	14,626	7,029	39,467	2,846	0	2,489	0
TOTAL	**991,105**	**2,935,879**	**3,324,874**	**7,251,857**	**-265,142**	**-254,755**	**352,755**	**423,847**
of which internal*	93,987	802,055	1,081,220	1,977,261	0	-283,842	261,422	176

TRADING BOOK								**31 DEC 2017**
Euro thousand	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value 31 Dec 2017	thereof hedge 31 Dec 2017	Other receiveables 31 Dec 2017	Other liabilities 31 Dec 2017
INTEREST RATE RELATED TRANSACTIONS	**286,500**	**1,693,455**	**1,894,491**	**3,874,446**	**40,663**	**0**	**331,752**	**341,319**
Caps&Floors	38,194	477,416	326,265	841,875	-279	0	1,496	1,783
FRA's	0	0	0	0	0	0	0	0
Interest Futures	4,800	35,000	0	39,800	28,536	0	0	0
IRS	243,506	1,181,039	1,568,226	2,992,771	12,406	0	330,256	339,536
Swaptions	0	0	0	0	0	0	0	0
EXCHANGE RATE RELATED TRANSACTIONS	**0**	**67,194**		**67,194**	**11**	**0**	**10,322**	**10,973**
Cross Currency Interest Rate Swaps		67,194		67,194	11	0	10,322	10,973
Foreign exchange options	0	0	0	0	0	0	0	0
Foreign exchange transactions/FX SWAPS	0	0	0	0	0	0	0	0
OTHER TRANSACTIONS	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Market price guarantees								
Pension provision/guarantee funds	0	0	0	0	0	0	0	0
Optionen	0	0	0	0	0	0	0	0
TOTAL TRADING BOOK	**286,500**	**1,760,649**	**1,894,491**	**3,941,640**	**40,674**	**0**	**342,074**	**352,293**
of which internal*	46,993	404,459	540,610	992,062	284,152	0	261,417	0

INVESTMENT BOOK								**31 DEC 2017**
Euro thousand	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value 31 Dec 2017	thereof hedge 31 Dec 2017	Other receiveables 31 Dec 2017	Other liabilities 31 Dec 2017
INTEREST RATE RELATED TRANSACTIONS	**51,993**	**441,508**	**831,610**	**1,325,112**	**-234,967**	**-234,471**	**6,745**	**1,491**
Caps&Floors	3,160	24,018	6,683	33,862	-299		3	0
FRA's	0	0	0	0	0	0	0	0
Interest Futures	0	0	0	0	0	0	0	0
IRS	48,833	417,490	824,926	1,291,250	-234,668	-234,471	6,742	1,491
Swaptions	0	0	0	0	0	0	0	0
EXCHANGE RATE RELATED TRANSACTIONS	**634,800**	**719,096**	**292,087**	**1,645,982**	**-70,921**	**-20,284**	**1,447**	**70,063**
Cross Currency Interest Rate Swaps	42,728	718,967	292,087	1,053,781	-70,661	-20,284	1,527	69,992
Foreign exchange options	0	0	0	0	0	0	0	0
Foreign exchange transactions/FX SWAPS	592,072	129	0	592,201	-261	0	-80	72
CREDIT RELATED TRANSACTIONS	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Credit Default Swap Long	0	0	0	0	0	0	0	0
Credit Default Swap Short	0	0	0	0	0	0	0	0
OTHER TRANSACTIONS	**17,812**	**14,626**	**306,686**	**339,124**	**73**	**0**	**2,489**	**0**
Market price guarantees								
Pension provision/guarantee funds[1]	0	0	299,657	299,657	-2,774	0	0	0
Options	17,812	14,626	7,029	39,467	2,846	0	2,489	0
TOTAL INVESTMENT BOOK	**704,605**	**1,175,230**	**1,430,383**	**3,310,218**	**-305,816**	**-254,755**	**10,681**	**71,554**
of which internal*	46,993	397,596	540,610	985,199	-284,152	-283,842	5	176

* The differences in reporting the nominal amount under "of which internal" arise due to valuation of the purchase leg of cross currency swaps at the reporting date (FX nominal amount in the banking book).

[1] Of which nominal amount of euro 130,327,000 of risk assumed by banks of the Association.

										31 DEC 2016
	Provisions 31 Dec 2017	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value 31 Dec 2016	thereof hedge 31 Dec 2016	Other receiveables 31 Dec 2016	Other liabilities 31 Dec 2016	Provisions 31 Dec 2016
	4,726	**991,520**	**2,624,021**	**3,278,787**	**6,894,328**	**-236,354**	**-252,056**	**404,313**	**400,774**	**11,022**
	355	91,679	553,261	390,528	1,035,467	-572	-532	2,229	2,346	23
	0	0	0	0	0	0	0	0	0	0
	0	524,000	427,000	0	951,000	41	0	0	0	0
	4,371	375,841	1,643,760	2,888,259	4,907,861	-235,824	-251,524	402,084	398,428	11,000
	0	0	0	0	0	0	0	0	0	0
	298	**1,339,113**	**1,062,646**	**266,704**	**2,668,463**	**-122,004**	**-44,511**	**24,852**	**138,804**	**1,515**
	114	530,787	1,055,474	266,704	1,852,965	-128,636	-44,511	16,774	138,633	393
	0	0	0	0	0	0	0	0	0	0
	184	808,327	7,172	0	815,499	6,632	0	8,077	171	1,123
	0			**0**			**0**	**0**	**0**	
	0			0			0	0	0	
	0	0	0	0	0	0	0	0	0	0
	2,221	**19,315**	**16,143**	**384,765**	**420,223**	**1,281**	**0**	**4,272**	**0**	**4,089**
	2,221	0	0	375,041	375,041	-3,589	0	0	0	4,089
	0	19,315	16,143	9,724	45,182	4,870	0	4,272	0	0
	7,245	**2,349,949**	**3,702,810**	**3,930,255**	**9,983,014**	**-357,077**	**-296,567**	**433,437**	**539,578**	**16,627**
		90,909	822,722	1,454,207	2,367,838	0	-315,293	295,188	306	

										31 DEC 2016
	Provisions 31 Dec 2017	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value 31 Dec 2016	thereof hedge 31 Dec 2016	Other receiveables 31 Dec 2016	Other liabilities 31 Dec 2016	Provisions 31 Dec 2016
	478	**785,698**	**2,155,567**	**2,180,520**	**5,121,785**	**15,501**	**0**	**394,773**	**398,739**	**532**
	0	91,224	525,555	382,561	999,341	-119	0	2,225	2,346	0
	0	0	0	0	0	0	0	0	0	0
	0	524,000	427,000	0	951,000	41	0	0	0	0
	478	170,474	1,203,012	1,797,959	3,171,445	15,579	0	392,548	396,393	532
	0	0	0	0	0	0	0	0	0	0
	0	**0**	**38,575**	**29,673**	**68,248**	**13**	**0**	**14,350**	**15,022**	**0**
	0		38,575	29,673	68,248	13	0	14,350	15,022	0
	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0
	478	**785,698**	**2,194,142**	**2,210,193**	**5,190,033**	**15,514**	**0**	**409,123**	**413,761**	**532**
		45,454	415,353	727,070	1,187,878	315,214	0	295,101	0	

										31 DEC 2016
	Provisions 31 Dec 2017	Nominal value up to 1 year	Nominal value 1-5 years	Nominal value more than 5 years	Nominal value Total	Market value 31 Dec 2016	thereof hedge 31 Dec 2016	Other receiveables 31 Dec 2016	Other liabilities 31 Dec 2016	Provisions 31 Dec 2016
	4,248	**205,822**	**468,454**	**1,098,267**	**1,772,543**	**-251,856**	**-252,056**	**9,541**	**2,035**	**10,490**
	355	454	27,706	7,966	36,126	-453	-532	4	0	23
	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0
	3,893	205,368	440,748	1,090,300	1,736,416	-251,403	-251,524	9,537	2,035	10,467
	0	0	0	0	0	0	0	0	0	0
	298	**1,339,113**	**1,024,071**	**237,031**	**2,600,215**	**-122,017**	**-44,511**	**10,502**	**123,783**	**1,515**
	114	530,787	1,016,899	237,031	1,784,716	-128,649	-44,511	2,424	123,612	393
	0	0	0	0	0	0	0	0	0	0
	184	808,327	7,172	0	815,499	6,632	0	8,077	171	1,123
	0			**0**			**0**	**0**	**0**	
	0			0			0	0	0	
	0	0	0	0	0	0	0	0	0	0
	2,221	**19,315**	**16,143**	**384,765**	**420,223**	**1,281**	**0**	**4,272**	**0**	**4,089**
	2,221	0	0	375,041	375,041	-3,589	0	0	0	4,089
	0	19,315	16,143	9,724	45,182	4,870	0	4,272	0	0
	6,767	**1,564,251**	**1,508,668**	**1,720,062**	**4,792,981**	**-372,592**	**-296,567**	**24,314**	**125,817**	**16,095**
		45,454	407,369	727,137	1,179,960	-315,214	-315,293	87	306	

3. Explanatory notes on the income statement

Net interest income

	2017 Euro	2016 Euro Thousand
Interest and similar income		
from loan and investment transactions		
from loans and advances to credit institutions	14,993,842.44	16,580
from loans and advances to customers	100,543,904.15	99,337
fees and commissions equivalent to interest	7,966,614.20	5,874
from bonds and other fixed-income securities	8,393,281.80	8,848
from other assets – total	7,656,303.84	10,587
	139,553,946.43	141,226
Interest and similar expenses		
from refinancing transactions		
from amounts owed to credit institutions	-13,292,682.81	-14,820
from amounts owed to customers	-8,760,102.22	-11,981
from debts evidenced by certificates	-9,086,198.49	-7,320
	-31,138,983.52	-34,121
	108,414,962.91	107,106

Negative interest

Due to the interest developments on the money market with negative reference interest rates, interest income (negative interest expenses) in the amount of euro 7,150,637.13 (2016: euro 4,130,000) and interest expenses (negative interest income) in the amount of euro 8,167,213.70 (2016: euro 6,932,000) were realised in the 2017 business year. The negative interest expenses were reported within interest and similar income from other assets and the negative interest income in interest and similar expenses from amounts owed to credit institutions.

Income from securities and participations

	2017 Euro	2016 Euro Thousand
a) Income from stocks, other share rights and variable-income securities	818,020.09	915
b) Income from participations	2,232,806.18	1,868
c) Income from shares in affiliates	1,700,631.96	1,852
	4,751,458.23	4,635

Net fee and commission income

	2017 Euro	2016 Euro Thousand
Fee and commission income		
from payment transactions	34,525,666.77	26,407
from securities business	31,155,346.70	33,298
from credit business	13,686,581.37	13,448
from other service business	9,796,625.85	6,594
from foreign exchange, foreign notes and coins, precious metals business	70,158.52	113
	89,234,379.21	79,860
Fee and commission expenses		
for payment transactions	-4,281,432.26	-2,702
for securities business	-8,978,561.91	-12,524
for credit business	-14,887,245.06	-14,719
for other service business	-35,682.08	-42
	-28,182,921.31	-29,987
	61,051,457.90	49,872

Income/expenses from financial transactions

	2017 Euro	2016 Euro Thousand
Result from financial transactions		
Stock-related transactions	18,222.19	-30
Interest-related transactions	1,819,054.77	2,644
Foreign exchange business	-514,185.78	2,480
Foreign notes and coins, and precious metals business	784,249.27	1,325
Other financial transactions	967,620.06	-1,704
	3,074,960.51	4,715

Other operating income breaks down as follows:

	2017 Euro	2016 Euro Thousand
Charged-out staff costs and administrative expenses	53,048,333.27	81,131
Income from the reversal of provisions	10,647,251.10	13,307
Charged-out structural cost contributions	7,638,043.64	10,560
Charged-out contr. to Single Resolution Fund (SRF)	3,866,485.76	8,346
Charged-out issuing costs	3,659,917.24	0
Income from the disposal of assets	1,627,781.98	3,411
Income from letting and leasing	2,472,553.28	2,383
Income from derivative financial instruments	2,992,181.83	561
From other transactions	1,523,374.52	2,542
	87,475,922.62	122,241

Charged-out staff costs and administrative expenses essentially include the expenses incurred by VBW in its capacity as the central organisation of the Association of Volksbanks and charged out to the primary banks of the Volksbank-Sector according to the agreement on the assumption of the costs of the Association.

Other operating expenses break down as follows:

	2017 Euro	2016 Euro Thousand
Charged-out expenses	12,685,424.98	35,967
Charged-out contr. to Single Resolution Fund (SRF)	3,992,491.27	8,346
Losses on redemption – issues	7,499.70	93
Expenses – derivative financial instruments	131,115.72	66
Other expenses	8,514,032.00	7,655
	25,330,563.67	52,127

The charged-out expenses primarily include amounts charged out for IT projects and joint advertising. Other expenses essentially concern expenses for fund liabilities in the amount of euro 2,613,683.00 (previous year: euro 1,205,000).

Result from valuations and disposals:

	2017 Euro	2016 Euro Thousand
Result from valuations and disposals	**19,206,375.53**	**-28,005**
Impairments on receivables, and allocations to provisions for contingent liabilities and for credit risks	-27,041,859.69	-58,267
Credit business	-26,731,941.42	-58,169
Securities held as current assets	-309,918.27	-98
Income from the reversal of impairments on receivables and from provisions for contingent liabilities and for credit risks	33,957,492.80	64,454
Credit business	30,532,320.77	64,434
Securities held as current assets	253,082.70	20
Balance Item 11 of the income statement	6,915,633.11	6,187
Impairments on securities valued as financial assets, as well as on participations and shares in affiliates	-13,409,187.62	-40,677
Securities held as fixed assets	-1,063,535.46	-1,216
Participations, shares in affiliates	-12,460,652.16	-39,461
Income from impairments on securities valued as financial assets, as well as participations and shares in affiliates	25,699,930.04	6,484
Securities held as fixed assets	2,281,347.88	3,091
Participations, shares in affiliates	23,418,582.16	3,394
Balance Item 12 of the income statement	12,290,742.42	-34,192

Income taxes

Income taxes only relate to the result from ordinary operations. The tax expense in the amount of euro 321,432.78 (2016: tax income euro 22,132,000) essentially comprises a tax expense from current corporate income tax in the amount of euro 3,101,432.27 (2016: euro 4,890,000), tax income from capitalisation of deferred taxes in the amount of euro 2,870,319.41, as well as corporate income tax income from current offsetting within the Austrian tax group of euro 127,382.51 (2016: euro 3,920,000).

Other taxes, unless they must be reported in item 15

Other taxes in the amount of euro 2,254,159.26 (2016: euro 26,128,000) essentially include the bank levy under the Stabilitätsabgabegesetz (Stability Levy Act) in the amount of euro 1,938,387.89 (2016: euro 9,043,000).

4. Other Disclosures

As the central organisation, VBW prepares the consolidated financial statements acc. to section 59 BWG and financial statements of the Association of Volksbanks acc. to section 59a BWG. Disclosure of the annual financial statements of the Association is effected by VBW domiciled in Vienna, with Vienna Commercial Court.

The company is the parent company of the VBW group and prepares the consolidated financial statements for the largest and the smallest group of companies. The consolidated financial statements are available at Vienna Commercial Court.

Within the scope of Group reporting, VBW reports on concepts, results and risks relating to environmental matters, social and employee topics, human rights, corruption and bribery as well as diversity according to the Nachhaltigkeits- und Diversitätsverbesserungsgesetz (NaDiVeG; Sustainability and Diversity Improvement Act) in a separate sustainability report.

In 2017, the average headcount was 1,202.1 (2016: 1,101.8), with 1,197.5 (2016: 1,091.8) white-collar employees and 4.6 (2016: 10.0) blue-collar employees.

Expenses for severance payments and contributions to employee pension funds include expenses from severance payments in the amount of euro 6,422,136.08 (2016: euro 2,380,000).

The auditing expenses for the business year are reported in the notes to the consolidated financial statements of Volksbank Wien.

Return on total capital employed

According to section 64 (1) (19) BWG as amended by Fed. Law Gazette I 2014/184, the return on total capital employed is 0.33% (2016: 0.25%). Return on total capital employed under the BWG is the quotient of annual result after taxes divided by total assets at the balance sheet date.

Capital requirements acc. to Art. 92 (1) lit. a to c of Regulation (EU) No. 575/2013

By assuming the function of central organisation acc. to section 30a BWG, VBW is subject to the external capital requirements based on CRD IV and CRR of the European Union (Basel III) at individual bank level.

According to Art 92 CRR, VBW must meet the following capital requirements at all times:
a) a CET 1 capital ratio of 4.5%,
b) a core capital ratio of 6.0% and
c) a total capital ratio of 8.0%.

The aggregate risk amount acc. to Art. 92 (3) CRR is euro 3,394,265,936.70 (PY: euro 3,171,322,000).

The capital ratios are calculated as follows:
a) the CET 1 capital ratio derives from the CET 1 capital of the bank, expressed as a percentage of the aggregate risk amount; accordingly, the CET 1 capital ratio of VBW amounts to 13.80% (PY: 13.03%).
b) the core capital ratio derives from the core capital of the bank, expressed as a percentage of the aggregate risk amount; accordingly, the core capital ratio of VBW amounts to 13.80% (PY: 13.03%), and
c) the total capital ratio derives from the own funds of the bank, expressed as a percentage of the aggregate risk amount; accordingly, the total capital ratio of VBW amounts to 26.70% (PY: 14.20%).

As at 31 December 2017, the eligible own funds of VBW according to Part 2 of Regulation (EU) No. 575/2013 (CRR) amount to euro 907,329,558.81 (PY: euro 450,270,000) and break down as follows:

	31 Dec 2017 Euro	31 Dec 2016 Euro Thousand
Core capital (Tier 1)		
CET 1 capital (Common Equity Tier 1)		
Share capital	132,893,812.50	126,938
Participation capital Art. 484, 486 CRR	9,907,000.00	9,907
Open reserves	334,396,977.42	276,890
Profit brought forward	6,237,103.48	358
	483,434,893.40	414,093
less:		
Deduction		
Value adjustment (Art. 35 and Art. 105 CRR)	-426,907.74	-750
Intangible assets (Art. 36 (1) lit b CRR)	-532,048.43	-272
Under Article 3 CRR	-12,980,000.00	0
	-13,938,956.17	-1,023
	469,495,937.23	413,070
Supplementary capital (Tier 2)		
Supplementary capital (Pos. 2.7)	424,643,411.02	23,175
Supplementary capital (Pos. 2.3)	649,315.07	1,621
General credit risk adjustment (hidden reserves section 57 (1) BWG)	29,598,665.55	29,840
	451,891,391.64	54,636
less:		
Own supplementary capital instruments	-8,814.92	-220
Correction for ineligible equity	-17,048,955.14	-17,216
	-17,057,770.06	-17,436
	437,833,621.58	37,200
Eligible own funds acc. to Part 2 CRR	907,329,558.81	450,270

As regards the breakdown of consolidated eligible own funds, please refer to the consolidated financial statements of VBW.

The European Central Bank (ECB) carries out a Supervisory Review and Evaluation Process (SREP) each year. Based on that, the holding of additional CET 1 capital is prescribed in order to cover any risks not – or not sufficiently – accounted for in Pillar 1. Apart from the minimum capital ratio under the CRR, the minimum core capital ratio resulting from that official notice must also comprise the capital conservation buffer and the supplement according to the SREP notice, which must be observed within the Association of Volksbanks at the level of the group of companies to be consolidated. Moreover, some Austrian banks were ordered to hold a systemic risk buffer, among others. For the Association of Volksbanks, a systemic risk buffer of 0.25% was provided for as of 1 January 2018 increasing to 1% as of 1 January 2020.

Disclosures regarding transactions with related parties

Expenses for severance payments and pensions amount to euro 551,774.34 (2016: euro 840,000) for both active and former members of the Managing Board. Expenses for severance payments and pensions amount to euro 8,388,584.17 (2016: euro 3,374,000).

Pension expenses for commitments for which provisions are recorded amount to euro 876,389.18 (PY: euro 1,139,000) in the business year. Changes in provisions for long-term service bonuses are included in the item Wages and salaries in the amount of euro 369,358.97 (PY: euro 1,050,000).

The total remuneration for the Supervisory Board members active in the business year amount to euro 193,063.40 (2016: euro 403,000). The total remuneration of the Managing Board (without incidental wage costs) amounted to euro 1,941,937.68 (2016: euro 1,949,000). The total remuneration of former Managing Board members and their surviving dependants amounted to euro 412,470.40 (2016: euro 676,000) in the business year.

As at 31 December 2017, the loans granted to members of the Managing Board amount to euro 50,000.00 (2016: euro 50,000). No repayments were made in the business year (previous year: euro 0).

As at 31 December 2017, the loans granted to members of the Supervisory Board amount to euro 498,836.51 (2016: euro 532,000). In the 2017 business year, euro 17,242.63 (previous year: euro 8,000) were repaid.

Other significant transactions with related parties did not occur in the business year. All transactions with related parties were carried out on arm's length terms.

Significant events after the balance sheet date
On 19 February 2018, the international rating agency Fitch raised the long-term issuer rating of the Association of Volksbanks by one notch, from BBB- to BBB.

Appropriation of net income
The recommendation is for the net profit for the year in the amount of euro 14,656,777.07 to be appropriated as follows: euro 8,309,929.53 will be distributed to the shareholders as a dividend. According to the terms of the issued participation capital, an amount of euro 109,744.06 will be distributed as a dividend to the holders of the participation certificates. The remaining amount of euro 6,237,103.48 will be carried forward to new account.

Boards

Managing Board:

Gerald Fleischmann
Chairman of the Managing Board

Josef Preissl
Deputy Chairman of the Managing Board

Rainer Borns
Member of the Managing Board

Thomas Uher
Member of the Managing Board as of 15 October 2017

Wolfgang Schauer
Member of the Managing Board until 31 January 2017

Supervisory Board:

Heribert Donnerbauer
Donnerbauer & Hübner Rechtsanwälte GmbH
Chairman

Member of the Managing Board
Martin Holzer
Volksbank Tirol AG
First Deputy Chairman

Member of the Managing Board
Rainer Kuhnle
Volksbank Niederösterreich-AG
Second Deputy Chairman

Susanne Althaler
IBD Steuerberatung GmbH & Co KG

Franz Gartner
Municipality of Traiskirchen

Eva Hieblinger-Schütz
Law firm of Hieblinger-Schütz
Member as of 14 September 2017

Member of the Managing Board
Markus Hörmann
Volksbank Tirol AG

Johannes Linhart
Self-employed consultant for capital markets and finance
Member until 14 September 2017

Harald Nograsek

Monika Wildner
Self-employed attorney-at-law

Member of the Managing Board Otto Zeller
Volksbank Salzburg eG

Works Council delegates:

Manfred Worschischek
Chairman of the Works Council

Hermann Ehinger
Hans Lang
Rainer Obermayer
Michaela Pokorny

State Commissioners:

Dietmar Mitteregger
State Commissioner until 31 July 2017

Christian Friessnegg
State Commissioner as of 1 August 2017

Helga Ruhdorfer
Deputy State Commissioner until 31 August 2017

Katharina Hafner
Deputy State Commissioner as of 1 September 2017

The Managing Board

Vienna, 26 February 2018

Gerald Fleischmann
Chairman of the Managing Board

Josef Preissl
Deputy Chairman of the Managing Board

Rainer Borns
Member of the Managing Board

Thomas Uher
Member of the Managing Board

Disclosure acc. to Article 431 CRR is effected on the Internet on the website of VBW at www.volksbankwien.at

Movement in non-current assets 2017
(section 226 (1) Austrian Commercial Code (UGB) in conjunction with section 43 (1) Austrian Banking Act (BWG); all figures are in euro)

ACQUISITION

Non-current assets		1 January 2017	Additions	Additions through reorganisation	Disposals	Transfer	31 December 2017
Appreciation							
2.a)	Debt instruments issued by public bodies and similar securities	932,570,833.47	11,928,277.55	24,953,700.26	92,304,843.44	0.00	877,147,967.84
3.	Loans and advances to credit institutions (securities)	4,394,980.70	67,831.18	0.00	337,000.04	0.00	4,125,811.84
4.	Loans and advances to customers (securities)	17,919,229.68	822,073.41	0.00	619,565.21	0.00	18,121,737.88
5.	Bonds and other fixed-income securities	370,616,555.01	72,442,985.28	40,217,659.10	17,844,793.43	-1,054,199.37	464,378,206.58
6.	Shares and other variable-yield securities	66,596,236.23	3,119,674.79	123,985.54	27,862,090.29	0.00	41,977,806.27
Total		**1,392,097,835.09**	**88,380,842.21**	**65,295,344.90**	**138,968,292.41**	**-1,054,199.37**	**1,405,751,530.41**
Participations							
7.	Participations	162,602,414.11	1,375.00	16,171,290.94	73,976.69	1,975.29	178,703,078.65
Total		**162,602,414.11**	**1,375.00**	**16,171,290.94**	**73,976.69**	**1,975.29**	**178,703,078.65**
Investments in affiliates							
8.	Investments in affiliates	125,091,740.38	23,636,259.23	173.78	0.00	0.00	148,728,173.39
Total		**125,091,740.38**	**23,636,259.23**	**173.78**	**0.00**	**0.00**	**148,728,173.39**
Intangible fixed assets							
9.	Intangible fixed assets	25,417,981.11	571,423.57	3,922,900.74	8,203.20	0.00	29,904,102.22
10.	Fixed assets	180,711,480.68	1,743,610.52	27,198,895.53	10,987,152.47	0.00	198,666,834.26
Total		**206,129,461.79**	**2,315,034.09**	**31,121,796.27**	**10,995,355.67**	**0.00**	**228,570,936.48**
Total		**1,885,921,451.37**	**114,333,510.53**	**112,588,605.89**	**150,037,624.77**	**-1,052,224.08**	**1,961,753,718.93**

DEPRECIATION							CARRYING AMOUNT	
Cumulated depreciation 1 January 2017	Depreciation in fiscal year	Additions through reorganisation	Appreciation	Disposals	Transfer	Cumulated depreciation 31 December 2017	31 December 2017	2016 housand Euro
12,682.21	39,481.99	0.00	0.00	0.00	0.00	52,164.20	877,095,803.64	932,558
40,000.00	0.00	0.00	0.00	40,000.00	0.00	0.00	4,125,811.84	4,355
0.00	0.00	0.00	0.00	0.00	0.00	0.00	18,121,737.88	17,919
194,421.49	3,000.00	0.00	0.00	194,421.49	0.00	3,000.00	464,375,206.58	370,422
6,043,167.78	1,035,517.10	0.00	1,285,995.95	1,393.93	0.00	5,791,295.00	36,186,511.27	60,553
6,290,271.48	**1,077,999.09**	**0.00**	**1,285,995.95**	**235,815.42**	**0.00**	**5,846,459.20**	**1,399,905,071.21**	**1,385,808**
136,213,746.57	506,284.84	14,198,581.31	22,943,021.49	0.00	0.00	127,975,591.23	50,727,487.42	26,389
136,213,746.57	**506,284.84**	**14,198,581.31**	**22,943,021.49**	**0.00**	**0.00**	**127,975,591.23**	**50,727,487.42**	**26,389**
99,100,529.40	10,743,367.23	0.00	468,214.36	0.00	12,939,773.64	122,315,455.91	26,412,717.48	25,991
99,100,529.40	**10,743,367.23**	**0.00**	**468,214.36**	**0.00**	**12,939,773.64**	**122,315,455.91**	**26,412,717.48**	**25,991**
25,145,590.53	311,767.60	3,922,898.86	0.00	8,203.20	0.00	29,372,053.79	532,048.43	272
105,259,729.72	6,816,087.50	14,702,098.70	0.00	7,635,224.01	0.00	119,142,691.91	79,524,142.35	75,452
130,405,320.25	**7,127,855.10**	**18,624,997.56**	**0.00**	**7,643,427.21**	**0.00**	**148,514,745.70**	**80,056,190.78**	**75,724**
372,009,867.70	19,455,506.26	32,823,578.87	24,697,231.80	7,879,242.63	12,939,773.64	404,652,252.04	1,557,101,466.89	1,513,912

MANAGEMENT REPORT

MANAGEMENT REPORT

1 Report on the business development and economic situation

1.1 Business development

1.1.1 Business development

In February 2017, a decision was made at VBW that VBW and Sparda should start preparatory talks and evaluations for the merger. Already in the first half of 2017, the owners of both banks resolved in the general meetings of both companies to contribute the banking operation of Sparda to VBW, which was carried out in August 2017 entering the same in the Companies' Register.

Also in February 2017, Moody's Investors Service awarded a rating (Baa2) to deposits of VBW for the first time ever. And in March 2017, again for the first time ever, the Covered Bond programme (covered bank bonds secured by mortgage) of VBW was awarded a rating by Moody's – the best possible one: Aaa.

The rating agency Fitch upgraded the Long-Term Issuer Default Rating of the Association of Volksbanks from BB+ to BBB- in March 2017, according the same a Positive Outlook.

Since the end of June 2017, confirmed case law has been available regarding the handling of negative interest rates. VBW was no defendant in any of the proceedings concerned. Potentially affected credit accounts were examined, and in the event of a claim being established, any excess interest charged was refunded to our customers in October 2017.

In October 2017, VBW issued a subordinated bond (T2) rated Baa3 by Moody's with an issue volume of euro 400 million to improve the equity base. In October, this resulted in Moody's upgrading the rating for deposits of VBW to Baa1.

1.1.2 Economic environment

According to an estimate by the Austrian Institute of Economic Research (WIFO) of December 2017, Austria's gross domestic product has grown by 3.0% year on year. This constitutes a noticeable increase in dynamics as compared to 2016, when growth had only amounted to 1.5%. Accordingly, the growth rate of the Austrian economy was markedly higher in the past year than that of the euro zone, which – according to estimates by the European Central Bank – has grown by 2.4%. Growth in Austria was due both to an increase in domestic demand and to higher demand in exports.

Against the background of this accelerated growth, the Austrian unemployment rate decreased slightly in the past year: it fell from 5.7% at the beginning of the year to 5.4% in November. The downward trend was even more pronounced in the euro zone: starting out from much higher values, the employment rate decreased from 9.6% at the beginning of the year to 8.7% in November. According to the Harmonised Index of Consumer Prices, the inflation rate in Austria fluctuated between 2.0% and 2.5% in the first eleven months of the year. As in previous years, this made Austria one of the countries with the highest inflation rates in the euro zone. In the past year, the rates of price increases varied between 1.3% and 2.0% in the common currency zone.

Monetary policy in the euro zone remained highly expansive also in the previous year. The European Central Bank (ECB) left the main refinancing rate at 0.00%, the interest rate for the prime refinancing facility at 0.25% and the deposit rate at -0.40%. In March, however, the ECB decided to reduce its monthly securities purchases from euro 80 billion to euro 60 billion. In October, it announced that it would continue the net purchases at a reduced level of euro 30 billion monthly as of January 2018 at least until September 2018.

Money market interests remained more or less unchanged throughout the past year. The 3-month rate started the year at -0.32% and ended it at -0.33%. On the other hand, the returns on the capital market slightly increased in the past year. The yield of the ten-year government bond in Austria increased from 0.43% to 0.59% in 2017. In Germany, it went up from 0.20% to 0.42%.

In spite of monetary tightening in the USA – the US Fed raised its key interest rate in three steps by a total of 75 basis points in 2017 – the euro clearly appreciated in relation to the US dollar over the course of the year. More precisely, from 1.05 USD/EUR to 1.20 USD/EUR. In relation to the Swiss franc, too, the euro was clearly strengthening.

Regional development and branches of industry

Measured against the increase in gross value added in the first half of 2017 compared to the first half of 2016, the regional economic development in Vienna showing an increase of 2.9% year on year – while being robust – was nevertheless below average. The only sectors managing to keep up with the overall Austrian average were construction and the number of overnight stays in tourism.

With the exception of material goods production, however, all segments recorded real increases in value added. In the first half of 2017, the number of unemployed persons decreased, but this increase remained below-average compared to the federal Länder.

In Lower Austria, the development of regional value added compared to other federal Länder was inconspicuous. At a growth rate of 3.6% year on year of gross value added in the first half of the year, the material goods production sector, which is very important for this federal Land, was very strong. In contrast, the construction sector was strikingly below the Austrian average in spite of certain increases. The decrease in the number of unemployed persons was lower than in the other federal Länder; in the first quarter, there was even a slight increase year on year.

The development of Burgenland was also quite similar to that of the whole of Austria. Construction was remarkable here, in that it recorded the highest growth rate of all federal Länder by far. Compared to the other federal Länder, tourism showed the weakest growth among them, however against the background of unusually strong growth in the previous year. The number of unemployed persons decreased at an above-average rate.

Styria also recorded economic development more or less in line with the overall Austrian trend in the first two quarters of 2017. Compared to other federal Länder, the situation was above average in the service sector, especially in business-related services. The situation in the labour market has clearly improved, the decrease in the number of unemployed persons was higher than the Austrian average.

In the first half of 2017, Carinthia was the federal Land with the strongest growth in gross value added. This is due, among others, to very strong growth in material goods production, but also in construction. Not a single economic sector showed below-average performance compared to the other federal Länder. Accordingly, also the number of unemployed persons decreased markedly in Carinthia.

After Carinthia, Upper Austria recorded the second best development of all federal Länder in the first half of 2017, with an increase of 4.2% in gross value added. The sectors of material goods production, which plays a very important role in Upper Austria, and construction made an essential contribution in this respect. The decrease in the number of unemployed persons corresponded to the general Austrian trend.

In the first half of 2017, Salzburg ranked last among the federal Länder with respect to economic development. Gross value added was only 2.0% higher than in the comparative period of the previous year. Retail was the only sector managing to achieve an above-average growth rate compared to the other federal Länder. Nevertheless, the number of unemployed persons decreased in Salzburg.

The very good development in tourism in the second quarter provided Tyrol with an average increase in gross valued added in the first half of the year, after disappointing results for the first quarter. The other sectors hardly deviated from the general Austrian trend, the same is true for the number of unemployed persons.

In the first half of 2017, Vorarlberg ranked second to last, in front of Salzburg, in terms of economic development. This was mainly due to the feeble development in material goods production, which had even declined compared to the relevant period of the previous year. Also, tourism lagged behind the general average. Otherwise, the Vorarlberg economy presented only few conspicuities.

The favourable development of previous years continued in the Austrian residential property market in 2017. The price gap between Vienna and the other federal Länder decreased somewhat. In the third quarter of 2017, annual growth rates for the prices of freehold flats and single-family homes outside Vienna amounted to approx. 4%. In Vienna, the prices of freehold flats increased by 3.6% year on year, those of single-family homes by 0.6% year on year. A marked increase was recorded by the prices of building plots for residential properties at 11.5% year on year in Vienna and 12.5% year on year outside Vienna (each Q3/2017). Affordability, based on the relationship between prices and disposable nominal income, had somewhat improved in mid-2017 compared to the previous year, both in Vienna and throughout Austria, with the relevant index of Oesterreichische Nationalbank (OeNB) being much less favourable in Vienna (98.4 points) than in the rest of Austria (123.6 points). The persistently high demand for residential properties was also reflected in the credit market. At an average of 4.5% year on year, the growth rate of housing credits to private households was only slightly below that of 2016 in the first ten months of the year.

Just like 2016, 2017 was another good year for the Austrian tourist sector. In spite of snow being scarce, the 2016/2017 winter season brought a new record high of overnight stays, even if only marginal, with overnight stays of foreign guests decreasing slightly. In the 2017 summer season, the best result in terms of overnight stays ever since the summer of 1992 was achieved. Above-average growth rates were achieved by commercial operations and holiday apartments in both seasons. Also, the 2017/2018 winter season got off to a very promising start, with Statistics Austria reporting new record highs both for the number of overnight stays and for the number of arrivals for the first eleven months of the year. All federal Länder recorded increasing numbers of overnight stays. Most overnight stays were reported by Tyrol, followed by Salzburg, Vienna, Styria, Carinthia, Upper Austria, Lower Austria, Vorarlberg and Burgenland. The highest growth rate was recorded by Lower Austria at 7.6%, the lowest one by Vorarlberg at 0.4%.

1.1.3 Explanatory Notes regarding the Income Statement

Due to the retroactive contribution of the banking operating of SPARDA-BANK AUSTRIA eGen (Sparda) with effect on 1 January 2017, according to section 92 BWG (Banking Act), a period-based comparison with the financial ratios of the previous year is of limited significance only.

Net interest income in the business year amounts to euro 108.4 million (2016: euro 107.1 million). This item includes interest income from loans and advances to customers in the amount of euro 100.5 million (2016: euro 99.3 million). Interest income from swaps in the amount of euro 7.7 million (2016: euro 10.6 million) primarily includes current interest payments from interest rate swaps for own issues and savings certificates. Interest and similar expenses to customers decreased from euro 12.0 million to euro 8.8 million; the decrease in interest expenditure is mainly due to the generally declining interest rate level.

Income from shares, other share rights and variable-interest securities decreased from euro 0.9 million to euro 0.8 million, while the income from participations and shares in affiliates increased by approx. euro 0.2 million to a total of euro 3.9 million compared to the previous year.

Fee and commission income amounts to euro 89.2 million (2016: euro 79.9 million). Of this amount, euro 31.2 million (2016: euro 33.3 million) are accounted for by securities business, euro 34.5 million (2016: euro 26.4 million) by payment transactions and euro 13.7 million (2016: euro 13.4 million) by credit business. The increase in fee and commission income from payment transactions essentially results from the contribution of the banking operation of Sparda.

Fee and commission expenses amount to euro 28.2 million (2016: euro 30.0 million), of this amount, euro 9.0 million (2016: euro 12.5 million) are accounted for by securities business, euro 14.9 million (2016: euro 14.7 million) by credit business and euro 4.3 million (2016: euro 2.7 million) by payment transactions. Accordingly, net fee and commission income increased from euro 49.9 million to euro 61.1 million.

The result from financial transactions shows a positive balance of euro 3.1 million, but decreased by euro 1.6 million compared to the previous year. With a contribution to operating income of euro 1.8 million (2016: euro 2.6 million), the major part is accounted for by the net trading income and the measurement result from fixed-income securities. The result from financial transactions also contains the positive result from interest rate derivatives in the amount of euro 1.0 million (2016: negative result of euro -1.7 million), the negative measurement result from foreign currencies in the amount of euro 1.8 million (2016: positive result of euro 2.5 million), and the measurement result from foreign notes and coins as well as precious metals in the amount of euro 0.8 million (2016: euro 1.3 million).

Other operating income in the amount of euro 87.5 million (2016: euro 122.2 million) mostly includes charged-out CO costs in the total amount of euro 68.2 million (2016: euro 100.0 million). The reduction is reflected by the reduction in other operating expenses (see below).

The proceeds from the release of provisions amount to euro 10.6 million (2016: euro 13.3 million) and are primarily due to the fact that provisions for imminent losses from legal risks, for the disposal of fixed assets from branches to be closed and for negative market values of FX and interest rate derivatives are no longer required.

Other operating expenses in the amount of euro 25.3 million (2016: euro 52.1 million) mostly include charged-out expenses in the total amount of euro 21.7 million (2015: euro 44.3 million). The reduction essentially results from the lower expenditure from the official notice relating to the contribution to the Single Resolution Fund in the amount of euro 4.9 million as well as from lower project costs. Moreover, in 2016 the result included amounts charged out to the Verwaltungsgenossenschaften of start:gruppe and IMMO-BANK in the amount of euro 8.7 million in the course of the sale of start:bausparkasse and IMMO-BANK.

In total, the general administrative expenses amount to euro 211.4 million (2016: euro 167.3 million) and consisted of staff costs in the amount of euro 109.9 million (2016: euro 87.5 million) and administrative expenses in the amount of euro 101.5 million (2016: euro 79.7 million). In these items of the income statement, too, the increases are essentially due to the contribution of the SPARDA banking operation. The administrative expenses include the costs for current data processing as well as for IT projects in the amount of euro 35.4 million (2016: euro 25.9 million).

The 2017 operating result of euro 21.4 million is below the previous year's figure of euro 58.4 million; this is essentially the result of increased amounts charged out to the banks of the Association under the existing service contract of the Association of Volksbanks.

The result from valuations and disposals shows a positive balance of euro 19.2 million (2016: euro -28.0 million) for the 2017 business year. This result contains the release of an impairment under section 57 (1) BWG in the amount of euro 3.2 million (2016: euro 16.7 million). Write-downs of participations and shares in affiliates and/or risk provisions for future write-downs of participations negatively affected the result in the amount of euro 13.4 million (2016: euro 40.7 million), including the allocation to a provision for participation certificates (federal government) from the Sparda merger amounting to euro 1.1 million, as well as from the allocation to provisions for future subsidies and corporate actions for VB Rückzahlungsgesellschaft GmbH in the amount of euro 10.0 million (2016: euro 23.0 million). The positive measurement balance from allocations and write-backs for impairments and provisions for credit business amounts to euro 6.9 million (2016: euro 6.2 million).

As at 31 December 2017, the result from ordinary operations amounts to euro 40.6 million and accordingly exceeds the previous year's value of euro 30.4 million.

Income taxes (corporate income taxes) show a negative balance of euro 0.3 million (2016: tax income euro 22.1 million). The decrease results from the capitalisation of deferred taxes in the amount of euro 22.7 million (including the one-time effect from transition to the so-called temporary concept within the scope of applying the RÄG 2014 in the 2016 business year).

Other taxes in the amount of euro 2.3 million (2016: euro 26.1 million) essentially result from the bank levy under the Stability Levy Act (Stabilitätsabgabegesetz) in the amount of euro 1.9 million (2016: euro 9.0 million). The reduction is due to the one-time special payment under section 5 (1) (4) StabAbG as amended by AbgÄG in the amount of euro 16.6 million in the 2016 business year.

1.1.4 Explanatory notes on the balance sheet and own funds

Due to the retroactive contribution of the banking operating of Sparda with effect on 1 January 2017, according to section 92 BWG (Banking Act), the significance of a comparison with the financial ratios as at 31 December 2016 is limited.

Total assets increased by approx. euro 612.7 million to euro 11.4 billion compared to the previous year.

Compared to the previous year, loans and advances to credit institutions decreased from euro 2.2 billion to euro 1.7 billion due to the lower refinancing volume of the banks of the Association.

Amounts owed to credit institutions decreased from euro 3.3 billion in the previous year to euro 2.7 billion, essentially due to the contribution of the banking operation of Sparda.

In comparison to the previous year, loans and advances to customers increased from euro 4.4 billion to euro 4.9 billion. This increase is partly due to the contribution of Sparda and partly to an increase in total borrowings, especially in the non-profit housing sector, in project financing and in the corporates segment.

Debt instruments issued by public bodies have decreased year on year from euro 1,092.1 million to euro 1,031.3 million and largely consist of domestic debt instruments denominated in euro.

Other assets, which have decreased from euro 464.7 million by euro 90.7 million to euro 374.0 million during the year, primarily contain positive market values of interest rate hedging transactions in the amount of euro 321.4 million (31 Dec 2016: 381.1 million) in the trading book.

Amounts owed to customers increased compared to the previous year by euro 1.1 billion and amount to euro 5.9 billion at the end of the year; a considerable part of this increase is due to the contribution of the banking operation of Sparda. This includes euro amounts repayable on demand of euro 3.2 billion.

Other liabilities in the amount of euro 445.7 million primarily include negative market values from interest rate swaps and other interest rate hedging transactions amounting to euro 317.4 million (31 Dec 2016: 378.7 million).

In connection with the contribution effected in the business year, a regular capital increase was carried out. The share capital increased from euro 126.9 million to euro 132.9 million; apart from that, the committed capital reserves increased from euro 214.4 million to euro 222.9 million due to the agio from said capital increases.

According to Art 92 CRR, VBW must meet the following capital requirements at all times:
a) a CET 1 capital ratio of 4.5%,
b) a core capital ratio of 6% and
c) a total capital ratio of 8.0%.

The assessment base for capital requirements is the aggregate risk amount, which is euro 3.4 billion at the end of the year (31 Dec 2016: euro 3.2 billion). The minimum requirements for VBW in absolute amounts are a CET 1 capital of euro 152.7 million, a core capital of euro 203.7 million and a total capital of euro 271.5 million. The actual CET 1 capital ratio amounts to 13.8%, meaning that the capital requirements were overaccomplished by euro 316.8 million. The core capital ratio corresponds to the CET 1 capital ratio and was overaccomplished by euro 265.8 million. The total capital ratio amounts to 26.7%. Accordingly, the statutory capital requirements were overaccomplished by euro 635.8 million.

1.2 Report on branch establishments

VBW does not have any branch establishments.

1.3 Financial performance indicators

VBW's own funds under banking law amount to euro 907.3 million as at 31 December 2017 (31 December 2016: euro 450.3 million). At the end of 2017, the risk-weighted assets amounted to euro 3.4 billion, having increased compared to the end of 2016 (euro 3.2 billion) by euro 0.2 billion primarily due to the contribution of the Sparda banking operation.

Available own funds exceed the regulatory requirement by euro 635.8 million.
- The CET 1 capital ratio as well as the core capital ratio, in relation to aggregate risk, amount to 13.8% in each case (31 December 2016: 13.0%).
- The total capital ratio is 26.7% (31 December 2016: 14.2%)

Due to the function as central organisation performed by VBW for the Association of Volksbanks, the following indicators are only comparable to those of other retail banks with certain limitations.

In the year under report, the loan-to-deposit ratio I amounts to 220.3% (2016: 219.2%). The loan-to-deposit ratio I is calculated as the quotient between loans and advances to customers and savings deposits.

In the year under report, the loan-to-deposit ratio II amounts to 68.3% (2016: 71.1%). The loan-to-deposit ratio II is calculated as the quotient between loans and advances to customers and the sum of amounts owed to customers and debts evidenced by certificates.

In the business year, the commission margin amounts to 0.5% (2016: 0.45%). The commission margin is calculated as the quotient between the balance of fee and commission income and fee and commission expenses, and total assets.

In the business year, the operating income margin amounts to 2.33% (2016: 2.68%). The operating income margin is calculated as the quotient between operating income and total assets.

In the business year, the operating expenses margin amounts to 2.14% (2016: 2.14%). The operating expenses margin is calculated as the quotient between operating expenses and total assets.

1.4 Essential organisational and IT projects

The project portfolio of the Association of Volksbanks is structured in 4 clusters: sales & digitisation, efficiency, infrastructure, and regulatory matters. The most important initiatives of 2017 are described below:

Sales & Digitisation Cluster

New online banking products were developed under the heading "Digital Volksbank Banking". The comprehensive offer in digital desktop banking (including personalisation, personal financial management, global search function etc.) was supplemented by innovative Volksbank apps (Banking app with all functions available as on the desktop, Quick app for quick enquiry of account balance, and TAN app as the new safe signature process). Accordingly, digital banking as information, communication and distribution channel between customer and bank was further expanded in 2017 and is also going to be a major focus within the Association of Volksbanks in 2018.

In 2017, the credit process within the Association of Volksbanks was further optimised. The goal is to digitise and automatise the process chain from the counselling interview through to disbursement of the loan. Based on a counselling approach involving all distribution channels ('Omnikanalansatz'), a process is meant to be implemented that can be used by both the customer online and in the branch. The defined process will be implemented as of January 2018. For this purpose, the technical specifications will be defined first and then implemented in terms of system engineering and processes. Integration into the core banking system is meant to take place via defined interfaces.

These interfaces will be developed within the scope of the "Flexrail" project – with a view to enabling the flexible connection of third-party applications in future. Flexrail is a modern service-oriented architecture with standardised interfaces providing for the future connection of both ARZ applications and third-party applications.

One first application of Flexrail is the project "Online Kunde werden" (becoming a customer online). In the course of this project, an online application process for opening a current account incl. bank cards was implemented. Based on this application, new customers are enabled to open a current account completely online. Legitimation is done by video.

Efficiency Cluster

In August 2017, the contribution of the banking operation of SPARDA AUSTRIA Verwaltungsgenossenschaft eGen to VBW was entered in the Companies' Register. The underlying merger project comprised organisational integration, technical consolidation, and all organisational and technical measures with a view to carrying the trademark "SPARDA-BANK eine Marke der VOLKSBANK WIEN AG" (SPARDA-BANK a brand of VOLKSBANK WIEN AG).

In the MSC (Market Service Center) project, uniform processes (throughout the Association) for handling customer, account and portfolio processes have been worked out. For the purpose of service to be centralised in future, as well as with a view to uniform development, a service client was developed. This service client allows for centralised parametrisation for the entire Association of Volksbanks.

In addition to the MSC, a 'KSC' (Kunden Service Center/Customer Service Center) was established. It has already assumed inbound telephone calls for 120,000 customers, accordingly supporting the sales function. The KSC assumes the provision of information to customers, the coordination of appointments with the account manager, and the implementation of simple processes (e.g. new issue of cards). By the end of the year, 80,000 customers with 26,000 current accounts were serviced by the KSC.

Regulatory Matters Cluster

The MiFID II project required under regulatory provisions comprises the implementation of all statutory requirements under the MiFID II/MiFIR regulations and/or the Austrian WAG 2018 (Securities Supervision Act) as well as the PRIIPs (investor protection, market transparency, reporting etc.) across the Association. In this context, the entire value added chain both in the securities and the derivatives business is equally affected. Requirements regarding investor protection include the following aspects: product launch and product review process, investment advisory services incl. customer information, extensions to the investment profile during target market testing (customer:product), obligations regarding records and storage, as well as limitations of benefits. Market transparency comprises the topics of systematic internalisation, best execution and post-trading transparency. Reporting deals with the transaction report, the depreciation threshold report and the position report for (certificated) commodity derivatives/certificates.

The IFRS 9 project, which was started in 2015 already, entered its final phase in 2017, in time for implementation as of 1 January 2018. In doing so, processes and systems were changed according to IFRS 9 throughout the Association, the focus in terms of content being classification and measurement, new regulations regarding impairments, and also hedge accounting. At the same time, a uniform general ledger accounts structure was rolled out throughout the Association and SAP FI (with the NewGL, AA and AP modules) was implemented.

Within the scope of the joint reporting platform (GMP), where, based on a jointly used software (Abacus), the major Austrian banking associations implement the OeNB data model through Austria Reporting Services GmbH (AuRep), the Finrep Solo, FMS Cubes reports were assisted in the GMP 2017 project and successfully put into operation, and the paper-based report VERA A1a was replaced by the single-transaction-based GMP solution. Moreover, the existing system was developed according to regulatory requirements based on the extension of the data model (Version 4.1). And implementation of reporting requirements regarding AnaCredit was started.

The General Data Protection Regulation (GDPR) will take effect on 25 May 2018. By that time, all data applications will have to be adjusted to the new legal situation. Implementation throughout the Association will take place in three project clusters: (1) In the ARZ joint data processing centre, the registers of processing operations for ARZ services will be prepared and the rights of data subjects implemented (deletion, blocking, right to information, data portability, objection, authorisation, profiling). (2) A data management system used across the Association will be implemented within VBW, the registers of processing operations of VBW will be prepared, the ARZ registers will be adopted and adapted if necessary, an estimate of consequences will be carried out, and the rights of data subjects implemented. (3) In decentralised Association projects, the registers of processing operations will be prepared for the respective institution, the ARZ and VBW registers will be adopted and adapted if necessary, and the rights of data subjects implemented.

Infrastructure Cluster

In order to design the IT architecture, which has developed over many years, in a future-proof and sustainable fashion with respect to the permanently increasing requirements regarding data volumes and granularity, processing speed, degree of automation, and data integrity, the Data Architecture programme was started in January 2017. Within the scope of the programme, IT architecture master plans and TARGET flows of information were developed, essentially creating a central data warehouse (single point of truth = SPoT) containing all data on individual and customer transactions and serving as a source for all reporting addressees. The Data Governance project resulted in a new organisation unit: "FDS – Financial Data Steering", which is going to ensure sustainable data management and/or data governance. Moreover, in the BCBS239 project, the measures that are going to serve as the basis for implementation projects were defined for the bank.

In the Lingua project, a standardised technical data model is being worked out within the Association of Volksbanks. The aim is to create a uniform technical perspective and content definition of terms or concepts, data fields and business ratios to provide for a common understanding of data contents and definitions across user groups on that basis and to subsequently identify any redundancies within the body of available data. Additionally, data governance is also being developed within this project. The individual roles required in connection with data management, such as data owner, DQ manager etc., are analysed, any existing responsibilities revised, as well as the data request process and the data management processes optimised. Among others, these measures serve to further increase data quality.

Another focus was on implementation of a common SAP HCM system landscape across the Association. In that context, a number of individual projects was successfully completed. The overall project will be completed by the end of 2018. The aim is the standardised handling of all HR-relevant IT matters in SAP across the Association. In this context, the ARZ is responsible for the development and current maintenance of the systems. Experts of the ARZ, the VBW as well as representatives of the banks of the Association cooperate within the project groups.

1.5 Sustainability

Within the scope of Group reporting, VBW reports on concepts, results and risks relating to environmental matters, social and employee topics, human rights, corruption and bribery as well as diversity according to the Nachhaltigkeits- und Diversitätsverbesserungsgesetz (NaDiVeG; sustainability and diversity improvement act) in a separate sustainability report.

2 Report on the Company's future development and risks

2.1 Expected development of the Company

2.1.1 Economic environment

According to the economic forecast of the Austrian Institute of Economic Research (WIFO) published in December, the Austrian economy is expected to grow by 3% in 2018. In December, the European Central Bank increased its economic growth forecasts for the euro zone in 2018 to 2.3%. The OeNB forecast for Austria included in that figure is 2.8%. Oesterreichische Nationalbank expects positive contributions to growth from all demand components and a persistently good (if flattening) development of investments, meaning that a solid demand for loans may be hoped for. With the savings rate of 7.2% remaining the same, the OeNB expects real disposable household income to grow by 1.6%. This would provide for a sound basis both for the credit rating of private borrowers and for investment business. Due to the favourable economic situation, a growing demand for loans is expected across all branches of industry. A persistently favourable development of the residential real estate market and of the corresponding demand for loans can also be derived from demographic trends. The increase in housing construction recorded in the first half of the previous year, as well as the outlook in terms of interest, suggest a positive, yet flattening price development in Vienna and other conurbations, while prices may also decline in regions affected by emigration.

The forecast of the European Central Bank for the average inflation rate in the euro zone for 2018 amounts to a mean of 1.4%. Accordingly, the rate of price increases would not quite reach the target inflation rate of the European Central Bank of a little under 2% again in 2018. This in combination with the European Central Bank's monetary easing would suggest a continuation of the low-interest environment, although continuing monetary tightening in the USA should provide for a slight upward trend and also in Europe, monetary easing is expected to be gradually discontinued. The very high interest differential in favour of the US dollar is likely to work against a further appreciation of the euro. In 2018, considering the favourable economic situation, the currencies of the economies outside the euro zone that are considered here might benefit from an increase in risk appetite on the part of international investors and from a positive development in the sphere of direct investments.

The risks associated with this outlook are manifold. They include, for instance, the potential foreign restrictions imposed by the USA, which may affect Austrian exporting companies and suppliers. A modification of growth rates in the neighbouring countries might also affect tourism to a certain extent. Tensions within the European Union in connection with the exit negotiations with Great Britain or any decline in pro-European sentiment in the major member states, e.g. after elections, constitute a risk for the continuation of economic recovery within the region. A rapid rise in interest rates would also have to be classified as a risk for economic activity and the real estate markets. Additionally, geopolitical conflicts may also potentially harm the basically positive economic outlook.

2.1.2 Expected development of the Company

The focus of the Association of Volksbanks on retail banking is meant to be continued, supported, in particular, by increasing digitisation of the sales process.

In spite of persistently high investments in the systems, in improving data quality and in spite of the still high regulatory cost, VBW intends to achieve an annual result in the low two-digit million euro range. Despite planned growth, the CET 1 capital ratio is intended to remain at around 12%.

The low interest rate environment expected to continue in 2018 calls for a streamlining of the cost structure and an increase of productivity. For this purpose, additional cooperation models are being evaluated within the Association of Volksbanks, among others.

Currently, the plan is for the banking operation of Waldviertler Volksbank Horn reg.Gen.m.b.H. to be contributed to VBW. In case of consent by the responsible bodies, the contribution is meant to be completed in the first half of 2018.

2.2 Significant risks and uncertainties

The professional management of the risks associated with the business activities is a core function of any bank. In its capacity as CO of the association of credit institutions according to section 30a BWG, consisting of VBW and the primary banks of the Volksbank-Sector, VBW has the core function to ensure that the association of credit institutions has in place administrative, accounting and control procedures for the recognition, assessment, management and monitoring of the risks associated with banking transactions and banking operations as well as of the remuneration strategy and practices (section 39 (2) BWG). The focus of control, and accordingly reporting, is on the association including VBW as part of the Association. Implementation of control within the Association is effected through general and, if necessary, individual instructions.

2.2.1 Current developments

In 2017, the Association of Volksbanks was again subjected to the SREP (Supervisory Review and Evaluation Process) within the scope of the Single Supervisory Mechanism (SSM) of the ECB. Apart from the regular field of review, this year's SREP also considered the stress test carried out in 2016 and supplemented by the IRRBB (Interest Rate Risk in the banking book) sensitivity analysis of the ECB.

By resolution of the ECB dated 19 December 2017, the result of the SREP was forwarded to VBW as the central organisation of the Association of Volksbanks. As in the previous years, the additional capital ratios imposed by the ECB for 2018 are met.

The CET 1 requirement defined for the Association of Volksbanks in the amount of 10.925% for 2018 is composed of the following: pillar 1 CET requirement of 4.5%, pillar 2 requirement of 2.5%, capital conservation buffer of 1.875%, system risk buffer 0.25%, and pillar 2 recommendation regarding capital of 1.8%. The total capital requirement for 2018 amounts to 12.625% (pillar 1 requirement of 8.0%, pillar 2 requirement of 2.5%, capital conservation buffer of 1.875%, system risk buffer 0.25%). These requirements do not apply to VBW as a single institution.

2.2.2 Risk policy principles

The risk policy principles of VBW comprise the standards for the management of risks that are applicable within the Association of Volksbanks and are defined by the CO Managing Board together with the risk appetite. A common understanding of risk management across the Association is the basis for developing risk awareness and a risk culture within the Company. The Association of Volksbanks carries on its activities subject to the principle that risks will only be accepted to the extent this is required to achieve strategic business goals. The associated risks will be managed overall subject to risk management principles by creating an appropriate organisational structure and corresponding business processes.

2.2.3 Organisation of risk management

VBW has taken all required organisational precautions to meet the requirements regarding modern risk management. There is a clear separation between trading and back office. A central, independent risk controlling function has been established. At Managing Board level, the Chief Risk Officer (CRO) is the head of Risk Controlling. Within the Managing Board responsibilities of the CRO, there is a separation between risk controlling and operational risk management. Risk assessment, risk measurement and risk control are carried out according to the dual-control principle. For the purpose of avoiding conflicts of interest, these tasks are performed by different organisational units.

The diversity of the business model requires risks to be identified, assessed, measured, aggregated and controlled effectively. Risks and capital are managed by means of a framework of principles, organisational structures as well as measuring and monitoring processes that are closely aligned with the activities of the departments and divisions. As a prerequisite of solid risk management, the Risk Appetite Framework (RAF) was implemented by the Association of Volksbanks also within VBW, in order to define risk appetite and/or the level of risk tolerance that VBW is prepared to accept to achieve its defined goals.

2.2.4 Regulatory requirements

Implementation of the regulations regarding equity base at VBW is as follows:

Pillar 1: Minimum capital requirements

The implementation of Pillar 1 at VBW as the CO of the Association is aimed at meeting minimum regulatory requirements. With respect to both credit risk and market risk, and also for operational risk, the respective regulatory standard approaches for determining the minimum capital requirements apply.

Pillar 2: Internal Capital Adequacy Assessment

Regulatory control and minimum requirements of pillar 2 are implemented within the scope of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). In this context, VBW implements all measures required to ensure sufficient capitalisation and liquidity, at all times, for current business activities and also for those planned in future, as well as the associated risks.

Pillar 3: Disclosure

The requirements of Pillar 3 are met by publishing the qualitative and quantitative disclosure regulations acc. to the FMA ordinance on implementation of the BWG regarding the disclosure obligations of credit institutions (EU Regulation no. 575 / 2013 Part VIII Disclosure) on the bank's own website under Volksbank Wien / Offenlegung Volksbank Wien AG.

2.2.5 Risk and capital management throughout the Association

The risk controlling function prepares the governance rules, methods and models for strategic risk management issues across the group, as well as the regulations for control at portfolio level. For the purpose of performing its steering function, the CO has issued General Instructions (GI) for the credit institutions included in the Association of Volksbanks. The GI ICAAP & GI ILAAP and the downstream manuals of the Association govern the risk management function in a binding and uniform manner. The objective of GI ICAAP & GI ILAAP is to comprehensively and verifiably document and set down general conditions and principles, consistently throughout the Association, for the assessment and management of risks, and for the organisation of processes and organisational structures. Within the scope of their general duty of care, the members of the Managing Board and the managing directors of all members of the Association must ensure, without exception and restriction, in the interest of the respective companies, that the General Instruction is put into effect formally and de facto. Any deviations and special regulations concerning the General Instructions shall only be permissible in exceptional cases and must be coordinated with VBW as the CO in advance.

2.2.6 Internal Capital Adequacy Process – ICAAP and stress testing

To ensure a sustainable, risk-adequate capital base, VBW has set up an Internal Capital Adequacy Assessment Process (ICAAP) as a revolving control cycle, in line with international best practice. The ICAAP starts by identifying the material risks of VBW, undergoes a risk quantification and aggregation process, determination of risk-bearing capacity, limitation, and concludes with ongoing risk monitoring and the measures derived therefrom.

The individual elements of the cycle are performed at varying intervals (e.g. daily for market risk / trading book risk measurement, quarterly for preparing the risk-bearing capacity statement, annually for self-assessment and determination of the risk strategy). All the activities described within the cycle are reviewed for up-to-dateness and adequacy at least annually, adjusted to the respective current general conditions if necessary; they are approved by the Managing Board of the CO.

Self-assessment

The self-assessment process serves the purpose of determining the risk potential of newly accepted significant exposures and of measuring existing significant risks. The results of self-assessment are summarised and analysed for the group. The results of the self-assessment process are used to inform the risk strategy and form a starting point for the risk-bearing capacity statement, as significant types of risk must be taken into account within the risk-bearing capacity statement.

Risk strategy

The risk strategy of VBW is based on the risk and business strategy of the Association and provides for consistent general conditions and principles for uniform risk management. The risk strategy is reviewed for up-to-dateness and adequacy at least annually and adjusted to the respective current general conditions. It provides the framework for the handling of risks and for ensuring risk-bearing capacity within VBW at all times.

Risk Appetite Statement (RAS) and limit system

The core element of the risk strategy is a Risk Appetite Statement (RAS) and integrated limit system in line with the business strategy. The RAS set of indicators comprising strategic and other (operational) indicators helps the Managing Board to implement central strategic goals of VBW, specifying the same.

The risk appetite, i.e. the indicators of the RAS, are derived from the risk profile, risk capacity and revenue expectations and/or the strategic planning process. The limit system broken down by risk subtypes and the RAS provide the framework for the maximum risk that VBW is ready to accept to achieve its strategic targets. The RAS indicators are provided with a target, a trigger and a limit value and are monitored on a current basis, as are the aggregate bank and partial risk limits. In this way, it can be ensured that deviations from the risk strategy are identified swiftly and that counter-measures can be initiated in a timely manner.

Risk-bearing capacity statement

The risk-bearing capacity statement forms the basis of the quantitative implementation of the ICAAP. It is used to provide evidence of the fact that the risks assumed are sufficiently covered by adequate risk covering potentials at all times and to ensure such cover also in future. For this purpose, all relevant individual risks are aggregated. This aggregate risk is then compared to the existing and previously defined risk covering potentials. Compliance with the limits is quarterly monitored and reported on.

In determining risk-bearing capacity, different objectives are pursued that are reflected in three perspectives:

- Regulatory perspective (compliance with regulatory own funds ratios)
- Economic going-concern perspective
- Economic liquidation perspective (gone-concern perspective)

The regulatory Pillar 1 perspective compares the sum of all risks to be covered by capital under regulatory provisions, according to the methods provided for, with defined risk covering potentials (based on regulatory definitions). Ensuring regulatory risk-bearing capacity is provided for under the law and constitutes a minimum requirement. The composition of the regulatory aggregate risk position of VBW corresponds to that of any typical retail bank. In the process, risk positions of credit and market and operational risk as well as the CVA charge are taken into account.

Under the going-concern perspective, the continued existence of orderly operations is meant to be ensured. Smaller risks that may occur with a certain probability should be absorbed without jeopardising current operations. Hidden reserves, the annual surplus/deficit achieved in the current business year, the target profit/loss for the coming 12 months, as well as the capital that exceeds the CET1 capital ratio of 8.25% as defined in the 2017 risk strategy are essentially recognised as risk covering potentials. During risk quantification, a confidence level of 95% and a holding period of one year are applied. The aggregate bank risk limit is set at 85% of the available risk covering potential in the economic going concern perspective.

The economic liquidation perspective puts the securing of creditors' claims in case of liquidation in the foreground. Under that perspective, the risk covering potentials are defined on the basis of "internal" capital. The latter is based on the regulatory definition, but comprises additional components, such as hidden burdens/reserves. Also during determination of the aggregate risk position, internal procedures – normally VaR – are used. In doing so, not only the risks to be covered by own funds under regulatory provisions are considered, but all quantifiable risks considered significant within the scope of self-assessment are included in the consideration. During quantification of risk under a liquidation perspective, a 99.9% confidence level, with a holding period of one year, is applied. The aggregate bank risk limit is set at 85% of the available risk covering potential in the economic liquidation perspective.

Stress testing

Credit, market and liquidity risks regularly undergo risk type-specific stress tests, with crisis scenarios being conceived in such a way that the occurrence of events that are highly unlikely, but not impossible is simulated. By way of this approach, huge losses – among others – can be identified and analysed.

Apart from these risk type-specific stress tests and sensitivity analyses, bank internal stress tests as well as regulatory stress tests are regularly carried out across risk types. The semi-annual internal stress test for the bank as a whole consists of scenario analyses, sensitivity analyses and the reverse stress test. In the scenario analyses, economic crisis scenarios are defined and the changed risk parameters for the individual risk categories and areas of business derived therefrom. Apart from the risk side, the effects of crisis scenarios on risk covering potentials are also determined. Finally, in a stressed risk-bearing capacity analysis, the various effects of the crisis scenarios on risk-bearing capacity are summarised and analysed. Based on the findings of the aggregate bank stress tests, recommended actions are defined and transposed into measures. For instance, the reporting framework is extended by new aspects, additional limits are defined, specific or high-risk industries monitored more closely, and planning targets for strategic risk indicators derived.

Risk reporting

The reporting framework implemented at VBW is meant to ensure that all significant risks are fully identified, monitored and efficiently managed promptly. The reporting framework offers a holistic and detailed presentation of the risks and a specific analysis of the individual risk types.

The monthly aggregate bank risk report serves as a core element of the reporting framework. The aggregate bank risk report provides a summary of the situation and development of the RAS indicators, the utilisation of the risk-bearing capacity, it addresses all significant risks and contains comprehensive qualitative and quantitative information, among others. The aggregate bank risk report provides the Managing Board with management-related information on a monthly basis and is sent to the Supervisory Board of VBW quarterly.

Complementing the aggregate bank risk report, various risk-specific reports (e.g. analyses in credit risk regarding the development of individual sub-portfolios) are provided in addition to the reporting framework.

Reorganisation and liquidation planning
As VBW belongs to the Association of Volksbanks, which was classified as a system-relevant credit institution, VBW has worked out a reorganisation plan and submitted the same to the relevant regulatory authorities (e.g. ECB). This reorganisation plan is updated at least once a year and takes into account both changes of the bank's business activities and changes with respect to regulatory requirements.

2.2.7 Significant risks within VBW and/or the Association of Volksbanks

The following risks are classified as significant and explained below:
a) Credit risks
b) Market risks
c) Liquidity risks
d) Operational risks
e) Other significant risks (e.g. investment risk, strategic risk, reputational risk, equity risk, and business risk)

a) Credit risk
Credit risk refers to potential losses that occur because a contract partner fails to meet its payment obligations.

Credit risk management organisation
Within VBW, the responsibilities associated with credit risk are taken care of by operational credit risk management and certain subdivisions of the risk controlling function. The units Credit Risk Management Branches, Credit Risk Management Real Estate & Corporates, Restructuring Management & Collection are responsible for operational credit risk management. The Risk Controlling function is responsible for risk assessment, risk measurement and risk control as well as for credit risk reporting.

Operational credit risk management

Lending principles
- Loan transactions are necessarily based on loan agreements with borrower-specific limits. The determination and monitoring of the limits is subject to uniform regulations at the level of the Association.
- The rating obligation applies to all exposures above the defined minimum level. The rating process is based on the dual-control principle and applies across the Association.
- In selecting collateral securities, attention is paid to the cost-benefit ratio, and accordingly recoverable collateral securities that cause little administrative effort and are not very cost-intensive will preferably be resorted to, as well as actually realisable collateral securities. For this reason, physical collateral, such as real estate collateral, and financial collateral, such as cash collateral or collateral in the form of securities, is given priority. The recoverability and enforceability of collateral security must basically be assessed prior to any credit decision. Principles for the management of collateral and uniform rules for the selection, provision, administration and valuation of collateral security apply at the level of the Association.
- Foreign currency and repayment vehicle loans are basically no longer offered or granted.
- The principal market for credit business is the Austrian market. Lending to customers in the defined target countries of Germany, Switzerland, Liechtenstein and Slovenia may only be effected within the locally allocated limits.

Decision-making process
In all units of VBW that generate credit risk, there is a strict separation of sales and risk management functions. All decisions in individual instances are taken strictly observing the dual-control principle. For transactions involving large volumes, processes have been set up that ensure the involvement of operational risk management and of the Managing Board in the risk analysis and/or loan decision. Limit systems play an important role in this context, as they provide a framework for the decision-making powers of the individual units.

Monitoring of exposures and collateral
The processes for the review of exposures and collateral are governed by uniform regulations across the Association and must be observed by all credit institutions attributed to the Association.

Limits
The monitoring, control and limitation of the risk of individual exposures and of risk clusters is effected according to the differentiated limit categories.

Within the Association of Volksbanks, the group of affiliated customers (GaC) is used as the basis for limits in case of new lending and for monitoring. As regards the limits, the requirements on the level of the Association of Volksbanks differ from those applicable to the individual banks. A review of the limits on individual transaction level takes place continuously within operational risk management of the individual banks and is monitored by the operational risk management function of VBW in its function as CO, using centralised analyses.

In connection with portfolio limits, within the Association, country risk limits and materiality limits for regions and industry sectors are being defined at present. These limits are relevant for the lending process and are monitored in monthly intervals by Risk Controlling.

In order to achieve a sustainably healthy portfolio quality, requirements exist for transactions with new customers and increases of the exposure of existing customers; these depend on the customer's credit rating and are applicable across the Association.

Intensified credit risk management
Within the Association, and accordingly also within VBW, intensified credit risk management means the special monitoring of customers with payment difficulties and/or customers threatened by default. Among others, intensified credit risk management comprises processes relating to the early detection of customers threatened by default, the dunning procedure, forbearance processes, as well as default identification.

Early identification (EWS): During early identification, customers who might show an increased risk of default within the next few months are systematically identified on the basis of certain indicators. In this way, VBW is put in a position to counteract potential defaults early on. The early identification of customers threatened by default is governed within a uniform early warning system (EWS) throughout the Association.

Dunning procedure: The dunning procedure applied across the Association and accordingly within VBW is uniform and automatised. The criteria and requirements for the dunning procedure are centrally defined by VBW for the entire Association.

Forbearance: Forbearance refers to concessions made by the lender to the debtor in the context of financial difficulties or imminent financial difficulties of the debtor, which the lender would not grant otherwise. Debtors whose transactions were classified as forborne are subject to special (monitoring) regulations within the Association.

Default identification: The process of default identification serves to recognise defaults in time. A customer is deemed defaulted if a default of performance of more than 90 days exists and/or if complete settlement of the debt is considered unlikely. The Association has defined 13 possible types of default event that are used for the consistent classification of default events across the Association. Among others, default identification also builds on the early warning and forbearance processes described above. Additionally, there are other (checking) processes, e.g. the analysis of expected cash flows within the regular or event-driven exposure checks, which may trigger classification to a default category.

Problem Loan Management
Within the Problem Loan Management system (PLM) applicable throughout the Association, allocation of the customers

takes place on the basis of clearly defined indicators applied consistently across the Association. Subsequently, a distinction is made between customers

- under intensive supervision (negative change of risk estimation, but not defaulted yet)
- in the process of restructuring (imminent risk of default or defaulted already, but customer is eligible for restructuring), and
- subject to collection (defaulted customers and customers not eligible for restructuring)

and appropriately differentiated processing routines have been put in place consistently throughout the Association.

Quantitative credit risk management

Measurement and control of credit risk

The development of sophisticated models as well as of systems and processes tailored to the bank-specific portfolio is required for the measurement and control of credit risk. In this way, the credit decision is meant to be structured and improved on the one hand, on the other hand these instruments and/or their results also form the basis of portfolio management.

The results of credit risk measurement are reported to the Managing Board within the scope of the risk committee on a monthly basis. The most important objective of the use of the credit risk models and tools is to avoid losses through early identification of risks.

Rating systems

Across the Association, standardised models are applied to determine credit ratings (the VB rating family) and to determine the amount of loss in case of default. The expected probability of default of each customer is assessed via the VB rating family and expressed through the VB master scale, which comprises a total of 25 rating levels. The PD range used not only allows to compare internal ratings with classifications used by external rating agencies, but especially to compare credit ratings across customer segments.

The rating categories of rating level 5 cover the reasons for defaulting on loans as applied across the Association and are also used for reporting non-performing loans (NPL).

Credit Value at Risk

The calculation of the economic capital requirement necessary for the credit risk is effected by means of the credit value at risk (CVaR) method. For this purpose, the Association has chosen an analytical calculation method. A refined CreditRisk+ model, adjusted to internal requirements, is used for modelling the credit exposures in the loan portfolio in detail.

Concentrations

Quantification and valuation of concentrations across the Association is effected monthly, via the risk parameters identified, on the one hand, and in the course of preparing the risk report, on the other hand. Additionally, concentration risk also considers the effects on the bank as a whole.

Counterparty default risk

The counterparty risk for market values from unsecured derivatives is taken into account by way of credit value adjustments (CVA) or debt value adjustments (DVA) – as approximation function of the potential future loss regarding counterparty default risk. The expected future exposure (EFE) is determined by means of the Monte Carlo method. The probabilities of default for counterparties for which no credit spreads are observable on the market are based on internal ratings of the Association of Volksbanks. The Association does not use any internal model for calculating the counterparty default risk.

Reports on utilisation and overdrafts, if any, are provided to the credit departments concerned as well as to Treasury on a daily basis.

Credit risk mitigation

The consideration of collateral security within the scope of the credit risk models for CVaR and in expected loss calculations is primarily effected through the LGD models applied across the Association. The starting point for taking into account collateral securities is the respective current market value, fair value, nominal value or redemption value.

For the purpose of reducing the counterparty risk of derivative transactions, the Association uses credit risk mitigation methods such as netting and exchange of collateral securities. The Association strives to conclude standardised ISDA framework agreements for bilateral netting and a corresponding Credit Support Annex (CSA) with all key market participants. The fair values of derivative transactions with counterparties are reconciled daily. If the fair values exceed certain contractually agreed thresholds, such excess amounts must be covered by securities. Said securities are recognised in regulatory terms and reduce the risk.

Credit risk reporting

Credit risk reporting takes place monthly with the aim to provide a detailed presentation of the credit risk existing at a certain reporting date and to report the same to the entire Managing Board. Relevant reports are prepared for the group, for key units of the group, and for the key areas of business. The information is also included in the credit risk portions of the aggregate bank risk report.

The reports comprise a quantitative presentation of credit risk information relevant for risk control that is supplemented by a brief assessment of the situation and additional qualitative information, if applicable.

The following analyses are part of the monthly report:
- Portfolio distribution
- Development of new business
- Credit rating distribution
- Non-performing loans (NPL)
- Forbearance
- Credit risk concentrations
- Country group analysis
- Customer segments
- Distribution across industry sectors

b) Market risk

Market risk is the risk of changing prices or rates of value-determinant market risk factors (e.g. interest rates, exchange rates, interest and foreign exchange volatilities). VBW distinguishes the following types of market risk:
- Interest rate risk in the banking book
- Credit spread risk
- Market risk in the trading book
- Foreign exchange risk (open FX positions)

No material market risks or concentration risks exist beyond that. Monitoring of the market risk is carried out in the market and liquidity risk controlling department of the Risk Controlling division, which is separate, in organisational terms, from the Treasury division on the level of the Managing Board.

Interest rate risk in the banking book

Interest rate risks emerge through term transformation, which arises from deviations of fixed interest rate periods between assets and liabilities. Term transformation is a source of income for the bank in the form of a maturity structure contribution.

The interest rate risk in the banking book comprises all interest-bearing transactions reported and not reported in the balance sheet, except for transactions in the trading book. The interest rate risk position associated with the retail business of VBW mainly arises from variable index-linked credit business and variable-interest deposits (in the form of sight and savings deposits), as well as from implicit floors, in both the asset side and the liabilities side client business. In credit business, this is associated with a shift from index-linked positions towards fixed-interest positions, as mostly fixed-interest loans are granted in the new business. Additional decisive factors are bond positions of the bank's own portfolio, own issues and the interest-rate swaps used to control the interest rate position. At the end of 2017, the VBW reports a relatively low positive term transformation. As at 31 December 2017, the present-value interest rate risk (regulatory interest rate risk statistics according to the OeNB standard procedure) amounted to 6.4% of own funds, which is clearly below the regulatory limit of 20%. The interest rate sensitivity in the form of the present value of a basis point (PVBP) is around euro -0.5 million.

The Asset-Liability-Committee (ALCO) is responsible for controlling the interest rate position of VBW within the scope of risk limits defined by Risk Controlling and approved by the Managing Board within ALCO. The ALCO is the central body for the management of interest rate risks. It is convened monthly or ad hoc as required. The Asset Liability Management (ALM) function, which belongs to the Treasury function in organisational terms, is responsible for the management of the ALCO. Proposed measures to control the interest rate position are worked out by the ALM in cooperation with Risk Controlling. The aim is to create a maturity structure contribution by way of positive term transformation. Effects on both income and present value are considered in managing the interest rate position. Interest rate risk reporting within ALCO is taken care of by the market and liquidity risk department.

The main tasks of Risk Controlling include risk modelling and its permanent development, determination of the limit structure based on the economic capital attributed, review of limits, parametrisation of systems, and risk reporting. Within ALCO, the reports prepared serve as a decision-making basis for control measures.

At VBW, present-value risk measurement and limitation are mainly effected on the basis of the interest rate gap (net position of the contractual or modelled fixed-interest rates per maturity band), an interest rate book VaR based on historical simulations, the interest rate sensitivity in the form of a PVBP, and regulatory interest rate statistics. Period-based risk measurement is implemented in the form of an interest result simulation. In the process, the effects on the interest result of the next years are calculated for five potentially unfavourable scenarios. For 2018, the interest result decreases by euro 48 million in the least favourable scenario (a marked interest rate reduction (200 BP in parallel)). The results of the interest result simulation and the interest rate book VaR are taken into account in the ICAAP within the scope of the risk-bearing capacity statement. In both perspectives, positions with indefinite interest rates (e.g. in the form of sight and savings deposits, current account facilities) are included consistently in the risk measurement process by assuming replication and/or rolling. The assumptions are determined on the basis of statistical analyses, supplemented by expert opinions. They are regularly reviewed for validity and validated in a group that is independent of the modelling process.

Concentration risk

No concentration risks exist within the interest rate risk.

Credit spread risk

The credit spread is defined as additional charge on the risk-free interest rate. The credit spread risk arises from fluctuations of the present values of assets due to credit spreads changing over the course of time.

The transactions relevant to credit spread risk are investments in the bank's own portfolio, and not loans and advances to customers. This essentially comprises bonds, funds, credit default swaps (CDS), as well as bonded loans. For these positions, a credit spread VaR and credit spread sensitivities are calculated. Within the scope of the ICAAP, credit spread risk is considered during calculation of the risk-bearing capacity and aggregate bank risk stress testing.

The calculation of the credit spread VaR is based on a historical simulation. In the process, the portfolio is divided into 30 risk clusters, depending on credit rating, branch of industry, type of product and seniority. The plausibility and reliability of the VaR indicators are reviewed by way of reverse comparisons (backtesting) and validated in a group independent from the modelling approach on a recurring basis.

In line with the investment strategy, the bank's own portfolio includes highly liquid assets of the public sector and covered bonds with a high credit rating. It is primarily held as a liquidity buffer and eligible for the regulatory liquidity coverage ratio (LCR) for the major part.

Concentration risk

Concentration risks can only arise on the level of issuers or risk clusters in the sense of similar issuers. Within Credit Spread Risk, risk clusters are monitored. At present, the biggest concentration exists within the Sovereign Austria risk cluster (42% of the carrying amount of the bank's own portfolio). There are 23% in covered bonds and 8% in Sovereign Italy. Concentrations with individual issuers are limited by the issuer lines within credit risk.

Market risk in the trading book

The market risk in the trading book of VBW is of subordinate importance. The main responsibilities of the Risk Controlling function include determination of the limit structure based on the allocated economic capital and the daily review of the limits, the administration of the front-office systems, and the development of the systems and models. The regulatory capital adequacy requirements of the trading book are calculated by means of the standard approach – VBW does not use any internal model for market risk in the trading book. The limit structure reflects the risk and treasury strategy.

Within the scope of the ICAAP, market risk is considered within calculation of the risk-bearing capacity and aggregate bank risk stress testing. Reporting is effected daily by the market and liquidity risk department to Treasury, and monthly to ALCO.

A VaR is calculated every day for the trading book according to the method of historical simulation for the purpose of risk monitoring. In the historical simulation, historical market price changes are used to evaluate the current portfolio. A 99% VaR is calculated for a holding period of 10 days. The plausibility and reliability of the VaR indicators are reviewed daily by way of reverse comparisons (backtesting) and validated in a group independent from the modelling approach on a recurring basis.

Apart from VaR, a series of other risk indicators are calculated daily and used for limitation. They essentially comprise interest rate sensitivities and option risk indicators (delta, gamma, vega, rho). Additionally, there are management action triggers and stop-loss limits.

Since extreme situations are not covered by the VaR so calculated, comprehensive stress tests are carried out monthly or on an ad hoc basis across all portfolios in the trading book. Non-portfolio-specific scenarios, such as parallel shifts, curve rotations or reconstructions of historical crises are applied to the current portfolio without changes during each crisis test. Portfolio-specific scenarios attempt to find the most unfavourable effects on the current portfolio.

The systems used ensure the daily unbiased valuation of the trading book items.

Foreign exchange risk (open FX positions)
The foreign exchange risk from open FX positions is of subordinate importance at VBW. It arises due to changes of the value of outstanding receivables and liabilities in foreign currencies through exchange rate fluctuations.

c) Liquidity risk
As the CO of the Association of Volksbanks, VBW is responsible for liquidity management across the entire Association and acts as "lender of last resort" for the primary banks. The primary banks cover their refinancing requirements via VBW, investing their excess liquidity. Both operational, short-term liquidity management and medium- to long-term liquidity management are performed in a centralised manner at VBW, in the Treasury division, through the liquidity management department. Monitoring and limitation of liquidity risk, as well as the methodological requirements regarding risk measurement are performed or stipulated by the market and liquidity risk controlling department at VBW.

The ALCO is responsible for controlling the liquidity position of VBW within the scope of risk limits defined by Risk Controlling and approved by the Managing Board within ALCO. The ALCO is the central body for the management of liquidity risks. Liquidity risk reporting within ALCO is taken care of by the market and liquidity risk controlling department.

Within liquidity risk, VBW distinguishes between illiquidity risk and funding cost increase risk. Illiquidity risk is the risk to be unable to settle payment obligations when they are due. In case of illiquidity risk, additional subcategories, e.g. refinancing risk (roll-over risk), call risk and market liquidity risk are distinguished, which are of relevance especially in the context of liquidity stress testing. For VBW as a retail bank, illiquidity risk typically consists in the risk of a bank run. This occurs when, due to a loss of confidence, customers withdraw large deposit volumes and at the same time alternative funding sources are not accessible (any more).

Illiquidity risk is managed by holding a sufficient liquidity buffer. VBW is responsible for the central management of the liquidity buffer for the whole of the Association. The liquidity buffer mainly consists of highly liquid bonds that are LCR-eligible for the major part, of deposits with the national bank, of ECB tender potential, and covered bond issue potential. The liquidity of the liquidity buffer is tested regularly. The liquidity management department within the Treasury division is responsible for the current management of the liquidity buffer.

At VBW, the risk of funding cost increases is defined as a negative income statement effect that occurs due to potential future increases of refinancing costs on the money and capital markets as well as in the retail sphere. This risk is taken into account in the risk-bearing capacity calculation within the scope of the ICAAP. Said risk is of minor importance at VBW, as the company is hardly dependent on the capital market, and little price sensitivity is observed in the sphere of customer deposits.

The risk measurement and limitation of illiquidity risk is effected through the regulatory indicators LCR and NSFR, the survival period from internal liquidity stress testing, and through additional operational indicators. The LCR aims to ensure the short-term financial solvency of banks under stressed conditions over a short-term horizon of 30 calendar days. The calculation of the LCR takes place weekly and at the end of the month in the market and liquidity risk controlling department. The NSFR limits the liquidity term transformation by determining a minimum of stable refinancing, depending on the liquidity characteristics of the assets and other (off-balance sheet) operations of a bank. Currently, calculation takes place weekly and on the last day of each quarter in the market and liquidity risk controlling department at VBW. In 2017, both indicators were always clearly above the regulatory limits. Since March, the LCR has always exceeded 125% at the end of the month, suggesting a comfortable liquidity situation.

The survival period is the period during which, under a given stress scenario, the liquidity buffer held is sufficient to cover cumulated net liquidity outflows. Five stress scenarios of varying severity are calculated: one low and one high bank stress scenario, one low and one high market stress scenario, and one combined scenario. The least favourable of the scenarios calculated is applied to the survival period. In 2017, the survival period always exceeded 128 days, thus indicating the comfortable liquidity situation.

Concentration risk

Due to diversified funding through customer deposits, concentration risk is not material. The only risk clusters exist at customer level. Accordingly, the largest deposits at customer level are monitored both in risk controlling and also within operational liquidity management. All of them amount to less than 1% of total assets. There are only a few temporary exceptions with some major accounts for implementing payment transactions or balancing liquidity peaks. They always amounted to clearly less than 5% of total assets and do not constitute any long-term funding position for VBW. No other risk clusters with similar characteristics exist.

Operational liquidity management

The liquidity management department in the Treasury division is responsible for operational liquidity management. The department is the central unit at VBW and within the Association of Volksbanks for matters regarding the pricing of liquidity (transfer pricing), the central management of collateral across the Association, the determination of the funding structure, the disposition of available liquid funds, and compliance with the refinancing strategy; it comprises the following essential duties:

- Cash management (settlement of all transactions of the Association as well as disposition of the banking connections maintained by VBW)
- Collateral management: ECB-eligible collateral of the Association (bonds and credit claims) and underlying stock management for covered bonds
- Issue planning
- Daily liquidity forecast for the following 31 days, and weekly for the following 12 months
- Monitoring of refinancing positions of the Association, and the control system put into effect by VBW as CO with the approval under section 30a BWG, for the individual banks of the Association – a.o. liquidity reports, refinancing management, collateral utilisation, early warning system
- Compliance with minimum reserve regulations for the Association of Volksbanks
- Reporting to the CO Managing Board and to ALCO

d) Operational risk

VBW defines "operational risk" as the risk of losses due to the inadequacy or failure of internal procedures (processes), people, systems or to external events, and the associated legal risks. The reputational, conduct, model, IT and security risks are closely associated with operational risk and are actively taken into account. The calculation of regulatory capital adequacy requirements is effected acc. to the standard approach. Until 31 December 2017, this method was used for both the regulatory and the economic presentation (ICAAP). As of 1 January 2018, an internal method based on a loss allocation approach is used for the economic perspective.

Organisation

At VBW, line management is responsible for the management of operational risks. It is supported in this function by centrally or decentrally based experts from the spheres of operational risk and internal control system. The aim is to optimise processes in order to reduce the probability of the occurrence of operational risks and/or to reduce the effect of operational losses. Apart from close cooperation with the security, safety, business continuity planning and insurance management functions, at least one annual analysis of deferred operational risks within the scope of quantitative risk analysis as well as the ongoing adjustment of the internal control system to the risk situation of the bank ensure optimal and comprehensive control of operational risks.

Methods for the management of operational risks
Within the scope of operational risk management, both quantitative and qualitative methods are used. Quantitative elements comprise – for instance – the execution of risk analyses, the performance of stress tests, the determination and monitoring of risk appetite and of the risk indicators, as well as the preparation of the incident database. Qualitative control measures are reflected in the implementation of training events, awareness-building measures, risk analyses, the preparation of the incident database incl. analysis of causes, the implementation of uniform ICS checks, as well as in the preparation and analysis of the risk reports.

If the key indicators defined for operational risk are exceeded, the defined escalation process is applied. This process provides for a detailed analysis of causes and subsequently the initiation of adequate measures.

The following principles, derived from the risk strategy, apply in OpRisk Management within the group:
- The primary aim of the entire OpRisk management system is to optimise processes to decrease the likelihood of incidents occurring and/or the impact of operational losses.
- Incidents are documented fully and in a sufficiently transparent manner via an electronic platform to enable third-party experts to benefit from the documentation. Operational incidents are recorded in a uniform manner across the group. The resulting transparency with respect to the occurrence of incidents allows for risk assessment to be derived from historical facts.
- The methods, systems and processes within OpRisk Management need to be adjusted to the respective bank, in compliance with the requirements of the group, following the principle of proportionality.
- The appropriateness of the risk control and monitoring measures and other risk-minimising measures is assessed on an on-going basis, but at least once a year, and reported to the Managing Board. For example, risk control measures include awareness-building measures/training events, monitoring of the operational risk indicators, implementation of the annual risk analysis. Operational (residual) risks that cannot be avoided, reduced or transferred must be accepted formally and demonstrably by the management.
- The efficiency of OpRisk Management is confirmed through periodic and independent internal audits.

Internal control system
Within VBW, an internal control system (ICS) has been put in place according to the principles of the internationally recognised standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Detailed descriptions of ICS processes and control measures are available. The responsibilities and roles relating to the ICS are clearly defined. Regular reporting takes place for the ICS. Control activities are documented and reviewed, ICS-relevant risks are regularly evaluated and adjusted. Accordingly, a continuous optimisation process is ensured. Internal Audit, in its capacity as independent supervisory body, audits the internal control system. Both the effectiveness and adequacy of the ICS, as well as compliance with instructions are audited. The OpRisk and ICS framework describes the inter-related components implemented within the Association of Volksbanks with a view to identifying, measuring, monitoring and controlling operational risk. The close interlocking of OpRisk Management with the internal control system ensures appropriate consideration of operational risks within the Association.

One focus in 2017 was on the development of the risk analysis regarding quantitative and qualitative elements, as well as the review of the training concept and uniform controls across the Association. Additionally, an internal method for the quantification of OpRisk in the ICAAP was developed for use in internal stress testing and in the ICAAP.

e) Other Risks
In terms of other risks, VBW is confronted with strategic, reputational, equity, business, as well as investment risks.

Strategic risk is the risk of negative effects on capital and earnings due to business-policy decisions or insufficient adjustment to changes of the economic environment.

Reputational risk is the risk of negative effects on the result of the bank due to a loss of reputation and an associated negative effect on the stakeholders (regulatory authority, owners, creditors, employees, customers).

The group defines equity risk as the risk of an instable composition of internal equity in relation to the bank's type and size, or difficulties in quickly raising additional risk covering potentials if needed.

Business risk (yield risk) is the risk arising from the volatility of earnings and the associated risk of no longer being able to (fully) cover sticky fixed costs.

Investment risk is defined by the bank as the risk that any participation held is lost or impaired. As this risk is significant for the bank, it is quantified and taken into account in the risk-bearing capacity calculation. For this purpose, investment risk is divided into the following types:
- Risk of loss of participations
- Risk of impairment of participations
- FX risk from participations

The risk of loss of participations is calculated using the credit value-at-risk model and reported within the scope of credit risk reporting, with not only participations in the classic sense, but also loans to such participations that comply with the definition contained in IAS 24 Related Parties being considered within this type of risk.

The risk of impairment of participations is accounted for by way of discounts from the carrying amounts of the participations in the risk-bearing capacity calculation.

The FX risk from participations describes the risk of value changes of consolidated core capital components in currencies other than the euro, due to exchange rate fluctuations, and is calculated by means of value-at-risk via the internal market risk model.

As at 31 December 2017, the volume of participations at acquisition values amounts to euro 327,4 million (2016: euro 287.7 million), of which euro 148.7 million (2016: euro 125.1 million) from affiliates and euro 178.7 million (2016: euro 162.6 million) from holding companies. The participations and shares in affiliates are primarily attributable to the financial service sector. The addition from the retail merger of the business year amounts to euro 16.2 million within participations. As at 31 December 2017, cumulated write-downs on shares in affiliates amount to euro 122.3 million (2016: euro 99.1 million) and to euro 128.0 million (2016: euro 136.2 million) on participations. Write-downs on participations and affiliates were effected in the amount of euro 11.2 million (2016: euro 16.4 million) in 2017. In the business year, write-ups were effected in the amount of euro 23.4 million (2016: euro 3.3 million).

Due to the persistently challenging economic development, especially also in banking, there is a risk of decreasing profits and distributions from participations. In future, this may lead to lower market values.

Other non-financial risks (reputational risks, compliance risks, legal risks, model risks, as well as IT and system risks) are taken into account, among others, by way of the compliance framework, the IT risk management framework, and the framework for operational risks.

Organisational and process-based measures, in particular, have been implemented to manage other risks.

2.3 Use of financial instruments

At VBW, interest rate- and currency-related as well as other derivative financial instruments are used. As regards the volumes (schedule of derivatives) and information on financial instruments acc. to section 237a UGB, please refer to the Notes ("Additional disclosures") to the annual financial statements as at 31 December 2017. In the banking book, financial instruments are primarily used for hedging purposes, i.e. to hedge liquidity, foreign currency and interest rate risks.

The regulations acc. to the AFRAC statement "Derivatives and hedging instruments (UGB)" of December 2015, on the accounting of derivatives and hedging instruments, are applied. Other risks and imminent losses from derivative financial instruments that have arisen in the 2017 business year were taken into account in the amount of the negative market values through allocation to provisions. Effectivity measurements are performed for accounting groups on a current basis. Appropriate risk provisions are set up for negative fair values from ineffective accounting groups as well as for the ineffective portion of effective hedging relationships (negative market backlog of the derivative).

In the trading book, financial instruments are used for the purpose of controlling customer cash flows, and to capitalise on existing or expected differences between purchase and selling prices or market price fluctuations in the short term. Compliance with the limits, both in the trading book and in the banking book, is permanently monitored by a separate market risk department and is regulated in the market risk policy. For the purpose of market risk control in the trading book, backtesting calculations are performed to check the plausibility and reliability of risk indicators through reverse comparisons (backtesting) on a daily basis.

The counterparty risk for positive market values from unsecured interest rate management derivatives is taken into account by way of credit value adjustments (CVA) – as approximation function of the potential future loss associated with counterparty default risk. The CVA charge (adjustment of credit valuation) is the adjustment of a portfolio of transactions with a counterparty at the mean market value. Said adjustment reflects the market value of the counterparty's credit risk in relation to the bank, but not the market value of the bank's credit risk in relation to the counterparty. For all unlisted derivatives of the trading book, the calculation is effected with respect to all business activities of a bank (incl. securities financing transactions, unless the regulatory authority finds any significant CVA risk in this respect).

3 Report on research and development

VBW is not involved in any research and development activities.

4 Report on key characteristics of the internal control and risk management system with regard to the accounting process

The aim of the internal control system is to support the management in such a way that it is able to ensure effective internal controls with respect to accounting. The Managing Board is responsible for establishing and designing a suitable internal control and risk management system for the accounting processes.

At VBW, an internal control system (ICS) has been installed according to the internationally recognised COSO standard. Detailed descriptions of ICS processes and control measures are available. The responsibilities and roles relating to the ICS are clearly defined. Regular reporting takes place for the ICS. Control activities are documented and reviewed, ICS-relevant risks are regularly evaluated and adjusted. Accordingly, a continuous optimisation process is ensured. Internal Audit verifies compliance with internal regulations independently and regularly, also in the sphere of accounting. As a staff function, Internal Audit is allocated to the Managing Board, and the head of the Internal Audit unit directly reports to the entire Managing Board and also to the Supervisory Board on a quarterly basis.

4.1 Control environment

Observance of all relevant legal provisions is the ultimate ambition of VBW within the scope of financial reporting. The Managing Board is responsible for the establishment and organisation of a corresponding internal control and risk management system with respect to the accounting process and has defined a framework for implementation applicable to the entire group in the ICS group policy. Within VBW, responsibility for implementation lies with the OPRISK and Risk Governance group. For entries in the general ledger, observance of the dual-control principle has basically been provided for. Each accounting document must be signed by the employee who has prepared it, and must bear the signature of the person authorised to approve it. The employee posting the entry is electronically documented in the general ledger accounting system. Electronic accounting documents are released according to the dual-control principle in terms of system engineering.

4.2 Risk assessment

Risks relating to the accounting process are ascertained and monitored by process managers to ensure, in particular, complete and accurate recording of all transactions, timely transfer of invoices and correct calculation and timely payment of taxes. In the process, the focus is on risks that are to be considered significant.

For the preparation of the financial statements, estimates need to be performed regularly, with an inherent risk that future developments deviate from these estimates. This applies to the following items and facts of the financial statements in particular: the recoverability of financial assets, banking risks, social capital, as well as the outcome of legal disputes. Publicly accessible sources are used to a certain extent, or experts are called in, in order to minimise the risk of false estimates.

4.3 Control measures

Control measures are applied within the current business process to ensure that potential errors are prevented and/or deviations in financial reporting are revealed and corrected. The control measures range from revision of the various results for the period by the management up to specific reconciliations of accounts and items, and an analysis of the ongoing processes within accounting. Within the scope of the internal control system, two types of controls are distinguished.

Operational controls include manual controls performed by employees according to specific tasks, automatic controls carried out by means of IT systems, preventive controls aimed at avoiding errors and risks in advance through separation of functions, competence rules and access authorisations.

Management controls serve to ensure, on a random sample basis, that operational controls are observed on the part of executives. An internal control plan has been prepared in which the relevant manager (division manager, department manager, group manager) has determined how frequently checks are to be performed, depending on the level of risk. The spot checks must be documented in the control plan in a way that is verifiable by third parties. The results are reported to the immediate line manager at half-yearly intervals (management reporting).

The entire control documentation (operational controls and management controls) is effected by means of the BART software.

Additionally, Internal Audit verifies compliance with internal regulations independently and regularly, also in the sphere of accounting. As a staff function, Internal Audit is directly allocated to the Managing Board, it reports directly to the Chairman of the Managing Board and also to the Supervisory Board on a quarterly basis.

4.4 Information and communication

Guidelines and regulations regarding financial reporting are regularly updated by the heads of departments and divisions and communicated to all employees concerned.

Employees in accounting are also provided with ongoing training on accounting reforms, so that risks of unintentional false reporting can be identified at an early stage.

A management report is submitted at least quarterly, and contains statements regarding the completeness, comprehensibility, active implementation and effectiveness of the control system with a view to the accounting process.

4.5 Monitoring

The Managing Board regularly receives summary financial reports, such as monthly and quarterly reports on the development of the respective segments and the most important financial performance indicators. Financial statements that must be published are subjected to a final check by executive employees within accounting, divisional management and the Managing Board before they are forwarded to the competent bodies.

The result of the monitoring activity with respect to the accounting process is reported within the scope of the management report. The report includes a qualitative risk assessment of the processes. Moreover, the report contains documentation as to how many controls were carried out in relation to the control requirements.

Internal Audit also performs a monitoring and supervisory function.

Vienna, 26 February 2018

The Managing Board

Gerald Fleischmann
Chairman of the Managing Board

Josef Preissl
Deputy Chairman of the Managing Board

Rainer Borns
Member of the Managing Board

Thomas Uher
Member of the Managing Board

AUDITOR'S REPORT

REPORT ON THE FINANCIAL STATEMENTS

Audit Opinion

We have audited the Financial Statements of

**VOLKSBANK WIEN AG,
VIENNA, AUSTRIA,**

which comprise the Statement of Financial Position as of 31 December 2017, the Income Statement for the year then ended, and the Notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and its financial performance for the year then ended, in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements.

Basis for our Opinion

We conducted our audit in accordance with bei PIE: Regulation (EU) 537/2014 („EU Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the Company, in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon.

Valuation of loans and advances to customers

Risk for the Financial Statements

Loans and advances to customers represent a significant line item in the consolidated statement of financial position. As of 31 December 2017, the carrying amount of loans and advances to customers (gross) amounts to EUR 4,879.9 million, accounting for 43 % of total assets of EUR 11,368.9 million. This includes credit risk provisions in the amount of EUR 57.6 million and a general provision according to section 57 (1) BWG in the amount of Euro 29.6 million.

The Managing Board of VOLKSBANK WIEN AG describes the approach to determine credit risk provisions in the section „Accounting and Valuation Methods" of the Notes to the financial statements.

The general specific risk provision and portfolio risk provision are based on statistically calculated parametes, such as historical default probabilities and loss rates.

For individually significant loans and advances, the calcualtion of the individual bad debt allowance is based on the present value of the expected cash flows representing the recoverable amount. For loans and advances with a defined event of default, which are not subject to the individual bad debt allowance process due to their exposure amount, a general specific credit risk provision is recognized. A portfolio credit risk provision is recognized for loans and advances for which no events of default were identified.

The risk in determining the credit risk provision is the identification of events of default, estimation of expected cash flows taking into account the financial situation of the counterparty, the valuation of loan collateral and the assumptions in respect of the statistical parameters used. Therefore, risk provisions are subject to significant uncertainties.

AUDITOR'S REPORT

Our response
We analysed the process documentation and internal guidelines regarding the allocation, monitoring and recognition of credit risk provisions and evaluated whether they are suitable to identify events of default and to adequately determine the recoverability of these loans and advances. We compiled the relevant key controls, assessed their design and implementation, and tested their effectiveness on a sample basis.

For individual bad debt allowances for individually significant loans and advances, we evaluated on a sample basis whether events of default exist, and whether individual bad debt allowances have been recognized in adequate amounts. In selecting the sample, rating levels with higher default risk were particularly taken into account. In case of identified events of default, we assessed the bank's estimates regarding the amount and timing of future cash flows and whether the assumptions were appropriate and evaluated them on the basis of external evidence – if any – such as appraisal reports or going-concern forecasts.

With respect to the general specific credit risk provision and the portfolio credit risk provision, we evaluated the models and the parameters used therein – taking account of the results of the backtesting performed by the bank – as to whether they are suitable to determine provisions in adequate amounts. We consulted our financial mathematicians to assess the adequacy of the calculation methods used to determine the probabilities of default and loss rates. They assessed in particular, the adequacy of the statistical models used, the mathematical functionalities and the validation of the parameters. We assessed the accuracy of the provisions on a sample basis. Additionally, our IT specialists evaluated the underlying systems and interfaces for completeness and correctness of data transfer.

Finally, we evaluated the adequacy of the disclosures on the determination of bad debt allowances for loans and advances to customers in the notes to the financial statements.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit.

Moreover:
— We identify and assess the risks of material misstatements in the financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher

AUDITOR'S REPORT

than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misprepresentations or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Management Report

In accordance with the Austrian Generally Accepted Accounting Principles, the management report is to be audited as to whether it is consistent with the financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the management report in accordance with the Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements.

We have conducted our audit in accordance with generally accepted standards on the audit of management reports as applied in Austria.

Opinion

In our opinion, the management report is consistent with the financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the financial statements and our understanding of the Company and its environment, we did not note any material misstatements in the management report.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the financial statements, the management report and the auditor's report. We expect the annual report to be provided to us after the date of the auditor's report.

Our opinion on the financial statements does not cover other information and we do not provide any kind of assurance thereon.

AUDITOR'S REPORT

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the financial statements or any apparent material misstatement of fact.

Additional Information in accordance with Article 10 EU Regulation
At the Annual General Meeting dated 18 May 2016, we were elected as auditors. We were appointed by the supervisory board on 12 July 2017. We have been the Company's auditors from the year ended 31 December 2015 without interruption.

We declare that our opinion expressed in the "Report on the Financial Statements" section of our report is consistent with our additional report to the audit committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Company.

Engagement Partner
The engagement partner is Mr. Walter Reiffenstuhl.

Vienna, 26 February 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Walter Reiffenstuhl
Wirtschaftsprüfer
(Austrian Chartered Accontant)

This report is a translation of the original report in German, which is solely valid.

STATEMENT OF ALL LEGAL REPRESENTATIVES

VOLKSBANK WIEN AG
Statement of all Legal Representatives

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

Vienna, 26 February 2018

Gerald Fleischmann
Chairman of the Managing Board

Digitalisation, General Secretariat, Front Office Service Center / Customer Service Center, Organisation & IT, HR Management, PR & Communication, Private Banking / Treasury, Retail, Audit, Banking Association Strategy, Sales Management / Marketing

Josef Preissl
Deputy Chairman of the Managing Board

Corporates, Property Subsidiaries, Real Estate, VB Services for Banks

Rainer Borns
Member of the Managing Board

Control, Financial Data Steering, Finance, Legal and Compliance

Thomas Uher
Member of the Managing Board

Credit risk management, Risk controlling, Transition Credit

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TERMINOLOGY

Association of Volksbanks
Apart from the banks of the association of credit institutions, Volksbank-Einlagensicherung eG and Volksbank Vertriebs- und Marketing eG also belong to the Association of Volksbanks.

Banking association in accordance with section 30a of the Austrian Banking Act (BWG)
The banking association comprises the primary banks as associated banking institutions and VOLKSBANK WIEN AG as the central organisation.

Primary banks
9 regional Volksbanks, 1 specialist bank (Österreichische Ärzte- und Apothekerbank AG)
status: December 2017

VOLKSBANK WIEN AG
is one of the regional Volksbanks and also the central organisation of the banking association.

Austrian Cooperative Association
Within the Association of Volksbanks, audit and representation of interests shall be effected by Österreichischer Genossenschaftsverband (Schulze-Delitzsch) [Austrian Cooperative Association] – ÖGV in brief. Moreover, according to the BWG, ÖGV shall be responsible for early identification of risks regarding its members, together with Volksbank Einlagensicherung eG. The primary banks as well as Volksbank Einlagensicherung eG are regular members of ÖGV.

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Design and Production:
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A-1090 Vienna, Kolingasse 14-16

Photos:
Robert Polster, Paul Wilke, fotolia

Translation:
All Languages Alice Rabl GmbH

Copy deadline:
April 2018

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

1) In relation to total risk 2) End-of-period figure Austrian Business Code/unconsolidated 3) Staff at end-of-period
As at 31 December 2017, VOLKSBANK WIEN AG including the function as central organisation