VOLKSBANK WIEN

ANNUAL FINANCIAL REPORT 2018

KEY FIGURES OF VOLKSBANK WIEN AG

Euro million	31 Dec 2018	31 Dec 2017	31 Dec 2016
Statement of financial position			
Total assets	**11,505**	**10,616**	**10,008**
Loans and receivables customers (net)	**5,366**	**4,752**	**4,282**
Amounts owed to customers	**6,344**	**5,791**	**4,691**
Debts evidenced by certificates	**467**	**488**	**725**
Subordinated liabilities	**418**	**426**	**29**
Own funds according to Basel III for the VOLKSBANK WIEN AG group			
Common equity tier 1 capital (CET1)	594	533	449
Additional tier 1 capital (AT1)	0	0	0
Tier 1 capital (T1)	**594**	**533**	**449**
Tier 2 capital (T2)	406	407	7
Own funds	**1,000**	**941**	**456**
Risk weighted exposure amount - credit risk	3,189	2,721	2,433
Total risk exposure amount settlement risk	0	0	0
Total risk exposure amount market risk	86	112	153
Total risk exposure amount operational risk	552	579	586
Total risk for credit valuation adjustment	55	59	60
Other risk exposure amount	279	0	0
Total risk exposure amount	**4,161**	**3,470**	**3,233**
Common equity tier 1 capital ratio[1)]	**14.28%**	**15.37%**	**13.88%**
Tier 1 capital ratio[1)]	**14.28%**	**15.37%**	**13.88%**
Equity ratio[1)]	**24.04%**	**27.11%**	**14.10%**
Income statement	**1-12/2018**	**1-12/2017**	**1-12/2016**
Net interest income	124.7	120.7	93.6
Risk provision	4.8	2.4	-13.6
Net fee and commission income	53.8	53.8	41.1
Net trading income	1.0	5.6	4.9
Result from financial investments	9.2	-1.0	7.9
Other operating result	100.2	65.2	39.0
General administrative expenses	-222.3	-204.9	-174.4
Restructuring result	-4.0	1.3	3.1
Result from companies measured at equity	4.5	6.2	10.3
Result before taxes	**72.0**	**49.4**	**11.7**
Income taxes	-1.5	4.6	13.3
Result after taxes	**70.5**	**54.0**	**25.0**
Non-controlling interest	0.0	0.0	-1.4
Consolidated net income	**70.5**	**54.0**	**23.6**
Key ratios[2)]			
Operating cost-income-ratio	**78.8%**	**82.8%**	**85.2%**
ROE before taxes	**12.1%**	**9.5%**	**2.9%**
ROE after taxes	**11.9%**	**10.4%**	**6.1%**
ROE consolidated net income	**12.0%**	**10.5%**	**5.8%**
NPL ratio	**2.0%**	**2.5%**	**3.5%**
Net interest margin	**1.1%**	**1.1%**	**0.9%**
Leverage ratio	**4.7%**	**4.3%**	**3.8%**
Net stable funding ratio	**124.2%**	**131.7%**	**118.1%**
Loan deposit ratio	**82.7%**	**79.8%**	**80.5%**
Coverage ratio I	**29.8%**	**27.0%**	**25.3%**
Coverage ratio III	**104.7%**	**103.7%**	**96.2%**
Resources	**1-12/2018**	**1-12/2017**	**1-12/2016**
Staff average	**1,299**	**1,284**	**1,139**
Thereof domestic	1,299	1,284	1,139
	31 Dec 2018	**31 Dec 2017**	**31 Dec 2016**
Staff at end of period	**1,290**	**1,327**	**1,242**
Thereof domestic	1,290	1,327	1,242
Number of branches	**70**	**78**	**78**
Thereof domestic	70	78	78
Number of customers	**360,545**	**372,396**	**368,935**

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 result from discontinued operation. Operating expenses include general administrative expenses and if negative other operating result and result from discontinued operation. Other operating result and result 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 average equity including non-controlling interest. The ROE after taxes indicates the result after taxes in relation to average equity including non-controlling interest. The ROE consolidated net income indicates the consolidated net income in relation to 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 to and receivables from 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 1 capital (CET1 + AT1). The net stable funding ratio 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.

VOLKSBANK WIEN AG

GROUP MANAGEMENT REPORT

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

2018 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. In 2018, Waldviertler Volksbank in Horn was merged with VOLKSBANK WIEN AG. Within VOLKSBANK WIEN AG, SPARDA-Bank, under the SPARDA brand, takes the position of a bank for employees, primarily addressing this target group segment via the 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 substantial regulatory expenses. The simplification of the business model is aimed at achieving further savings in the medium term. The bank focuses on the core areas of deposits, loans and payment transactions. In the service business with consumer credits, 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, such as TeamBank, the ERGO insurance company, and Union Investment.

Service business with the product partners developed very positively. VOLKSBANK WIEN AG achieved record sales and two-digit growth in the previous year again within the scope of our cooperation – of several years already – with TeamBank in the area of consumer financing. In the sphere of investment funds, too, the third year of cooperation with Union Investment was very encouraging; the excellent products of this international investment company were highly appreciated by the Austrian market. In spite of the challenging environment on the capital markets in the second half of the year, net sales of more than euro 118 million were achieved in 2018.

Owing to the excellent capital base and liquidity situation, VOLKSBANK WIEN AG and the Association of Volksbanks managed to considerably expand lending business. In corporate banking, the Association achieved considerable increases through the 'Unternehmer-Milliarde' (entrepreneurs' billion) financing campaign within only a few months. In 2018, VOLKSBANK WIEN AG managed to increase total borrowings by 12.4%.

The branches still constitute the primary sales channel of VOLKSBANK WIEN AG. The combination of individual branches ensures 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, they are – and always will be – our most important asset. Therefore, it is one of the clear goals of the Association of Volksbanks to further increase consultancy standards. The distinction of the Volksbanks as top consulting bank on the occasion of the Recommender Award shows that we are doing the right thing.

The digital world constitutes another important sales channel for all banks. Already in 2016, VOLKSBANK WIEN AG had responded to this development by introducing a new digital web presence. In the past year, the digital offer was extended by several new functions.

One essential success factor in sales is going to be the ability to offer competent, trustworthy consultancy in complex financial matters. On the other hand, we need to ensure that our customers can carry out all recurring transactions and meet their information needs from any place around the clock. We are consistently developing our sales organisation with that in mind. Volksbank wants to be perceived as a relationship bank in Austria and as first contact when it comes to financial matters.

In 2018, we also undertook great efforts to maintain our stable equity base. A re-interpretation in the sphere of speculative real estate financing resulted in a considerable increase of coverage requirements in this market segment. In spite of this, the capital base was maintained at a solid level year-on-year. This enables us to properly fulfil our main function in economic terms, namely the financing of private individuals and businesses. The focus at Volksbank is on small- and medium-sized enterprises, in particular, which constitute an essential pillar of the Austrian economy. Retail customers appreciate the personal quality of our consultancy at eye level and the services tailored to their individual needs.

VOLKSBANK WIEN AG and the Association were attested further progress by the rating agencies. After several upgrades in 2017, the rating agency Fitch upgraded the credit rating again in the previous year.

Together with the Volksbanks, we started several projects in the previous year in order to bundle regulatory duties, control as well as internal handling services throughout Austria. This is meant to provide the Volksbanks, as retail banks, with more freedom to focus on retail business even more. Our fundamental values in this context are trust, regional dimensions and a customer focus. Within the new Association, VOLKSBANK WIEN AG assumes three functions: as retail bank in our catchment area, as service provider and as the central control unit for the entire Association.

The year 2018 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 2019

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 2018 business year

Heribert Donnerbauer

Chairman
of the Supervisory Board

In four ordinary, one constitutive and four extraordinary meetings, in further discussions and numerous committee meetings in the 2018 business year, 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 pursuant to Section 30a Austrian Banking Act.

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. Hence, the Supervisory Board was given ample opportunity to comply with its duty to obtain information and with its supervisory duty.

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

The Working and Risk Committee held five meetings in 2018, 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 five meetings in 2018. Apart from the audit of the annual financial statements, the consolidated financial statements and the financial statements of the Association, especially the internal control system, the internal audit system, and the risk management system were discussed in these meetings.

In 2018, in one meeting, 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 three meetings in 2018. In those meetings, the nominations for filling Supervisory Board vacancies, to be submitted to the ordinary general meeting, were dealt with, and compliance with the Fit & Proper requirements by the persons proposed for election into the Supervisory Board, as well as by the Supervisory Board as a whole were confirmed. Moreover, the Nomination Committee dealt with the annual evaluation of the Managing Board and Supervisory Board members, with evaluating key personnel and with updating the Company's Fit & Proper Policy, as well as with reducing the Managing Board to three members as of 2019.

In 2018, in one meeting, the HR Committee dealt with the amicable resignation of Josef Preissl, Deputy Chairman of the Managing Board, from his Managing Board position with effect from 31 December 2018.

The Transformation and Mergers Committee held one meeting in 2018, where the contribution of the banking operation of Waldviertler Volksbank Horn registrierte Genossenschaft to VOLKSBANK WIEN AG was dealt with. As, accordingly, the last of the mergers planned within the Association of Volksbanks has been completed and the duties of the Transformation and Mergers Committee have been discharged, the latter was subsequently dissolved by resolution of the Supervisory Board.

Attendance at the meetings of the Supervisory Board and its committees was high.

The contribution of the banking operation of Waldviertler Volksbank Horn registrierte Genossenschaft 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 24 April 2018 and was carried out by way of the agreement on a contribution in kind dated 24 April 2018 with retroactive effect as at 31 December 2017, pursuant to Section 92 Austrian Banking Act, based on the principles of the Reorganisation Tax Act.

By merging Waldviertler Volksbank Horn registrierte Genossenschaft with VOLKSBANK WIEN AG, the reorganisation of the Association of Volksbanks, in terms of company law, into eight regional Volksbanks and one special purpose bank has been completed. Now the focus is on increasing efficiency and productivity by optimising and bundling processes and services within the Association of Volksbanks, associated with a further reduction of personnel and retail branches.

Again in 2018, the HR Committee of the Supervisory Board dealt with personnel changes in the Managing Board of VOLKSBANK WIEN AG. Deputy Chairman of the Managing Board Josef Preissl resigned from office with effect from 31 December 2018, and after relevant deliberations and a recommendation by the HR Committee, the Supervisory Board has consented to the agreement regarding an amicable solution with Josef Preissl.

Hence, the Managing Board of VOLKSBANK WIEN AG consists of three members as of 1 January 2019: Gerald Fleischmann, Chairman of the Managing Board and responsible for commercial, real estate and retail business, Rainer Borns, Deputy Chairman of the Managing Board and CFO, and Thomas Uher, Deputy Chairman of the Managing Board and CRO.

As the term of office of the Supervisory Board members of VOLKSBANK WIEN AG, who must be elected by the general meeting, expired after the end of the 2018 ordinary general meeting, the ordinary general meeting on 24 April 2018 was called upon to newly appoint five members of the Supervisory Board. After being nominated by the Supervisory Board, the following persons were newly elected to the Supervisory Board of VOLKSBANK WIEN AG by the ordinary general meeting for a term of office until the end of the ordinary general meeting in 2023: Anton Fuchs, Franz Gartner, Helmut Hegen, Christian Lind and Robert Oelinger.

In the subsequent constitutive meeting of the Supervisory Board, the Executive Committee of the Supervisory Board was elected as follows: Heribert Donnerbauer as Chairman, Franz Gartner as 1st Deputy Chairman and Robert Oelinger as 2nd Deputy Chairman.

The annual financial statements as at 31 December 2018, including 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 2018 including the group management report were audited by KPMG and also provided with an unqualified audit certificate. The financial statements of the Association as at 31 December 2018 were also audited by KPMG and 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 and the annex to the audit report, the consolidated financial statements including the group management report and the annex to the audit report, as well as the financial statements of the Association including the management report of the Association and the annex to the audit report upon previous involvement of the Audit Committee pursuant to 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, the consolidated financial statements and the financial statements of the Association had been prepared correctly.

Hence, 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, the consolidated financial statements including the group management report and the annex to the audit report, as well as the financial statements of the Association including the management report of the Association and the annex to the audit report. Moreover, the Supervisory Board 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.

Under Section 243b Austrian Business Code and Section 267a Austrian Business Code, VOLKSBANK WIEN AG is obliged to provide a non-financial statement and a consolidated non-financial statement, respectively. These statements are summarised and published in a separate non-financial report (sustainability report). The sustainability report was submitted to the Supervisory Board and reviewed 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 successful work in the past business year.

Vienna, March 2019

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

Area of responsibility:

- Retail Branches
- General Secretariat
- Real Estate Financing
- Communication/Marketing
- Front Office Service Center/Customer Service Center
- Organisation & IT
- HR Management
- Private Banking/Treasury
- Transition „Adler“ & Strategy
- Corporate Financing
- Sales Management

Deputy Chairman:

Rainer Borns

born 7 August 1970

Deputy-CEO

Area of responsibility:

- Control
- Financial Data Steering
- Finance
- Capital and Stakeholder Management
- Legal
- VB Services for Banks Facilitymanagement

Deputy Chairman:

Thomas Uher

born 15 June 1965

Deputy-CEO

Area of responsibility:

- Digitalisation
- Credit risk management
- Risk controlling
- VB Services for Banks/Loan Processing & Handling

Joint Managing Board

Area of responsibility:

- Compliance
- Audit

Josef Preissl

Deputy-CEO up to 31 December 2018

THE SUPERVISORY BOARD

Heribert Donnerbauer
Donnerbauer & Hübner Rechtsanwälte GmbH
Chairman

Martin Holzer
Director, Volksbank Tirol AG
First Deputy Chairman up to 24 April 2018

Franz Gartner
Muncipiality of Traiskirchen
First Deputy Chairman from 24 April 2018

Rainer Kuhnle
Director, Volksbank Niederösterreich AG
Second Deputy Chairman up to 24 April 2018

Robert Oelinger
Certified Public Accountants/tax consultants
Second Deputy Chairman from 24 April 2018

Susanne Althaler
Member

Anton Fuchs
Member from 24 April 2018

Helmut Hegen, M.B.L.
HOSP, HEGEN Rechtsanwaltspartnerschaft
Member from 24 April 2018

Eva Hieblinger-Schütz
Federal Ministry of Finance
Member

Markus Hörmann
Director, Volksbank Tirol AG
Member up to 24 April 2018

Christian Lind
Member from 24 April 2018

Harald Nograsek
Member

Monika Wildner
Independent lawyer
Member

Otto Zeller
Director, Volksbank Salzburg eG
Member up to 24 April 2018

Works council delegates:

Chairman of the Works council Manfred Worschischek

Hans Lang
up to 1 September 2018

Hermann Ehinger

Andrea Mayer
from 1 September 2018

Rainer Obermayer

Michaela Pokorny

State Commissioners:

Christian Friessnegg
State Commissioner

Katharina Hafner
Deputy State Commissioner

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

Report on the business development and economic situation

Business development

Already in the first half of 2018, the owners of VOLKSBANK WIEN AG (VBW) and of Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung (VB Horn) resolved in the general meetings of both companies to contribute the banking operation of VB Horn to VBW; said contribution was effected in June 2018 by entering the same in the Companies' Register. Hence, all intended mergers were successfully implemented in due time to create the target structure of the Association of Volksbanks.

In February 2018, the Fitch rating agency raised the rating of the Association of Volksbanks by one notch to BBB. This also applies to the individual Volksbanks. The rating outlook is considered stable by Fitch.

Moody's rating agency continues to rate VBW with Baa1 and a stable outlook. The Aaa rating for VBW's covered bonds remains equally unchanged.

In the 2nd half of 2018, in particular, within retail banking, very good growth was achieved in lending business.

On 11 December 2018, Josef Preissl, Deputy Chairman of the Managing Board, resigned from office with effect from 31 December 2018.

Economic environment

According to preliminary information by the Austrian Institute of Economic Research (WIFO) (January 2019), Austria's gross domestic product has grown by 2.7% year-on-year. This constitutes a slight increase in dynamics as compared to 2017, when growth had only amounted to 2.6% based on revised data. Accordingly, the growth rate of the Austrian economy in the past year was markedly higher than that of the euro zone, which – according to estimates by the European Central Bank (ECB) – has grown by 1.9%. Growth in Austria was due both to industrial production and to booming construction as well as services sectors.

Against the background of this favourable economic setting, the Austrian unemployment rate decreased in the past year: it fell from 5.2% at the beginning of the year to 4.7% in November. The downward trend was even more pronounced in the euro zone: starting out from much higher values, the unemployment rate decreased from 8.6% at the beginning of the year to 7.9% in November. As in previous years, Austria was one of the countries with the highest inflation rates in the euro zone. According to the Harmonised Index of Consumer Prices, the inflation rate in Austria fluctuated between 1.9% and 2.4% in 2018, with around 2.1% for the full year. In the past year, the rates of price increases varied between 1.1% and 2.2% in the common currency zone, the most recent value, of December, being 1.6%.

Monetary policy in the euro zone remained expansive also in the previous year. The 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%. After reducing the volume of monthly net securities purchases from euro 80 billion to euro 60 billion already in April 2017, the ECB further decreased net purchases to euro 30 billion in January 2018 and to euro 15 billion in October. In December 2018, net securities purchases were ceased completely. Matured securities will continue to be reinvested.

Money market interest rates remained more or less unchanged throughout the past year. The 3-month rate started the year at -0.33%, ending it at -0.31%. Capital market yields slackened somewhat in 2018. The yield of the ten-year government bond in Austria fell from 0.58% to 0.48% in 2018, with intermediate highs around 0.81%. In Germany, it fell from 0.46% to 0.24%, with a peak of 0.77% in February.

In 2018, the tightening of monetary policy continued in the USA; in four steps, the Fed raised the target range for the Fed Funds Rate by a total of 100 basis points, to 2.25% – 2.50%. In that year, the euro depreciated from 1.21 USD/EUR to 1.15 USD/EUR. The euro also weakened against the Swiss franc, from 1.17 CHF/EUR in January to 1.13 CHF/EUR in December, which was due to a certain extent to the role of the CHF as a safe haven in the middle of macroeconomic risks increasingly perceived over the course of the year. In connection with a heightened sense of risk amid slackening economic data, a correction took place on the European equity markets in the fourth quarter, and the ATX ended the year with a decrease of just under 20%.

Regional development and branches of industry

Measured against the increase in gross value added in the first half of 2018 compared to the first half of 2017, the regional economic development in Vienna, with an increase of 2.6% year-on-year, while being robust, was nevertheless below the Austrian average of 3.4% Y/Y. On the other hand, construction and the number of overnight stays in tourism outperformed the overall Austrian average. The decline of sales in the retail industry was above-average, and also the increase in the number of employed persons, as well as growth in material goods production were less pronounced by comparison with other federal Länder. In the first half of 2018, the number of unemployed persons decreased, but this decrease remained below-average compared to other 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% Y/Y 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. High growth rates were also reported in the construction sector. The decline in the number of unemployed persons was more pronounced than in the other federal Länder.

At 2.5%, the growth in value added in Burgenland was similar to that in Vienna. Construction was remarkable here, in that it recorded a decrease in the first half of the year in Burgenland exclusively. Compared to the other federal Länder, material goods production remained below average, while tourism showed a slight increase. The number of unemployed persons decreased at an above-average rate.

In Styria, growth in gross value added outperformed the rest of Austria in the first two quarters of 2018 (plus 4.3%). Among the federal Länder, the situation on the labour market was above-average, with a below-average unemployment rate and the highest decrease in unemployment throughout Austria. The increase in the number of employed persons ranked in the top range as well. Styria also holds the record in material goods production. Tourism showed a strong performance, while sales in the retail industry were somewhat lower.

In the first half of 2018, Carinthia reported above-average growth in gross value added of 3.7%. This is due, among others, to above-average growth in material goods production, but also in tourism. The performance in the construction and retail industries was rather feeble by comparison with other federal Länder. Unemployment decreased markedly, the increase in the number of employed persons was particularly pronounced in the segment of business-related services.

After Styria, Upper Austria recorded the second best development of all federal Länder in the first half of 2018, with an increase of 3.8% in gross value added. The material goods production, which plays a very important role in Upper Austria, and the construction sector made an essential contribution in this respect. Tourism and the retail industry showed above-average performance as well. The decrease in the number of unemployed persons also exceeded the general Austrian trend.

In the first half of 2018, the economic development of the Land of Salzburg was more or less in line with the Austrian average. Gross value added was higher by 3.5% than in the comparative period of the previous year. Within Austria, Salzburg recorded the highest growth rate in construction, while underperforming in the retail industry and material goods production segment. Here, the decrease in unemployment was the least pronounced.

Tyrol showed an average performance in terms of gross value added, which was due to a very poor development in tourism and in the construction sector. The other sectors hardly deviated from the general Austrian trend. The decrease in unemployment was the second best within Austria. The number of employed persons increased, especially in the sphere of business-related services.

In the first half of 2018, Vorarlberg (together with Upper Austria) ranked second in terms of regional economic development. The main factors contributing to this were the strong development in construction, and also the above-average increase in employment in business-related services. Material goods production, on the other hand, performed weakly. Tourism equally reported the highest decrease by comparison with the rest of Austria. The increase in dependent employment was just average, while unemployment decreased at a below-average rate.

The favourable development of previous years continued in the Austrian residential real estate market in 2018. The price gap between Vienna and the other federal Länder decreased somewhat. In the second quarter of 2018, annual growth rates for the prices of freehold flats and single-family homes outside Vienna amounted to 6%. In Vienna, prices increased by 4.2% Y/Y. Affordability, based on the relationship between prices and disposable nominal income, had somewhat improved at the beginning of 2018 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 (97.4 points) than in the rest of Austria (121.1 points). The persistently high demand for residential real estate was also reflected in the credit market. At an average of 4.5% Y/Y, the growth rate of housing credits to private households was only slightly below that of 2017 in the third quarter of 2018.

Just like 2017, 2018 was another good year for the Austrian tourism sector. The 2017/2018 winter season recorded strong growth in overnight stays of 4.7%, with overnight stays by foreign tourists increasing even more (5.1%). Also from May to September 2018, the number of overnight stays increased by 2.2%, those of foreign guests even by 2.4%. In the 2018 summer season, the best result in terms of overnight stays ever since the summer of 1992 was achieved. Above-average growth rates were reported for commercial and private holiday apartments between May and October 2018. Overall, nominal sales in tourist travel increased by 7.3% during that period in Upper Austria – the highest growth rate of all of Austria –, followed by Vienna and Tyrol with +5.4% and +4%, respectively. The lowest growth rates were recorded in Burgenland and Styria with +0.8% and +0.9%, respectively.

Consolidated result for the 2018 business year

Due to the contributions made in the second half of 2017 and in the first half of 2018, the figures of the reporting period are comparable to those of the previous year to a limited extent only. IFRS 9 financial instruments entered into force with effect from 1 January 2018. According to IFRS 9 transitional provisions, any retrospective application to previous reporting periods is not required; therefore, the comparative figures from the 2017 financial year were not adjusted. In the course of transition to IFRS 9, also the presentation of the items was amended. The figures of the comparative period were adjusted to the amended structure.

The result of the VBW Group before taxes amounts to euro 72 million (2017: euro 49 million). The result of the group after taxes and non-controlling interest amounts to euro 70 million (2017: euro 54 million).

The net interest income for the 2018 business year amounts to euro 125 million, thus exceeding the income for the comparative period (2017: euro 121 million) by euro 4 million. The increase in interest income must be viewed within the context of an increase in interest expenditure from the subordinated bond issued in the fourth quarter of 2017.

In 2018, at euro +5 million, the risk provision item has improved against the comparative period (euro +2 million). This effect results from reversals of individual loan loss provisions and portfolio loan loss provisions.

The net fee and commission income in the reporting period amounts to euro 54 million, and was thus maintained at a stable level compared to the previous period (2017: euro 54 million). Decreases in lending business due to a transition in calculating the effective interest rate and in securities business were compensated through higher income in payment transactions and other services.

Net trading income amounts to euro 1 million for the reporting period and has fallen compared to the previous year (2017: euro 6 million). A decline in operations and measurement results of trading book derivatives that are used for hedging investment book items are the main reason for this change.

The result from financial investments for the reporting period amounts to euro 9 million, thus exceeding the comparative period (2017: euro -1 million) by euro 10 million. Basically, higher measurement results for derivatives contribute to this increase. The valuation of investment property in the amount of euro 4 million (2017: euro 0.2 million) includes income from realisation through a sale amounting to euro 3 million. The valuation of SPPI-non-compliant loans results in a loss of euro -3 million. The valuation of debts evidenced by certificates that are now measured at fair value through profit or loss, due to the business model, leads to a positive result in the amount of euro 2 million.

Apart from the income from cost allocations, the other operating result includes income from the contribution of VB Horn in the amount of euro 8 million (2017: contribution of Sparda euro 18 million). Income in the amount of euro 10 million was received from a contribution of the Gemeinschaftsfonds (common fund). Provisions for legal costs in the amount of euro 4 million were released in the 2018 business year. With regard to this position, a provision was made in the amount of euro -3 million for interest claims from corporate loans with floors. In the previous year, the position included the expenses for repayment of negative interest in the amount of euro -1 million. The bank levy is included with an amount of euro -2 million (2017: euro -2 million). Due to the impairment test carried out for the goodwills created through the contributions in previous years, said goodwills had to be depreciated by an amount of euro 8 million in the comparative period.

General administrative expenses of euro 222 million (2017: euro 205 million) have increased by comparison with the previous year. This increase is essentially due to the contributions of VB Horn and of Sparda. Within general administrative expenses, an increase also occurred in legal, auditing and consultancy expenses, as well as in IT expenses. Compared to the end of 2017, the headcount decreased by 29 employees from 1,327 and amounts to 1,290 employees as at 31 December 2018. Due to the contribution of Sparda, 142 employees joined VBW in the third quarter of 2017. Due to the contribution of VB Horn in the second quarter of 2018, the number of employees increased by 55.

Due to the „Adler" programme that started in the fourth quarter of 2018 and is meant to result in efficiency increases and cost reductions in subsequent years, provisions had to be formed for the reorganisation measures to be carried out in the sphere of HR and retail branches. In the previous year, provisions for reorganisation in the HR sphere were released.

In 2018, the result of the companies measured at equity amounted to euro 5 million (2017: euro 6 million). From the assumption of pro rata results, euro 2 million (2017: euro 1 million) were recognised. In the 4th quarter of 2018, an additional interest in VB Verbund Beteiligung was acquired. Upon initial recognition, it was valuated at euro 4 million. At VB Kärnten, depreciation in the amount of euro 1 million had to be effected in the business year. In the previous year, the impairments of this participation that were effected in previous years were reversed again due to the increase in fair value, in the amount of euro 5 million.

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 204 million (31 December 2017: euro 268 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

As at 31 December 2018, total assets amounted to euro 11.5 billion and have increased essentially due to the contribution of VB Horn and increases in loans to and receivables from customers, compared to the end of 2017 (euro 10.6 billion).

Loans to and receivables from credit institutions amounting to euro 2.0 billion have increased compared to the end of the previous period (euro 1.7 billion). The increase essentially results from higher refinancing requirements of the banks of the Association.

As at 31 December 2018, loans to and receivables from customers, less risk provisions, amount to euro 5.4 billion and have increased compared to the end of the previous year (euro 4.8 billion). About a quarter of the increase is due to the contribution of VB Horn.

The financial investments of euro 2.1 billion at the reporting date increased mainly because of investments in bonds in the hold to collect business model compared to the end of 2017 (euro 1.8 billion).

As at 31 December 2018, the assets held 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 2018. In the 2018 business year, this position primarily shows the carrying amount of the headquarters in 1090 Vienna, Kolingasse.

At euro 3.1 billion, amounts owed to credit institutions have increased compared to the end of 2017 (euro 2.7 billion). The main reason are higher deposits of the Volksbanks with VBW. Amounts owed to customers in the amount of euro 6.3 billion have also increased compared to the end of 2017 (euro 5.8 billion). About half of the increase is due to the contribution of the VB Horn banking operation.

As at 31 December 2018, debts evidenced by certificates amount to euro 0.5 billion and have remained stable compared to 31 December 2017 (euro 0.5 billion).

Compared to the end of the previous year, equity has changed by euro 50 million. An amount of euro -26 million was recognised from the effects of initial application of IFRS 9. Due to the contribution of VB Horn and the associated capital increase, it was possible to increase equity by euro 17 million. The increase due to the result of the 2018 business year is countered by opposing effects from OCI and from the distribution of VBW to its shareholders in the amount of euro 8 million and in the amount of euro 1 million from the distribution of VB Rückzahlungsgesellschaft mbH to the federal government.

Report on branch establishments

The VBW Group does not have any branch establishments.

Financial performance indicators

As at 31 December 2018, the regulatory own funds of the VBW group of credit institutions amount to euro 1 billion (31 December 2017: euro 1 billion). The aggregate risk amount was euro 4.2 billion as at 31 December 2018 (31 December 2017: euro 3.5 billion). The CET 1 capital ratio in relation to total risk amounts to 14.28% (31 December 2017: 15.37%), the equity ratio in relation to total risk is 24.04% (31 December 2017: 27.11%).

Due to the amended classification of speculative real estate financing transactions, RWAs increased by euro 262 million as at 31 December 2018. Based on the available figures of the VBW group of credit institutions, however, the capital ratios continue to be complied with. Regulatory capital requirements were again increased by the ECB and constitute a challenge for the Association of Volksbanks, since meeting them will require capital enhancement measures.

Regulatory own funds, aggregate risk amount and the key indicators calculated therefrom were determined acc. to CRR (EU Regulation No. 575/2013). For more detailed information, please refer to the Notes.

Performance indicators	2018	2017	2016
Return on equity before taxes	12.1%	9.5%	2.9%
Return on equity after taxes	11.9%	10.4%	6.1%
Cost-income-ratio	78.8%	82.8%	85.2%

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 operational 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 from discontinued operation, if positive. The operating expenditure includes the general administrative expenses as well as the other operating result, and result from discontinued operation, if negative. The other operating result and the result from discontinued operation 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

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

Towards the end of 2018, the sentiment indicators in relation to the European economy and the data regarding industrial activity cooled down considerably, suggesting somewhat lower growth rates for the current year. According to the economic forecast of the Austrian Institute of Economic Research (WIFO) published in December, the Austrian economy is expected to grow by 2.0% in 2019. In December, the ECB decreased its economic growth forecasts for the euro zone in 2019 to 1.7%. The OeNB forecast for Austria included in that figure is 2.0%. OeNB expects positive contributions to growth from all demand components, but a flattening development of investments and a slight downward trend in consumption. With an increasing savings rate of 7.1%, the OeNB expects real disposable household income to grow by 2.1%. According to the autumn forecast of the EU Commission, an increase in real household income may be expected in the most important countries of origin, which is likely to support tourism in Austria.

In Austria, the number of building permits has increased continuously in recent years. Additionally benefitting from demographic development, this provides the basis for a continuation of brisk construction activity. Increasing supply, high increases in the past, as well as the perspective of a tendency towards increasing interest rates may deflate the momentum of the dynamic price development, leading to some flattening. Even in case of any flattening of trends on the real estate markets, stable demand for credits is expected against the background of increasing household income. Economic activity, which is still expanding, even if its momentum was negatively affected at the beginning of the year, is expected to be associated with corresponding demand also for corporate loans.

OeNB expects that the Austrian inflation rate, which is still expected to be above 2% this year, will return to the ECB's target inflation rate of 1.9% by 2021. The forecast of the European Central Bank for the average inflation rate in the euro zone for 2019 amounts to a mean of 1.6%. Hence, 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 2019, but would achieve the same approximately at 1.8% in 2021. This in combination with the ECB's monetary easing would suggest a continuation of the low-interest environment in 2019, although continuing monetary tightening in the USA should provide for a slight upward trend as regards returns, and also in Europe, a gradual normalisation of monetary policy is expected.

The risks associated with this outlook are manifold. They include, in particular, the introduction of trade obstacles that may affect Austrian exporters and suppliers and subsequently burden other companies and the employment situation of private households, which would also be reflected in banking business. 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 increase in political uncertainty in the member states, e.g. after elections, constitute a risk for the course of economic development 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 cautious (by comparison with previous years), but 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 continue to 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 12.25%, a total capital ratio of at least 16%, an NPE (non-performing exposure) ratio 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 continue to exceed 12% within the group.

The low interest rate environment expected to continue in 2019 calls for a streamlining of the cost structure and an increase of productivity to be continued in future. For this purpose, additional cooperation models were evaluated within the Association of Volksbanks, among others, that are going to be implemented in the next years.

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 52).

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 is 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 by means of IT systems, as well as preventive controls aimed at avoiding errors and risks in advance 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.

In preparing the financial statements, estimates must regularly be made in areas where there is an inherent risk that actual future developments may diverge from the estimates. This applies, in particular, to the following items and facts of the consolidated financial statements: the recoverability of financial assets, banking risks, employee benefits, as well as the outcome of legal disputes. In some cases, publicly available sources will be used or external experts will be consulted in order to minimise the risk of inaccurate estimates.

Information and communication

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

The staff of the group accounting function are regularly briefed with respect to amendments in international accounting, 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 that 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	1-12/2018 Euro thousand	1-12/2017 Euro thousand	Changes Euro thousand	%
Interest and similar income		200,313	187,594	12,719	6.78 %
Interest and similar expenses		-75,527	-66,872	-8,655	12.94 %
Valuation result - modification		-58	0	-58	100.00 %
Net interest income	4	124,728	120,722	4,006	3.32 %
Risk provision	5	4,832	2,430	2,402	98.87 %
Fee and commission income		80,250	79,099	1,151	1.45 %
Fee and commission expenses		-26,428	-25,321	-1,106	4.37 %
Net fee and commission income	6	53,822	53,778	44	0.08 %
Net trading income	7	990	5,597	-4,607	-82.32 %
Result from financial investments	8	9,172	-954	10,126	< -200.00 %
Other operating result	9	100,166	65,206	34,960	53.62 %
General administrative expenses	10	-222,258	-204,876	-17,382	8.48 %
Restructuring result	11	-4,027	1,276	-5,303	< -200.00 %
Result from companies measured at equity		4,534	6,177	-1,644	-26.61 %
Result before taxes		**71,959**	**49,356**	**22,603**	**45.79 %**
Income taxes	12	-1,468	4,626	-6,094	-131.73 %
Result after taxes		**70,491**	**53,982**	**16,509**	**30.58 %**
Result attributable to shareholders of the parent company (Consolidated net result)		**70,465**	**53,972**	**16,493**	**30.56 %**
thereof from continued operation		70,465	53,972	16,493	30.56 %
Result attributable to non-controlling interest		26	11	16	148.37 %
thereof from continued operation		26	11	16	148.37 %

Other comprehensive income

	1-12/2018 Euro thousand	1-12/2017 Euro thousand	Changes Euro thousand	%
Result after taxes	**70,491**	**53,982**	**16,509**	**30.58 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation of obligation of defined benefit plans (including deferred taxes)	1,954	1,975	-21	-1.09 %
Revaluation reserve (including deferred taxes)	422	0	422	100.00 %
Fair value reserve - equity instruments (including deferred taxes)	-1,026	0	-1,026	100.00 %
Revaluation of own credit risk (including deferred taxes)	-1,836	0	-1,836	100.00 %
Total items that will not be reclassified to profit or loss	-486	1,975	-2,462	-124.63 %
Items that may be reclassified to profit or loss				
Fair value reserve - debt instruments (including deferred taxes)				
Change in fair value	-909	32,258	-33,167	-102.82 %
Net amount transferred to profit or loss	104	-306	410	-134.00 %
Change from companies measured at equity	-1,172	1,857	-3,029	-163.11 %
Total items that may be reclassified to profit or loss	**-1,977**	**33,809**	**-35,786**	**-105.85 %**
Other comprehensive income total	**-2,463**	**35,785**	**-38,248**	**-106.88 %**
Comprehensive income	**68,028**	**89,767**	**-21,739**	**-24.22 %**
Comprehensive income attributable to shareholders of the parent company	**68,000**	**89,755**	**-21,755**	**-24.24 %**
thereof from continued operation	68,000	89,755	-21,755	-24.24 %
Comprehensive income attributable to non-controlling interest	28	12	16	134.34 %
thereof from continued operation	28	12	16	134.34 %

Interest and similar income included income in the amount of euro 183,179 thousand (1-12/2017: euro 176,689 thousand), which are calculated based on effectiv interest method.
Reclassification were done from net interest income to result from financial investments due to changes in presentation. For detailed information, please refer to note 4.

Statement of financial position as at 31 December 2018

	Note	31 Dec 2018 Euro thousand	31 Dec 2017 Euro thousand	Changes Euro thousand	%
ASSETS					
Liquid funds	13	1,565,504	1,813,951	-248,447	-13.70 %
Loans and receivables credit institutions	14, 15	1,986,640	1,703,912	282,728	16.59 %
Loans and receivables customers	14, 15	5,365,676	4,752,381	613,295	12.91 %
Assets held for trading	16	60,496	69,167	-8,671	-12.54 %
Financial investments	15, 17	2,091,440	1,842,992	248,448	13.48 %
Investment property	18	32,329	30,764	1,565	5.09 %
Companies measured at equity	19	37,835	30,753	7,083	23.03 %
Participations	20	43,073	43,222	-149	-0.34 %
Intangible assets	21	21,995	23,418	-1,424	-6.08 %
Tangible assets	22	66,632	132,078	-65,446	-49.55 %
Tax assets	23	61,718	47,429	14,289	30.13 %
Current taxes		4,541	1,513	3,029	> 200.00 %
Deferred taxes		57,177	45,917	11,260	24.52 %
Other assets	24	114,175	123,977	-9,802	-7.91 %
Assets held for sale	25	57,979	2,437	55,542	> 200.00 %
TOTAL ASSETS		**11,505,492**	**10,616,482**	**889,011**	**8.37 %**
LIABILITIES					
Amounts owed to credit institutions	26	3,060,759	2,743,551	317,207	11.56 %
Amounts owed to customers	27	6,344,232	5,791,374	552,858	9.55 %
Debts evidenced by certificates	28	466,675	487,507	-20,832	-4.27 %
Liabilities held for trading	29	75,416	82,010	-6,594	-8.04 %
Provisions	30, 31	79,651	83,772	-4,120	-4.92 %
Tax liabilities	23	1,842	6,843	-5,000	-73.07 %
Current taxes		758	5,692	-4,934	-86.68 %
Deferred taxes		1,085	1,151	-66	-5.76 %
Other liabilities	32	440,676	428,148	12,527	2.93 %
Subordinated liabilities	33	418,355	425,778	-7,423	-1.74 %
Equity	35	617,887	567,499	50,388	8.88 %
Shareholders' equity		614,001	563,606	50,395	8.94 %
Non-controlling interest	35	3,886	3,893	-7	-0.18 %
TOTAL LIABILITIES		**11,505,492**	**10,616,482**	**889,011**	**8.37 %**

Risk provisions separately displayed in the previous year are now included in loans and receivables credit institutions and customers. For detailed information, please refer to note 14.

Changes in the Group's equity

Euro thousand	Subscribed capital	Capital reserves	Retained earnings	Fair value reserve [1)]	Own credit risk reserve [1)]	Shareholders' equity	Non-controlling interest	Equity
As at 1 January 2017	**126,938**	**212,209**	**116,624**	**11,419**		**467,189**	**3,958**	**471,147**
Consolidated net income			53,972			53,972	11	53,982
Revaluation of obligation of defined benefit plans (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	0	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
Reclassification capital reserves		-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 December 2017	**132,894**	**215,313**	**170,225**	**45,174**	**0**	**563,606**	**3,893**	**567,499**
Impact of adopting IFRS 9	0	0	173,640	-204,449	4,359	-26,450	0	-26,450
As at 1 January 2018 restated	**132,894**	**215,313**	**343,865**	**-159,274**	**4,359**	**537,157**	**3,893**	**541,049**
Consolidated net income			70,465			70,465	26	70,491
Revaluation of obligation of defined benefit plans (including deferred taxes)			1,952			1,952	2	1,954
Revaluation reserve (including deferred taxes) [1)]			422			422		422
Fair value reserve - equity instruments (including deferred taxes)				-1,026		-1,026	0	-1,026
Fair value reserve - debt instruments (including deferred taxes)				-805		-805	0	-805
Own credit risk reserve (including deferred taxes)					-1,836	-1,836	0	-1,836
Change from companies measured at equity			-67	-1,104		-1,172		-1,172
Comprehensive income	0	0	72,771	-2,935	-1,836	68,000	28	68,028
Capital increase	4,653	12,522				17,175		17,175
Dividends paid			-8,991			-8,991	-16	-9,007
Payment Shareholder		646				646		646
Reclassification capital reserves		-646	646			0		
Reclassification fair value reserve due to sale			57	-57				
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation			15			15	-19	-4
As at 31 December 2018	**137,547**	**227,836**	**408,363**	**-162,266**	**2,523**	**614,001**	**3,886**	**617,887**

1) As at 31 December 2018, the revaluation reserve included deferred taxes of euro -141 thousand (31 December 2017: euro 0 thousand).
As at 31 December 2018, the fair value reserve included deferred taxes of euro 54,089 thousand (31 December 2017: euro -15,058 thousand).
As at 31 December 2018, the own credit risk reserve included deferred taxes of euro -841 thousand (31 December 2017: euro 0 thousand).

For further details see note 34 equity.

Cash flow statement

In euro thousand	Note	1-12/2018	1-12/2017
Annual result (before non-controlling interest)		**70,491**	**53,982**
Non-cash positions in annual result and other adjustments			
Net interest income	4	-124,786	-120,722
Income from participations	8	-2,275	-291
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	8, 10	-1,614	12,556
Allocation to and release of provisions, including risk provisions	5, 10, 11	8,571	-2,740
Gains from the sale of financial investments and fixed assets	8, 9	-746	-618
Result from contribution of assets and liabilities	2	-8,319	-18,227
Income taxes	12	1,468	-4,626
Changes in assets and liabilities from operating activities			
Loans and advances to credit institutions	14	-285,791	1,397,032
Loans and advances to customers	14	-430,424	-120,198
Trading assets	16	2,168	15,841
Financial investments	17	66,996	159,423
Investment property	18	7,514	682
Other assets from operating activities	24	-2,120	19,584
Amounts owed to credit institutions	26	405,120	-1,052,448
Amounts owed to customers	27	275,641	235,616
Debts evidenced by certificates	28	-27,893	-221,027
Derivatives	16, 24, 29, 32	16,651	-63,631
Other liabilities	32	-8,658	-61,404
Interest received		164,008	170,496
Interest paid		-47,740	-56,561
Dividends received		2,275	291
Income taxes paid		-11,091	-1,683
Cash flow from operating activities		**69,446**	**341,327**
Proceeds from the sale or redemption of			
Financial investments at amortised cost	17	0	0
Participations	20	124	0
Intangible and tangible assets	21, 22	5,042	2,793
Payments for the acquisition of			
Financial investments at amortised cost	17	-303,629	-55,808
Participations	20	-3,720	-3
Intangible and tangible assets	21, 22	-2,489	-2,354
Acquisition of subsidiaries - liquid funds	2	2,561	14,108
Cash flow from investing activities		**-302,111**	**-41,265**
Capital increase	35	0	15,500
Payment Shareholder	35	646	658
Dividends paid	35	-9,007	-13,411
Cash inflow of subordinated liabilities	33	105	398,988
Cash outflow of subordinated liabilities	33	-7,735	-6,107
Repayment non-controlling interest	35	-4	-12
Cash flow from financing activities		**-15,995**	**395,616**
Cash and cash equivalents at the end of previous period	13	**1,809,264**	**1,113,587**
Cash flow from operating activities		69,446	341,327
Cash flow from investing activities		-302,111	-41,265
Cash flow from financing activities		-15,995	395,616
Cash and cash equivalents at the end of period	13	**1,560,603**	**1,809,264**

Details of the calculation method of cash flow statement are shown in note 3) kk).
Details to the changes in subordinated liabilities are shown in note 33).

NOTES

1) General information

VOLKSBANK WIEN AG (VBW) with 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 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 thousands of euro unless specified otherwise. The following tables may contain rounding differences.

VBW reports concepts, results and risks in connection with environmental issues, social and employee concerns, human rights, corruption and bribery and diversity in accordance with the Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz - NaDiVeG) within the scope of the Group´s reporting in a separate sustainability report.

The present consolidated financial statements were signed by the Managing Board on 13 March 2019 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 24 April 2018, Waldviertler Volksbank Horn registrierte Gesellschaft mit beschränkter Haftung contributed its undertaking, the Horn banking operation, to VBW, retaining cash assets in the amount of euro 0.8 million, all shares in Volksbank Wien AG as well as in Volksbank Wien Beteiligung eGen, one fixed income securitiy in the amount of euro 1.1 million, one property situated in Horn as well as tax assets. The contribution in kind is effected against granting of 49,629 new no-par-value shares of VBW. Registration in the Companies’ Register was effected on 20 June 2018.

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	Horn
Liquid funds	2,561
Loans and receivables credit institutions	88,390
Loans and receivables customers	164,790
Risk provisions (-)	-714
Financial investments	51,344
Participations	1,343
Intangible assets	4
Tangible assets	2,046
Tax assets	294
Other assets	344
Amounts owed to credit institutions	-24
Amounts owed to customers	-277,419
Provisions	-6,051
Other liabilities	-1,415
Net assets acquired	**25,494**
Purchase price = capital increase	17,175
Gain from bargain purchase	**8,319**

Gain from bargain purchase mainly results from the acquired capital resources of VB Horn which distinctly exceeds the purchase price. The purchase price was based on VB Horn´s earnings potential.

As the purchase price was settled through share issues by VBW, there was no cash outflow from the Group. The cash inflow relates to the cash reserve acquired. Impaired loans and receivables are displayed on a gross basis in the table above. To ensure that the data is consistent with the risk management systems and regulatory reporting, risk provisions acquired as part of the acquisition have been reported separately. Any adjustments to reflect fair value were reported in the items loans to and receivables from credit institutions or loans to and receivables from customers. Identification of the acquired assets and liabilities as well as their fair value measurement are based on estimates and assumptions.

Fair value, gross value of receivables acquired as well as cash flows expected to be irrecoverable as at the acquisition date are as follows:

Euro thousand	Horn
Fair value of purchased receivables	164,790
Gross amount of receivables	161,066
Estimated unrecoverable receivables	-714

Fair values of euro 59 thousand were determined for guarantees in force and credit facilities committed as at the acquisition date and recognised as provisions. Maturities are mainly at one year. Cash outflows of approximately euro 59 thousand are expected during this period.

Incidental acquisition costs are recognised in other operating expenses in the income statement and amount to euro 71 thousand.

Information about the amount of net interest income and the annual result after taxes achieved in the acquired banking operations since the date of acquisition is not available as no separate records are available after the merger.

If VB Horn had already been acquired on 1 January 2018, net interest income of VBW Group would have been higher in total by euro 936 thousand and the annual result after taxes would have been lower by euro 9 thousand.

Participation right of the federal government

The federal government's participation right was issued for the purpose of meeting those commitments 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. 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 the pre-emptive right granted by the federal government is exercised by a purchaser nominated by VBW and 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 promised to the federal government, euro 75 million have already been repaid as at 31 December 2018. Accordingly, the threshold existing at 31 December 2019 for the minimum repayment in the amount of euro 75 million was met prematurely.

Number of consolidated companies

	31 Dec 2018			31 Dec 2017		
	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 2018			31 Dec 2017		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	6	0	6	7	0	7
Associated companies	3	0	3	3	0	3
Companies total	**9**	**0**	**9**	**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. In addition to 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 2018.

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 53), 54), 55)).

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.

VBW Group's consolidated financial statements for 2018 as well as the comparative figures 2017 have been prepared in accordance with the IFRS/IAS and thus fully comply 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). Currently there are no differences between the IFRS adopted by the EU and the IFRS published by the IASB.

The consolidated financial statements have been prepared based on at cost measurement excluding the following items:

- Derivative financial instruments – measured at fair value
- Financial instruments in the category at fair value through profit or loss and at fair value through other comprehensive income (OCI)
- Investment property – 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
- Financial liabilities measured at fair value through profit or loss (fair value option)
- Deferred taxes – for temporary differences between tax and IFRS values, those amounts are recognised resulting 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

As at 1 January 2018 the regulations of accounting standard IFRS 9 – financial instruments took effect. Further details regarding initial application of IFRS 9 are illustrated in this chapter. Adjustments as well as effects of the new regulations are described in this chapter as well. In addition, in the course of transition to IFRS 9 the item structure was modified and the figures of the comparative period adjusted accordingly.

The following two chapters present amended and new accounting standards significant to the consolidated financial statements of VBW.

Initially applied standards and interpretations

Standard	Content	Mandatory application	Significant effects on VBW
New standards and interpretations			
IFRS 9	Financial instruments	As of BY 2018	Yes
IFRS 15	Revenue from contracts with customers	As of BY 2018	No
IFRIC 22	Foreign currency transactions and advance consideration	As of BY 2018	No
Amendments to standards and interpretations			
IFRS 4	Amendments to IFRS 4 - Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts	As of BY 2018	No
IAS 40	Transfer of investment property	As of BY 2018	No
IFRS 2	Classification and measurement of share-based payment transactions	As of BY 2018	No
Annual improvements of IFRS (cycle 2014-2016)		As of BY 2017 and 2018	No

BY - business year

Standards and interpretations to be applied in the future

Standard	Content	Mandatory application	Significant effects on VBW
IFRS 16	Leases	As of BY 2019	Yes
IFRIC 23	Uncertainties regarding income tax treatments	As of BY 2019	No
IFRS 9	Prepayment features with negative compensation	As of BY 2019	No
IAS 19	Plan amendment, curtailment or settlement	As of BY 2019	No
IAS 28	Long-term interests in associates and joint ventures	As of BY 2019	No
IAS 1 and IAS 8	Definition of materiality	As of BY 2020	No
IFRS 3	Business combinations	As of BY 2020	No
IFRS 17	Insurance contracts	As of BY 2021	No
Annual improvements of IFRS (cycle 2015-2017)		As of BY 2019	No

a) Initially applied standards and interpretations

IFRS 9 Financial instruments: As at 1 January 2018, the VBW Group has been applying IFRS 9 Financial Instruments. It contains regulations for the classification and measurement, derecognition and impairments of financial assets, as well as hedge accounting and supersedes IAS 39 – Financial Instruments: recognition and measurement. Additionally, under the regulations, companies are required to provide readers of financial statements with more informative, more relevant details in the notes. The application of the supplement to IFRS 9 regarding early repayment of loans, adopted into European law in March 2018, provides clarifications with respect to SPPI-compliance of these interest and redemption payments. No material effects on the VBW Group will result from these amendments.

By comparison with IAS 39, balance sheet equity has decreased by euro -26 million. This was mainly due to changes in the risk provision methodology compared to IAS 39, and the required reclassification of the respective financial instruments. Applying IFRS 9 impairment provisions as at 1 January 2018 resulted in a positive change of the impairments reported of euro 9.3 million (before deferred tax). Loans in the amount of euro 185 million is now measured at fair value, as the benchmark test that was carried out was negative for critical fixed interest rate periods, resulting in a reduction of equity by euro -5.3 million (before deferred tax). Regarding securities, a volume of euro 1,380 million is allocated to the Hold to collect business model, a volume of euro 379 million to the Hold to collect and sell business model and a volume of euro 46 million to the Other business model. When hedge accounting is factored in, the negative effect on equity due to the revaluation of securities amounts to euro -30.3 million (before deferred tax). Moreover, for structured own issues with a volume of euro 82 million that were designated as hedge accounting under IAS 39, the fair value option was applied. The change in equity due to reclassification has entailed a reduction of euro -9 million (before deferred tax), as a consequence of reclassification.

A detailed presentation of the effects on the VBW Group is shown in note c) Changes to accounting and valuation methods.

IFRS 15 – Revenue from contracts with customers: IFRS 15 is to be applied to sales revenue from customer contracts and replaces the previously applicable standards IAS 11 and IAS 18 as well as IFRICs 13, 15 and 18. IFRS 15 provides for a principle-based five-step model, which regulates the way how, the extent to which and the point in time when revenues are to be realised. 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. Sales revenue must be measured at the amount of the consideration which the company expects to receive. Application of the standard is mandatory for financial years commencing on or after 1 January 2018.

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 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 VBW Group´s consolidated financial statements compared to the previous way of procedure. For this reason, the distinction of revenue from income from financial instruments according to IFRS 15 covered by IFRS 9, as well as income from leases under IFRS 16 and/or IAS 17 is of importance to the VBW Group.

Application of IFRS 15 for the areas or items identified did not result in any material effect for the VBW Group.

Please refer to note 6) Net fee and commission income for further details regarding fee and commission income and expense.

Annual improvements of IFRS (2014-2016 cycle)

The amendments relate to wording in need of improvement and clarifications. 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.

b) Standards and interpretations to be applied in the future

IFRS 16 - Leases: In the fourth quarter of 2017, the VBW Group initiated a project for analysing all leases with respect to accounting and effects. The primary effects of the new standard are on the accounting of contracts previously designated as operating lease. Almost all leases are recognised in the balance sheet of the lessee.

Upon initial application of IFRS 16 as at 1 January 2019, the VBW Group expects to recognise right-of-use assets in the amount of approximately euro 81 million; correspondingly, leasing liabilities will be recognised in the same amount. The rights of use primarily relate to buildings, as well as motor vehicles and parking spaces. The present value of the loans constitutes the amount recognised of the right-of-use assets. The present value was determined from the contractual leasing payments, the respective residual terms and the incremental borrowing rate. In the statement of comprehensive income, in the 2019 business year, expenditures are expected to be higher due to the split of leasing expenses into an interest component and an impairment component, compared to a linear distribution of expenses, in the amount of approximately euro 0.8 million. The VBW Group exercises its option not to capitalise any right-of-use assets side for short-term leases, as well as leases for low-value assets. Accounting at the lessor will change only slightly compared to IAS 17, and therefore no material effects on the VBW Group are expected, except for more comprehensive information in the notes.

The VBW Group has decided to apply modified retroactive recognition, which means that the previous year's comparative figures are not adjusted, and accordingly adjustments are basically reported in retained earnings in the course of the transition. Upon initial application, the amount recognised for right-of-use assets corresponds to the leasing liabilities within the Group and will therefore have no effects on equity at the date of initial application.

IFRIC 23 – Uncertainty regarding income tax treatments: The interpretation clarifies how regulations regarding recognition and measurement under IAS 12 Income taxes must be applied in case of any uncertainties regarding income tax treatments. Application of IFRIC 23 is mandatory for the first time in reporting periods commencing on or after 1 January 2019. The amendments were adopted into European law by the EU in October 2018. The amendments are not expected to have any significant effect on the VBW Group.

IFRS 17 – Insurance contracts: The new standard is applicable not only for insurance companies but also for entities issuing insurance contracts within the scope of the standard. The aim of IFRS 17 is the consistent, principle-based accounting of insurance contracts and requires the valuation of insurance liabilities at their current performance value. This results in consistent valuation and presentation of all insurance contracts. The standard is applicable to financial years commencing on or after 1 January 2021. The amendments need yet to be adopted into European law by the EU. This standard will not have any significant effect on the VBW Group.

Annual improvements to IFRS (2015-2017 cycle)

In December 2017, the IASB published several amendments of existing IFRS within the scope of its annual improvements to IFRS (2015-2017 cycle). These include wording in need of improvement and clarifications regarding IFRS 3, IAS 12 and IAS 23 effecting the recognition, measurement and reporting of business transactions. Application of the amendments to the standards is mandatory for reporting periods commencing on or after 1 January 2019. Application of the amendments prior to that date is admissible. The amendments need yet to be adopted into European law by the EU. The amendments are not expected to have any material effects on the VBW Group.

c) Changes in accounting and valuation methods

The application of IFRS 9 resulted in changes regarding the classification and measurement of financial assets and liabilities, as well as the impairment of financial assets. Based on the option regarding hedge accounting that is provided for in the standard, a decision was made to apply IFRS 9 provisions also to hedge accounting. Additionally, the VBW Group has applied subsequent amendments regarding IFRS 7 Financial Instruments - Disclosures to the explanatory notes for the 2018 business year. The respective disclosure obligations of these financial instruments are derived from IFRS 7 and IFRS 13. Disclosures, reasons and the date of the reclassifications between valuation hierarchies, the reconciliation of opening and closing balances for Level 3 holdings at a certain reporting date, and the unrealised gains and losses must be indicated. However, this has not generally been applied to comparative information.

Due to transitional provisions under IFRS 9, retroactive application to previous reporting periods is not required; therefore, the effect from initial application is reflected in equity within the opening balance for the 2018 business year. Accordingly, the comparative figures of the 2017 business year have not been adjusted as a matter of principle. In the course of transition to IFRS 9, also the presentation of the items was amended and the figures of the comparative period were adjusted accordingly.

Classification and recognition of financial instruments

Within the scope of evaluating the classification of debt instruments, apart from verifying the business model criterion, the contractually agreed cash flows also need to be analysed. Potentially critical contract components require special attention, requiring a benchmark test under certain conditions. Due to the required classification of all financial assets and liabilities, users of the financial statements should be able to better estimate the amount, timing and uncertainty of future cash flows. At the time of addition, all financial instruments basically have to be recognised at fair value. This principle of addition applies regardless of the classification of any financial instrument.

IFRS 9 describes four types of subsequent measurement of financial assets that depend on the respective business model and/or fulfilment of the cash flow criterion (SPPI criterion):

- Measured at amortised cost
- Measured at fair value through OCI with recycling
- Measured at fair value through OCI without recycling
- Measured at fair value through profit or loss

The allocation of financial assets to any of the following business models takes place at management level and is derived from the way in which the financial assets are controlled to generate cash flows:

- Business model – Hold to collect: collecting contractual cash flows from infrequent sales activities or sales activities of insignificant value.
- Business model – Hold to collect and sell: collecting cash flows both from holdings and from sales.
- Business model – Other: all portfolios that cannot be attributed to any of the two previous business models. These include, in particular, trading portfolios controlled on a fair value basis, the collection of contractually agreed cash flows is secondary. The main aim is to maximise cash flows through buying and selling.

A business model aims or is meant to control financial assets in a certain manner. The evaluation of business models was effected on the basis of 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 were created within the 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 for them to be classified appropriately. The decisive criterion of assessment is whether there are exclusively non-leveraged interest and redemption payments on the outstanding principal. Basically, any financial instrument will only be considered as SPPI-compliant if its contractual cash flows correspond to those of any simple loan financing. Moreover, pursuant to IFRS 9, no distinction is required to be made any longer between the original underlying instrument and the embedded derivative. The financial asset is assessed as a whole and classified based on the business model and the contractual cash flow condition. Allocation to the business model takes place at portfolio level, while the cash flow criterion must basically be checked for each individual financial instrument that was allocated to the Hold to collect and Hold to collect and sell business models, respectively.

Measurement at amortised cost requires that the financial asset is associated with SPPI-compliant cash flows and that it was allocated to a portfolio with the Hold to collect business model. Measurement at fair value through OCI with recycling is applied to financial assets with cash flows meeting the cash flow criterion that were allocated to a portfolio with the Hold to collect and sell business model. Upon disposal of the financial instrument, the cumulative fluctuations in value recorded in OCI must be reported in the income statement (recycling). Subsequent measurement at fair value with reporting of the fluctuations in value in the income statement is mandatory, if either the financial instrument was not allocated to any portfolio of the two above-mentioned business models or their cash flows are not SPPI-compliant. Additionally, using the fair value option, it is also possible to designate financial assets, voluntarily and irrevocably upon initial recognition, as measured at fair value through profit or loss, if any recognition and measurement inconsistency can be avoided. Since equity instruments do not cause any fixed repayments, and as only share rights are associated with them, the cash flow criterion is not met, and they will always be measured at fair value through profit or loss. However, upon addition of any equity instrument, an irrevocable decision may be made to measure the same at fair value through OCI without recycling, by exercising the OCI option.

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 loan and securities division and allocated to the business models. The business model assessment in the loan 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 loan portfolio are minimised using, among others, interest rate derivatives or sub-participations. Accordingly, all portfolios in the loan sphere are allocated to the Hold to collect business model, unless there is an intention to sell loans. As at 31 December 2018 there were no intentions to sell loan portfolios. Accordingly, all loans were allocated to the Hold to collect business model within the VBW Group.

Identification of the business models for securities portfolios revealed that in the investment book remuneration is independent in terms of performance measurement. Performance is basically measured by net interest income. No performance-based, variable compensation has been scheduled. Within the positions in the investment book, no differentiation in terms of management and risk strategies is effected either. All investments within the investment book 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 took 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, taking place shortly before maturity and the sales proceeds approximately correspond to the remaining contractual payments, which are effected, among others, due to expiration of the basis of the business taking place within the scope of a strategic reorientation associated with regulatory or risk-related considerations. The different portfolios within the VBW Group result from different objectives for investments in the investment book.

As for participations, the initial application of IFRS 9 does not result in any transition effect, only a reclassification from reserves to equity, as all material participations were already reported at fair value as at 31 December 2017.

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, emerged due to changes of the bank’s own credit risk, are reported in other comprehensive income.

Accounting of impairments of financial assets

The new regulations regarding impairments under IFRS 9 must be applied to financial assets classified as at amortised cost and at fair value through OCI, as well as to off-balance sheet loan commitments and financial guarantees. Therefore, not only losses already occurred but also expected losses must be recognised. In this context, a distinction is made as to whether or not the default risk of financial assets has deteriorated significantly since their initial recognition. If a significant deterioration has occurred, and if the default risk cannot be assessed as low as at the reporting date, all lifetime expected credit losses must be recognised with effect from that date. In case of significant deterioration and low default risk, only those losses expected for the lifetime of the financial instrument must be taken into account that result from future potential loss events within the next twelve months. Exceptions exist for trade receivables. For these assets, all expected losses must (receivables without any significant financing component) or may (receivables with a significant financing component and lease receivables) be taken into account already at initial recognition. For further details, please refer to note risk provisions.

Accounting of hedging relationships

As at 1 January 2018, hedge accounting according to IFRS 9 was applied within the VBW Group. The aim of the new rules is for hedge accounting to be related 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 now, the relationship between the hedged underlying transaction and the hedging instrument has to correspond to the requirements of the risk management strategy. The comprehensive disclosure requirements for hedge accounting due to IFRS 9 and according to IFRS 7 are met in note 39) Hedging.

Based on the amendments under IFRS 9, VBW has been applying new hedge constellations, such as layer hedge accounting, since 2018. Within VBW, parts of portfolios of fixed-income loans are hedged using layer hedge accounting.

Transition

The following tables show the transition from the values stated as at 31 December 2017 according to IAS 39 to those stated after initial application of IFRS 9 as at 1 January 2018.

Reclassification and valuation of financial instruments

The following table shows the changes between valuation categories and the carrying amounts of financial assets and liabilities according to IAS 39 and IFRS 9 as at 1 January 2018.

Euro thousand	Valuation category acc. to IAS 39	Valuation category acc. to IFRS 9	Carrying amount IAS 39 31 Dec 2017	Carrying amount IFRS 9 1 Jan 2018
Liquid funds	Amortised cost	Amortised cost	1,813,951	1,813,951
Loans and receivables credit institutions (net)			1,703,912	1,703,904
	Amortised cost	Amortised cost	1,703,912	1,703,382
		Fair value through profit or loss - obligatory		522
Loans and receivables customers (net)			4,752,381	4,757,163
	Amortised cost	Amortised cost	4,752,381	4,589,286
		Fair value through profit or loss - obligatory		167,877
Assets held for trading			69,167	69,167
Fixed-income securities	Held for trading	Fair value through profit or loss	8,320	8,320
Positive fair value of derivative instruments	Held for trading	Fair value through profit or loss	60,847	60,847
Financial investments (net)			1,842,992	1,812,050
Fixed-income securities			1,803,197	1,772,255
	Held to maturity	Amortised cost	316,104	1,374,755
	Available for sale	Fair value through other comprehensive income	1,487,093	390,230
		Fair value through profit or loss - obligatory		7,270
Equities and other variable-yield securities			39,796	39,796
	Available for sale	Fair value through other comprehensive income	39,796	0
		Fair value through profit or loss - obligatory		39,796
Participations	Available for sale	Fair value through other comprehensive income	43,222	43,222
Positive fair value of derivative instruments (investment book)	Held for trading	Fair value through profit or loss	98,575	98,575
Financial assets - total			**10,324,200**	**10,298,033**

Amounts owed to credit institutions	Amortised cost	Amortised cost	2,743,551	2,743,551
Amounts owed to customers	Amortised cost	Amortised cost	5,791,374	5,791,374
Debts evidenced by certificates			487,507	496,665
	Amortised cost	Amortised cost	487,507	391,838
		Fair value through profit or loss - designated		104,827
Liabilities held for trading	Held for trading	Fair value through profit or loss	82,010	82,010
Negative fair value of derivative instruments (investment book)	Held for trading	Fair value through profit or loss	378,484	378,484
Subordinated liabilities	Amortised cost	Amortised cost	425,778	425,778
Financial liabilities - total			**9,908,704**	**9,917,861**

The following table shows the transition effects from IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018 on financial assets regarding classification and valuation for on and off-balance sheet positions affected by IFRS 9 without consideration of impairments.

Transition of the carrying amounts of financial assets based on their valuation category

Financial assets

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Revaluation	Carrying amount IFRS 9 1 Jan 2018
Amortised cost				
Liquid funds	1,813,951			1,813,951
Loans and receivables credit institutions (net)	1,703,912	-516	-14	1,703,382
Thereof reclassification to Fair value through profit or loss		-516		
Loans and receivables customers (net)	4,752,381	-163,743	647	4,589,286
Thereof reclassification to Fair value through profit or loss		-163,743		
Fixed-income securities Held to maturity	316,104	-316,104		0
Thereof reclassification to Amortised cost		-300,201		
Thereof reclassification to Fair value through other comprehensive income		-15,902		
Fixed-income securities Amortised cost		1,405,801	-31,046	1,374,755
Thereof reclassification from Held to maturity		300,201		
Thereof reclassification from Available for sale		1,105,599		
Amortised cost - total	**8,586,348**	**925,438**	**-30,412**	**9,481,374**
Fair value through profit or loss				
Assets held for trading	69,167			69,167
Loans and receivables credit institutions (gross) - Fair value through profit or loss - obligatory	0	516	6	522
Thereof reclassification from Amortised cost		516		
Loans and receivables customers (gross)	0	163,743	4,135	167,877
Thereof reclassification from Amortised cost		163,743		
Fixed-income securities - Fair value through profit or loss - obligatory		7,270	0	7,270
Thereof reclassification from Available for sale		7,270		
Equities and other variable-yield securities - Fair value through profit or loss - obligatory		39,796	0	39,796
Thereof reclassification from Available for sale		39,796		
Positive fair value of derivative instruments (investment book)	98,575			98,575
Fair value through profit or loss - total	**167,742**	**211,324**	**4,141**	**383,207**
Fair value through other comprehensive income				
Fixed-income securities Available for sale	1,487,093	-1,487,093		0
Thereof reclassification to Fair value through other comprehensive income		-374,224		
Thereof reclassification to Amortised cost		-1,105,599		
Thereof reclassification to Fair value through profit or loss		-7,270		
Fixed-income securities Fair value through other comprehensive income		390,126	103	390,230
Thereof reclassification from Available for sale		374,224		
Thereof reclassification from Held to maturity		15,902		
Equities and other variable-yield securities Available for sale	39,796	-39,796		0
Thereof reclassification to Fair value through profit or loss		-39,796		
Participations Available for sale	43,222	-43,222		0
Thereof reclassification to Fair value through other comprehensive income		-43,222		

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Revaluation	Carrying amount IFRS 9 1 Jan 2018
Participations Fair value through other comprehensive income - designated		43,222		43,222
Thereof reclassification from Available for sale		43,222		
Fair value through other comprehensive income - total	**1,570,110**	**-1,136,762**	**103**	**433,452**
Financial assets - total	**10,324,200**	**0**	**-26,167**	**10,298,033**

The column Revaluation includes effects from revaluations and impairments.

Financial liabilities

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Revaluation	Carrying amount IFRS 9 1 Jan 2018
Amortised cost				
Amounts owed to credit institutions	2,743,551			2,743,551
Amounts owed to customers	5,791,374			5,791,374
Debts evidenced by certificates	487,507	-95,670		391,838
Thereof reclassification to Fair value through profit or loss		-95,670		
Subordinated liabilities	425,778			425,778
Amortised cost - total	**9,448,210**	**-95,670**	**0**	**9,352,541**
Fair value through profit or loss				
Debts evidenced by certificates Fair value through profit or loss - designated	0	95,670	9,158	104,827
Thereof reclassification from Amortised cost		95,670		
Liabilities held for trading	82,010			82,010
Derivative instruments - investment book	378,484			378,484
Fair value through profit or loss - total	**460,493**	**95,670**	**9,158**	**565,320**
Financial liabilities - total	**9,908,704**	**0**	**9,158**	**9,917,861**

At initial application of IFRS 9 securities measured at fair value were reclassified to the category Amortised cost. The fair value of these securities amounts to euro 1,065,313 thousand as at 31 December 2018. The loss from the change in fair value which would have been reported if the reclassification would not have taken place anounts to euro 21,061 thousand.

Impairment

The following table shows effects on impairments for on and off-balance sheet positions affected by IFRS 9.

Euro thousand	Risk provisions IAS 39 31 Dec 2017	Reclassification	Revaluation	Risk provisions IFRS 9 1 Jan 2018
Amortised cost				
Loans and receivables customers	57,944	-9,424	-647	47,872
Loans and receivables credit institutions	0	0	14	14
Financial investments - fixed-income securities	0	0	681	681
Fair value through other comprehensive income				
Financial investments - fixed-income securities	0	0	72	72
Off-balance sheet obligations - loan commitments and financial guarantees	**4,212**	**-17**	**83**	**4,278**
Risk provisions and off-balance sheet obligations	**62,156**	**-9,441**	**201**	**52,916**

Deferred taxes

The following table shows effects from IFRS 9 on the carrying amounts of deferred tax assets and deferred tax liabilities.

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Effect on retained earnings	Effect on OCI-reserves	Carrying amount IFRS 9 1 Jan 2018
Deferred tax assets	45,917	4,815	6,454	57,186
Deferred tax liabilities	1,151	2,310	18	3,479

Breakdown of effects from initial application

	Retained earnings	Fair value reserve	Own credit risk reserve	Shareholders' equity	Equity
Impact of adopting IFRS 9	173,640	-204,449	4,359	-26,450	-26,450
Loans and receivables credit institutions and customers	-3,963	0	0	-3,963	-3,963
Risk provisions	6,930	54	0	6,984	6,984
Financial investments	764	-211,804	0	-211,040	-211,040
Companies measured at equity	16,253	-16,253	0	0	0
Participations	164,790	-164,790	0	0	0
Debts evidenced by certificates	-25,408	0	4,359	-21,049	-21,049
Hedging	14,274	188,344	0	202,618	202,618
Total	**173,640**	**-204,449**	**4,359**	**-26,450**	**-26,450**

d) 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 regarding 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 tangible assets is based on assumptions concerning the future.
- The recoverability of financial instruments measured at amortised cost or at fair value through OCI is based on future assumptions.
- The recognition of deferred tax assets is based on the assumption that sufficient tax income will be generated in the 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 based on 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 2018, the scope of consolidation of VBW does not include any foreign subsidiary in foreign currency.

e) 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 based on the Group’s reporting date of 31 December 2018.

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.

f) 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 reporting 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.

g) 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 amortised 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 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 fixed-income securities
- 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.

h) Risk provision

The item risk provision includes the allocation to and release of individual loan loss provision and of portfolio loan loss provision for loans and receivables evidenced by certificates and those not evidenced by certificates. Direct write-offs and income from loans receipts from receivables previously written off, as well as modification gains or losses of financial assets are also recognised in this item. Allocations to and releases of off-balance sheet risk provisions are also shown in the risk provisions.

The 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. Details regarding determination of the risk provisions are described in note Financial assets and liabilities as well as in note 52) Risk report b) Credit risk.

i) Net fee and commission income

This item contains all income and expenses relating to the provision of services as accrued within the respective reporting period. Commissions and fees for services provided over a certain period of time are collected throughout the relevant period. This includes fees and commissions from lending business and clearing business, liability commissions as well as custody and management fees. However, commissions or fees for transaction-based services provided to third parties are collected upon completion of service provision. Essentially, this concerns the procurement of insurance policies, building loan contracts and loans as well as securities transactions. In those instances where an associated financial instrument exists, any commissions that are an integral component of the effective interest rate are shown as part of interest income.

j) Net trading income

All realised and unrealised results from financial investments, foreign currency positions and derivatives held for trading (assets and liabilities held for trading) are reported in this item. This includes changes in market value as well as all interest income, dividends and refinancing expenses for assets held for trading. Results from the daily measurement of foreign currency positions are also reported in net trading income.

k) Result from financial investments

The result from financial investments consists of:

- Realised gains and losses from disposal of financial investments
- Valuation gains and losses of financial instruments
- Result from hedge accounting
- Result from other derivative financial instruments
- Income from equities and other variable-yield securities
- Income from investments in unconsolidated affiliates, from investments in companies with participating interest and other participations
- Income from operating lease and investment property

Results from disposals of financial assets measured at amortised cost or debt instruments measured at fair value through OCI (with recycling) are shown in the realised gains and losses from sale of financial investments. In case of derecognition of debt instruments measured at fair value through OCI, a reclassification from fair value reserve – debt instruments to the income statement takes place.

The fair value changes of financial assets measured at fair value through profit or loss and of financial liabilities where the fair value option is applied are reported in revaluation gains and losses of financial instruments.

l) Other operating result

This item contains the result from the derecognition of tangible and intangible assets, allocations to and releases of provisions, impairments of goodwill, valuations of IFRS 5 disposal groups and the deconsolidation result from the disposal of subsidiaries as well as taxes and constitutions for banking business and all other operating activities.

m) General administrative expenses

General administrative expenses contain all expenditure incurred in connection with the business operations of the companies included in the financial statements.

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 office space, office supplies and communication, advertising, PR and promotional expenses, expenses for legal advice and other consultancy, training, IT expenses and the contribution to the deposit guarantee.

Depreciation, impairment and reversal of impairment of intangible and tangible assets – excluding impairment of goodwill – are also reported in this item.

n) Restructuring result

The restructuring result contains the allocations and releases of the restructuring provision.

o) Financial assets and liabilities

A financial asset or a financial liability is initially recognised in the balance sheet when the VBW 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. Financial assets and liabilities are recognised or derecognised on the trading day. The trading day is the date when the Group undertakes to buy or sell the assets concerned, respectively to issue or redeem the financial obligations.

The Group classifies its financial assets and liabilities using the following categories. Upon initial recognition, financial instruments must be measured at fair value. In case of financial instruments that are not measured at fair value through profit or loss directly attributable transaction costs that increase the fair value of financial assets or decrease it when a financial liability is established must also be included in the fair values as incidental acquisition costs. Pursuant to IFRS 13, the fair value is defined as the current exit value. This is the price that market participants receive or pay within the scope of an ordinary transaction for the sale of an asset or transfer of a liability. The fair value is either a price determined on an active market or is determined using valuation models. The input parameters relevant for the respective valuation model may either be directly observable in the market or, if not observable in the market, determined by expert estimate. During subsequent measurement, financial instruments are recognised in the balance sheet either at amortised cost or at fair value, depending on the respective category.

Financial liabilities

Financial liabilities are measured at amortised cost using the effective interest method, unless the option of measuring them at fair value through profit or loss (fair value option) is exercised. For first-time recognition, the option is exercised on a voluntary and irrevocable basis in the valuation category ‘measured at fair value through profit or loss’, if this enables any measurement or recognition inconsistency to be avoided or reduced significantly. Beyond that, financial liabilities may be designated as ‘measured at fair value through profit or loss’, if a group of financial liabilities or a group of financial assets and financial liabilities is controlled on the basis of their fair values and if their performance is measured on the basis of their fair values.

Derecognition and modification

Basically, a financial asset is derecognised on the date on which the contractual rights to its cash flows expire. The regulation for the derecognition of bad debts is described in note p) Loans and receivables credit institutions and customers. A financial liability is derecognised once it has been redeemed, i.e. when the liabilities agreed in the contract have either been settled, cancelled or expired.

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

A financial asset is deemed modified whenever its contractual cash flows are renegotiated or otherwise adjusted. Renegotiation or modification may result from market-driven commercial components or prevention due to a borrower in financial difficulties. Contract modifications may, but need not necessarily, lead to the derecognition of the old and recognition of the new financial instrument. To assess the economic substance and financial effect of such contract modifications, qualitative derecognition criteria such as change of debtor, change of currency, change of cash flow criterion and change of collateral were defined. A deviation of more than 10 % from the gross carrying amount of the asset immediately prior to adjustment, in relation to the present value of the modified cash flows (discounted using the effective interest rate before modification), was determined to be the quantitative criterion. Accordingly, a change in the present value of up to 10 % will not result in derecognition but must be shown separately in the result.

Offsetting

Financial assets and liabilities are set off and the net amount is presented in the balance sheet only if 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.

Measured at 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 amortisation 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.

Measured at fair value through profit or loss

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 the 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 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 including an additional charge. This additional charge was remodelled 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 based on 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.

Interest, dividends as well as related fee and commission income and expense of financial assets and liabilities in the investment book, which are measured at fair value through profit or loss, are shown in the respective positions in the income statement. Valuation gains and losses are shown separately in result from financial investments.

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 based on current developments. The impairment model is required to anticipate expected losses. Thus, not only losses that already occurred but also expected losses are recognised. In this context, a distinction is made as to whether or not the default risk of financial assets has deteriorated significantly ever since their initial recognition. If a significant deterioration has occurred, and if the default risk cannot be assessed as low as at the reporting date, all lifetime expected credit losses must be recognised with effect from that date. In case of significant deterioration and low default risk, only those losses expected for the lifetime of the financial instrument must be taken into account that result from future potential loss events within the next twelve months. Exceptions exist for trade receivables. For these assets, all expected losses must (receivables without any significant financing component) or may (receivables with a significant financing component and lease receivables) be taken into account already at the time of initial recognition.

Scope

The impairment model is meant to be applied to the following financial instruments:

- Financial assets measured at amortised cost
- Financial assets mandatorily measured at fair value through OCI
- Purchased or originated credit-impaired financial assets (POCI) with a change in the estimated loss amount since addition are reported in risk provisions using the credit risk-adjusted effective interest rate.
- Impairments are reported as provisions for irrevocable loan commitments and financial guarantees.

Impairments must not be separately shown for debt instruments and equity instruments measured at fair value through profit or loss, as any impairments are already considered in the fair value.

General approach

Except for purchased or originated credit-impaired financial assets, any expected losses must either be recognised on a 12-month ECL (expected credit loss) or the total-term ECL basis. This will depend on whether the credit risk for the financial instrument has increased significantly since initial recognition. Changes of the amount of the risk provision must be reported as an impairment or reversal of impairment in the income statement.

A significant increase in credit risk is primarily measured based on the change in lifetime probability of default (PD). If the change in lifetime PD exceeds a predefined threshold, the financial asset is classified as total-term ECL. 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 equals 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 the Group corresponds to the requirements of CRR I Art. 178.

Options

- The option regarding the low credit risk exemption – i.e. the lump sum 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 receivables from customers and securities with an external investment grade rating. If several external ratings exist, the second best rating is used. In this way, it is guaranteed that at least two rating agencies provide the issuer with an investment grade rating.
- The option of a simplified procedure for trade receivables, contractual assets according to IFRS 15 and leasing receivables was not exercised, as such receivables either do not occur within the VBW Group at present or are insignificant.

Information regarding the calculation logic

Impairment is the expected loss defined as the present value of 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 or for the entire residual term.
- 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 loan loss provisions and provisions for off-balance and other risks). For all other items, the calculation is carried out for each transaction individually. The parameters used (PD, LGD, etc.) are derived from portfolios/groups with the same risk characteristics (portfolio loan loss provisions and lump sum individual impairments/provisions for off-balance and other risks).
- Scenario analysis: The impairment is determined based on at least two probability-weighted scenarios.
- Expected cash flows: To determine 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 an impairment, debtor-specific, transaction-specific and macroeconomic information about past events, current conditions and forecasts are taken into account within the scope of the PD, LGD and cash flow models applied.

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

Derivative financial instruments

Derivative financial instruments are measured at fair value through profit or loss.
For fair value calculation, credit value adjustments (CVA) and debt value adjustments (DVA) are taken into account. Counterparty risk for fair values arising from unsecured derivatives is taken into account by means of CVA or DVA - approximating the potential future loss relating to counterparty default risk. The expected future exposure (EFE) is calculated using the Monte Carlo simulation. As no observable credit risk spreads are available for these counterparties on the market, the probabilities of default for the counterparties are based on internal ratings of the Group.

Changes in the market value of derivative financial instruments which are used for a fair value hedge are immediately recognised in the income statement, under result from financial investments. The change in market value of the underlying transaction resulting from the hedged risk is also recognised under result from financial investments, regardless of its allocation to individual categories under IFRS 9. Fair value hedges are used to hedge interest rate risks and currency risks arising from fixed-income financial investments and liabilities, as well as foreign currency receivables and liabilities. At present, fair value hedges are only used to hedge interest rate risks within the Group.

In case of cash flow hedges, the change in fair value of the derivative is recognised immediately in the hedging reserve in OCI, taking into account deferred taxes. The ineffective part of the hedge is recognised in the income statement. The underlying transaction is measured depending on its allocation to the individual categories. Cash flow hedges are not used within the Group at present.

Embedded derivatives that are subject to separate reporting are measured regardless of the financial instrument in which they are embedded, unless the structured financial instrument is designated at fair value through profit or loss. In case of hybrid financial instruments containing embedded derivatives, the SPPI criterion must be verified based on the entire hybrid contract, without separating embedded derivatives from the underlying contract.

Own equity and debt instruments

Own equity instruments are measured at cost and deducted from equity on the liabilities side. Repurchased own issues are deducted from issues at their redemption amounts on the liability side of the balance sheet. The difference between redemption amount and acquisition cost is reported in the item Other operating result.

p) Loans and receivables credit institutions and customers

Loans to and receivables from credit institutions and customers are recognised on balance as soon as the Group becomes contracting party. Loans and receivables are initially recognised at fair value plus all directly attributable transaction costs. Subsequent measurement is performed at amortised cost, under the prerequisite that the SPPI criterion (cash flows of the financial instrument only consist of interest and redemption payments of the outstanding principal amount) is met. Interest income is calculated according to the effective interest method. If the SPPI criterion is not met, the financial instrument is measured at fair value through profit or loss.

In accordance with IFRS 9, the gross carrying amount of receivables is reduced if it cannot reasonably be expected to be realisable. Therefore, the decisive criterion for derecognition of receivables is their uncollectability. A receivable must be derecognised completely in any case if all prerequisites are fulfilled, no recoverable collaterals exist for the receivables concerned, no other assets of the debtor are known and if alternatively the debtor has not paid in spite of conviction and in spite of execution proceedings, the debtor is insolvent, unless there is any clear prospective quota or hopelessness of execution.

q) Risk provision

Individual loan loss provisions and portfolio loan loss provisions are effected for the special risks of banking business. Risk provisions for off-balance risks are reported under provisions.

The 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.

For further details please refer to note 3) o) Financial assets and liabilities, 3) p) Loans and receivables credit institutions and customers and 52) Risk report b) Credit risk.

r) Assets and liabilities held for trading

Assets held for trading include all financial assets with a view to short-term sale or forming part of a portfolio which is intended to yield short-term profit. Liabilities held for trading comprise all negative fair values of derivative financial instruments held for trading. No financial assets and liabilities measured at fair value through profit or loss are reported in this position.

Both initial recognition and subsequent measurement are effected at fair value through profit or loss. Transaction costs are expensed as incurred. All changes in fair value and all interest income, dividend payments and refinancing costs attributable to the trading portfolio are reported in net trading income.

s) 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 optimi-sation of returns is of primary importance. Financial investments are initially recognised at fair value plus incremental direct transaction costs.

Classification of securitised debt instruments

Securitised debt instruments are classified in three measurement categories: measured at amortised cost, measured at fair value through profit or loss, measured at fair value through OCI. Classification is performed based on the business model criterion on the one hand and on the SPPI-criterion on the other hand.

Measured at amortised cost

The group of financial investments measured at amortised cost comprises 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. Valuation is effected at amortised cost, with interest income being calculated according to the effective interest method.

Measured at fair value through profit or loss

Financial investments that cannot be allocated to either the Hold to collect or Hold to collect and sell business model fall into the category measured at fair value through profit or loss. Moreover, financial investments with contractual terms (contractual cash flows) that do not only represent redemption and interest payments on the outstanding principal, and therefore risks or fluctuations being not immaterial, are also allocated to this category.

Measured at fair value through OCI

Financial investments are measured at fair value through OCI if the asset was allocated to the business model Hold to collect and sell and if the contractual features of the financial asset only provide for interest and redemption payments on the out-standing principals at predefined points in time (SPPI-criterion).

Classification of equity instruments

Equity instruments are measured at fair value through profit or loss. Upon initial recognition, however, an irrevocable option (OCI option) may be exercised, individually for each instrument. This option only applies to financial instruments that are not held for trading and do not constitute a conditional consideration, which are recognised by an acquirer within the scope of a business combination under IFRS 3. If the option is exercised, all changes to the fair value are reported in OCI (except for dividends, which are reported through profit or loss). Gains or losses reported in OCI can never be reclassified from equity to the income statement.

t) Investment property

All land and buildings, also those under construction, that meet the definition of investment property as set out in IAS 40 are reported at fair value. Annual measurement is essentially based on RICS standards (Royal Institution of Chartered Surveyors). Following IFRS 13, the RICS defines fair value as the estimated amount for which an investment property could be sold on the date of valuation by a willing seller to a willing buyer in an arm’s-length transaction in normal business operations, wherein the parties had each acted knowledgeably, prudently and without coercion. These calculations are earnings calculations, most of which are prepared following the discounted cashflow method based on current rent lists and lease expiry profiles. They are subject to assumptions regarding market developments and interest rates. The returns used are defined by the appraiser and reflect the current market situation as well as the advantages and disadvantages of the specific property. 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 or use.

The real estate portfolio is valued exclusively by external appraisers who are selected, among others, based on proven professional qualification and experience of the locations and categories of property being valued. In Austria, appraisals were obtained from 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 hierarchy. The assumptions and parameters used in the valuation are updated on every valuation date.

Tenancy agreements are in place with commercial and private 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 contracts and reported in the result from financial investments.

u) Participations and investments in companies measured at equity

This item includes subsidiaries and participations established or acquired for strategic reasons and as financial investments. Strategic investments are companies that cover the areas of business of the Group, as well as companies that support those areas of business. Subsidiaries are fully consolidated if they are material for the presentation of a true and fair view of the net assets, financial position and earnings situation 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, except if their acquisition costs are less than euro 50 thousand and the equity share does not exceed a carrying amount of euro 100 thousand. 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 used if VBW controls the company or exercises any management function, and budgets are available accordingly. If the company is not controlled, the fair value calculation is performed based on 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 fair 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 2018 financial year, range between 6.9 and 8.9 % (2017: 6.9 to 8.9 %). The market risk premium used for the calculation is 7.3 % (2017: 6.75 %), the beta values used range between 0.8 - 1.1 (2017: 0.8 - 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 participating interests.

Changes in value are reflected in the fair value reserve. If the reason for impairment ceases to exist, the reversal of impairment is made without any effect on profit or loss directly in equity, taking into account any 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. In case of participations where the fair value corresponds to net assets, this is taken into account at +/-10 % for information regarding sensitivity. For fair values derived from valuation reports, a lower and an upper range for sensitivity are recognised, respectively. If the fair value corresponds to the share capital, no sensitivity will be calculated.

v) Intangible and tangible 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. Tangible 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

w) 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 based on 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 four 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.

x) 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 result from financial investments.

y) 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. Financial liabilities for which the fair value option was chosen, gains and losses arising from a change in the company´s own credit risk must be recognised in OCI. Any remaining valuation changes are shown in the income statement.

z) 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 the VBW Group, staff pension entitlements reported as transferred assets - plan assets - were transferred to BONUS Pensionskasse Aktiengesellschaft. 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 for those pension obligations transferred to it.

At BONUS Pensionskasse Aktiengesellschaft, risk is measured at the level of an investment and risk association (Veranlagungs- und Risikogemeinschaft, VRG) using the value at risk (VaR), Tracking Error and shortfall risk (SFR) indicators. These quantify maximum loss probabilities under common market conditions. Scenario analyses are also performed taking rarely occurring extreme market movements into account. VaR, Tracking Error and SFR are the core indicators for managing risk at VRG level. A defined limit system forms the framework for investment.

The pension fund fulfils the requirements of the Austrian Financial Market Authority’s (FMA) Risk Management Regulation (Risikomanagementverordnung) within its own sphere and reports regularly in this regard to various boards. 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 time. The same applies to the obligations that have not been transferred. As standard, the Strategic Asset Allocation (SAA) is checked for compatibility with risk-bearing capacity at least once a year or in shorter intervals if necessary. Within the scope of this SAA review, the investment structure is reconciled with the liabilities side, the portfolio information and the respective liquidity requirements. This review is performed by Risk Management in close collaboration with the investment team. The ranges of fluctuation resulting from fluctuations of the parameters included are calculated and monitored as part of sensitivity analyses in order to assess the impact of possible fluctuations on the assets side of the balance sheet in time.

In accordance with the projected unit credit method, provisions for pensions and severance payments are calculated based on 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.

Parameters for calculating employee benefit obligations

	2018	2017	2016	2015
Expected return on provisions for pensions	1.10 %	1.10 %	1.10 %	1.50 %
Expected return on provisions for severance payments	1.10 %	1.10 %	1.10 %	2.00 %
Expected return on anniversary pensions	1.10 %	1.10 %	1.10 %	2.00 %
Expected return on plan assets	1.10 %	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 2018 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 between the age of 60 and 65 years.

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.

aa) 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. Risk provisions 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 result.

bb) 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 derivative financial instruments 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 result from financial investments.

cc) 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.

dd) Equity

Financial instruments issued 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.

ee) Capital reserves

In accordance with IAS 32, the transaction costs of an equity transaction are accounted for as a deduction from equity, taking into account deferred taxes, to the extent that they constitute incremental 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.

ff) 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.

gg) 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 Group. These ratios reflect the relationship between regulatory own funds and credit, market and operational risk. Accordingly, the risk/return management of the 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 based on 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.

Apart from the minimum capital requirements pursuant to Article 92 (1) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, the combined capital buffer requirements as defined in Article 128 (6) of Directive 2013/36/EU, as well as the Pillar 2 capital demands and recommendations from the Supervisory Review and Evaluation Process (SREP) must be taken into account for the Association of Volksbanks. Further explanations regarding the mentioned capital and buffer requirements are contained in Note 52) Risk report.

hh) Trust 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.

ii) 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.

jj) 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 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.

kk) 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 securities measured at amortised cost, participations and intangible and tangible 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	2018	2017
Interest and similar income from	200,313	187,594
Credit and money market transactions with credit institutions	10,725	8,517
Credit and money market transactions with customers	134,281	123,851
Fixed-income securities	42,422	44,321
Derivative instruments	12,885	10,905
Interest and similar expenses for	-75,527	-66,872
Liquid funds	-7,202	-5,901
Deposits from credit institutions (including central banks)	-6,515	-8,832
Deposits from customers	-5,502	-8,515
Debts evidenced by certificates	-13,373	-16,117
Subordinated liabilities	-11,617	-3,031
Derivative instruments	-31,318	-24,476
Valuation result - modification	-58	0
Net interest income	**124,728**	**120,722**

Net interest income according to IFRS 9 categories

Euro thousand	2018	2017
Interest and similar income from	200,313	187,594
Financial assets measured at amortised cost	172,459	134,493
Financial assets measured at fair value through OCI	10,720	42,196
Financial assets measured at fair value through profit or loss - obligatory	4,248	0
Derivative instruments	12,885	10,905
Interest and similar expenses for	-75,527	-66,872
Financial liabilities measured at amortised cost	-41,091	-42,396
Financial liabilities measured at fair value through profit or loss - designated	-3,118	0
Derivative instruments	-31,318	-24,476
Valuation result - modification	-58	0
Net interest income	**124,728**	**120,722**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 8,900 thousand (2017: euro 7,151 thousand) and interest expenses of euro -9,658 thousand (2017: euro -8,167 thousand) were realised in the 2018 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 reason for the negative interest rates is the reduction in the ECB's deposit rate (penalty rate), the negative effect of which is euro -7,202 thousand (2017: euro -5,901 thousand).

Interest and similar income from financial assets measured at amortised cost and measured at fair value through OCI are calculated by using the effective interest rate method.

Current income from equities and other variable-yield securities as well as from other affiliates and investments in other companies in the amount of euro 3,304 thousand and rental income investment property in the amount of euro 3,200 thousand, which were reported under interest and similar income in the previous year are now reported in result from financial investments.

5) Risk provision

Euro thousand	2018
Changes in risk provision	-465
Changes in provision for risks	238
Direct write-offs of loans and receivables	-206
Income from loans and receivables previously written off	5,316
Valuation result modification / derecognition	-51
Risk provisions	**4,832**

Euro thousand	2017
Allocation to risk provisions	-15,772
Release of risk provisions	18,951
Allocation to provisions for risks	-707
Release of provisions for risks	1,798
Direct write-offs of loans and receivables	-5,830
Income from loans and receivables previously written off	3,989
Risk provisions	**2,430**

6) Net fee and commission income

Euro thousand	2018	2017
Fee and commission income	80,250	79,099
Lending business	5,642	8,008
Securities and custody business	28,162	29,794
Payment transactions	35,185	31,570
Foreign exchange, foreign notes and coins and precious metals transactions	61	69
Financial guarantees	1,431	1,737
Other services	9,769	7,922
Fee and commission expenses	-26,428	-25,321
Lending business	-13,100	-6,535
Securities- and custody business	-8,036	-14,496
Payment transactions	-4,889	-3,198
Financial guarantees	-379	-1,056
Other services	-24	-36
Net fee and commission income	**53,822**	**53,778**

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

Net fee and commission income includes management fees for trust agreements in the amount of euro 261 thousand.

7) Net trading income

Euro thousand	2018	2017
Equity related transactions	34	18
Exchange rate related transactions	2,182	5,889
Interest rate related transactions	-1,226	-310
Net trading income	**990**	**5,597**

8) Result from financial investments

Euro thousand	2018	2017
Result from financial investments measured at fair value through profit or loss	3,912	-6,495
Valuation from financial investments measured at fair value through profit or loss - obligatory	735	-735
Loans and receivables credit institutions and customers	-3,402	0
Securities	-178	-74
Investment property	4,314	196
Participations	0	-857
Valuation from financial investments measured at fair value through profit or loss - designated	2,025	0
Debts evidenced by certificates	2,025	0
Income from equities and other variable-yield securities	442	0
Result from other derivative instruments	2,816	-5,760
Result from financial investments measured at amortised cost	65	56
Realised gains from disposal	65	56
Result from financial investments measured at fair value through OCI	2,171	3,593
Realised gains from disposal	0	1,213
Realised losses from disposal	-104	-923
Income from equities and other variable-yield securities	0	821
Income from participations	2,275	2,483
Result from fair value hedge	-2,106	-1,309
Valuation of underlying instruments	-5,518	-40,516
Loans and receivables credit institutions and customers	3,176	-1,262
Fixed-income securities	-9,840	-52,747
Amounts owed to credit institutions and customers	0	87
Debts evidenced by certificates	1,145	13,406
Valuation of derivative instruments	3,412	39,207
Rental income from investment property and operating lease	3,024	3,200
Result from financial investments	**9,172**	**-954**

9) Other operating result

Euro thousand	2018	2017
Other operating income	116,912	94,257
Other operating expenses	-14,425	-18,538
Taxes and levies on banking business	-2,321	-2,251
Impairment of goodwill	0	-8,262
Other operating result	**100,166**	**65,206**

Other operating income includes income from cost allocations, essentially to the Association of Volksbanks, in the amount of euro 96,508 thousand (2017: euro 73,390 thousand). Furthermore, the acquisition of VB Horn generated profit in the amount of euro 8,319 thousand (2017: Sparda in the amount of euro 18,227 thousand). A contribution from the community fund generated an income in the amount of euro 10,000 thousand. Additionally, other operating income includes income from the sale of intangible and tangible assets in the amount of euro 1,308 thousand (2017: euro 1,317 thousand).

Other operating expenses include costs of external companies in the amount of euro -13,130 thousand (2017: euro -14,737 thousand). These costs are essentially allocated to members of the Association of Volksbanks. A provision in the amount of euro -2,543 thousand was made for interest claims arising from corporate loans with floors. In the previous year operating expenses included an amount of euro -1,425 thousand for repayment of negative interest. An expense of euro -626 thousand (2017: euro -698 thousand) was generated by the sale of inta assets. Early redemptions of issues generated a result of euro -798 thousand in the 2017 business year.

Other taxes include the bank levy in the amount of euro -1,860 thousand (2017: euro -1,938 thousand).

The goodwill from the contributions of banking operations was depreciated by euro -8,262 thousand in the 2017 business year.

10) General administrative expenses

Euro thousand	2018	2017
Staff expenses	-115,314	-112,140
Wages and salaries	-86,211	-80,632
Expenses for statutory social security	-22,813	-21,848
Fringe benefits	-1,297	-1,339
Expenses for retirement benefits	-3,001	-1,689
Allocation to provision for severance payments and pension funds	-1,993	-6,631
Administrative expenses	-99,759	-82,917
Office space expenses	-9,835	-10,456
Office supplies and communication expenses	-748	-964
Advertising, PR and promotional expenses	-4,050	-2,984
Legal, advisory and consulting expenses	-28,371	-19,466
IT expenses	-42,807	-33,828
Contribution to the deposit guarantee	-3,653	-2,476
Sundry administrative expenses (including training expenses for staff)	-10,295	-12,743
Depreciation and reversal of impairment	-7,185	-9,819
Depreciation	-8,358	-8,422
Impairment/reversal of impairment	1,173	-1,398
General administrative expenses	**-222,258**	**-204,876**

Staff expenses include payments for defined contribution plans totalling euro 2,658 thousand (2017: euro 2,537 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 76 thousand (2017: euro 87 thousand).

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 2,138 thousand (2017: euro 1,855 thousand). Thereof euro 1,526 thousand (2017: euro 1,368 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 484 thousand (2017: euro 404 thousand) to other certifications, euro 15 thousand (2017: euro 0 thousand) to tax advice and euro 113 thousand (2017: euro 84 thousand) to other services.

Information on compensation to board members

Euro thousand	2018	2017
Total compensation	**2,924**	**2,547**
Supervisory Board	292	193
Managing Board	2,061	1,942
Former board members and their surviving dependents	571	412
Expenses for severance payments and pensions		
Managing Board	761	552
Thereof defined contribution plans	182	130

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 payment conditions under section 23 Employees Act (Angestelltengesetz) 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	
	2018	2017	31 Dec 2018	31 Dec 2017
Employees	1,292	1,273	1,282	1,319
Workers	7	11	8	8
Total number of staff	**1,299**	**1,284**	**1,290**	**1,327**

All staff is domestic.

11) Restructuring result

Due to the Adler programme which started in the 4th quarter of 2018 and is meant to increase efficiency and reduce costs in subsequent years, provisions had to be recognised for the reorganisations to be effected in the sphere of Human Resources (HR) and branches. In the previous year, restructuring provisions in the HR sphere were released.

12) Income taxes

Euro thousand	**31 Dec 2018**	**31 Dec 2017**
Current income taxes	-2,320	-1,074
Deferred income taxes	1,661	6,705
Income taxes for the current fiscal year	**-659**	**5,631**
Income taxes from previous periods continued operation	-809	-1,005
Income taxes from previous periods	-809	-1,005
Income taxes	**-1,468**	**4,626**

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

Euro thousand	**31 Dec 2018**	**31 Dec 2017**
Annual result before taxes - continued operation	71,959	49,356
Annual result before taxes - total	**71,959**	**49,356**
Imputed income tax 25 %	17,990	12,339
Tax relief resulting from		
Tax-exempt investment income	-1,705	-2,011
Investment allowances	287	0
Non-tax deductible impairment of goodwill	0	2,066
Measurement of participation	1,128	-3,903
Non-taxable valuation results	-2,080	-4,389
Re-inclusion of deferred tax assets	-16,073	-9,551
Other differences	1,111	-181
Income taxes for the current fiscal year	**659**	**-5,631**
Income taxes from previous periods	809	1,005
Reported income taxes	**1,468**	**-4,626**
Effective tax rate - continued operations	**2,04 %**	**-9,37 %**

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.

Euro thousand	31 Dec 2018 Result before tax	Income taxes	Result after tax	31 Dec 2017 Result before tax	Income taxes	Result after tax
Valuation of obligation of defined benefit plans	2,605	-651	1,954	2,634	-658	1,975
Revaluation reserve	562	-141	422	0	0	0
Fair value reserve - equity instruments	-1,367	342	-1,026	0	0	0
Valuation of own credit risk	-2,449	612	-1,836	0	0	0
Fair value reserve - debt instruments	-1,073	268	-805	42,603	-10,651	31,952
Change from companies measured at equity	-1,562	391	-1,172	2,476	-619	1,857
Other comprehensive income - total	**-3,284**	**821**	**-2,463**	**47,713**	**-11,928**	**35,785**

Notes to the consolidated statement of financial positions

13) Liquid funds

Euro thousand	31 Dec 2018	31 Dec 2017
Cash in hand	54,603	55,489
Balances with central banks	1,510,901	1,758,462
Liquid funds	**1,565,504**	**1,813,951**

Transition from liquid funds to cash and cash equivalents

Euro thousand	31 Dec 2018	31 Dec 2017
Liquid funds	1,565,504	1,813,951
Restricted cash and cash equivalents	-4,901	-4,687
Cash and cash equivalents	**1,560,603**	**1,809,264**

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.

14) Loans and receivables credit institutions and customers

Euro thousand	31 Dec 2018	31 Dec 2017
Loans and receivables credit institutions		
Amortised cost	1,986,448	1,703,912
Fair value through profit or loss	259	0
Gross carrying amount	1,986,707	1,703,912
Risk provisions	-67	0
Net carrying amount	**1,986,640**	**1,703,912**
Loans and receivables customers		
Amortised cost	5,216,727	4,810,325
Fair value through profit or loss	199,431	0
Gross carrying amount	5,416,158	4,810,325
Risk provisions	-50,482	-57,944
Net carrying amount	**5,365,676**	**4,752,381**
Loans and receivables credit institutions and customers	**7,352,316**	**6,456,293**

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
On demand	352,369	249,670
Up to 3 months	625,647	723,886
Up to 1 year	238,494	206,988
Up to 5 years	684,415	468,084
More than 5 years	85,781	55,283
Loans and receivables credit institutions (gross)	**1,986,707**	**1,703,912**

Euro thousand	31 Dec 2018	31 Dec 2017
On demand	96,939	110,751
Up to 3 months	113,792	107,449
Up to 1 year	316,409	307,696
Up to 5 years	741,167	693,187
More than 5 years	4,147,851	3,591,242
Loans and receivables customers (gross)	**5,416,158**	**4,810,325**

Sensitivity analysis

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

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

Loans and receivables credit institutions
31 Dec 2018

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	0	0
Change in risk markup +/- 100 bp	3	-3
Change in rating 1 stage down / up	0	0
Change in rating 2 stages down / up	0	-1

Loans and receivables customers
31 Dec 2018

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	860	-852
Change in risk markup +/- 100 bp	8,964	-8,194
Change in rating 1 stage down / up	408	-511
Change in rating 2 stages down / up	1,184	-1,145

15) Risk provision

Risk provision – loans and receivables credit institutions

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Purchased or originated credit-impaired	Total
As at 1 Jan 2018	14	0	0	0	14
Increases due to origination and acquisition	20	0	0	0	20
Decreases due to derecognition	-24	0	0	0	-24
Changes due to change in credit risk	57	0	0	0	57
Thereof transfer to stage 1	0	0	0	0	0
Thereof transfer to stage 2	0	0	0	0	0
Thereof transfer to stage 3	0	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0	0
Changes due to update in the institution´s methodology for estimation	0	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0	0
Other adjustments	0	0	0	0	0
As at 31 Dec 2018	**67**	**0**	**0**	**0**	**67**

Euro thousand	Individual impairment credit institutions	Portfolio based allowance	Total
As at 1 Jan 2017	0	0	0
Changes in the scope of consolidation	0	-3	-3
Currency translation	0	0	0
Reclassification	0	0	0
Unwinding	0	0	0
Utilisation	0	0	0
Release	0	3	3
Addition	0	0	0
As at 31 Dec 2017	**0**	**0**	**0**

Risk provision – loans and receivables customers

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Purchased or originated credit-impaired	Total
As at 1 Jan 2018	4,518	6,162	37,192	0	47,872
Increases due to origination and acquisition	1,099	131	544	0	1,773
Decreases due to derecognition	-1,110	-1,388	-4,436	0	-6,933
Changes due to change in credit risk	-367	1,756	5,321	0	6,710
Thereof transfer to stage 1	11,164	-8,948	-2,217	0	0
Thereof transfer to stage 2	-1,051	1,100	-49	0	0
Thereof transfer to stage 3	-68	-2	69	0	0
Changes due to modifications without derecognition	0	0	0	0	0
Changes due to update in the institution´s methodology for estimation	0	0	0	0	0
Decrease in allowance account due to write-offs	0	0	-366	0	-366
Other adjustments	264	245	916	0	1,425
As at 31 Dec 2018	**4,404**	**6,906**	**39,172**	**0**	**50,482**

Euro thousand	Individual impairment customers	Portfolio based allowance	Total
As at 1 Jan 2017	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**

Risk provision – financial investments measured at amortised cost

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 1 Jan 2018	681	0	0	681
Increases due to origination and acquisition	78	0	0	78
Decreases due to derecognition	-13	0	0	-13
Changes due to change in credit risk	-61	0	0	-61
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Changes due to update in the institution´s methodology for estimation	-227	0	0	-227
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	7	0	0	7
As at 31 Dec 2018	**464**	**0**	**0**	**464**

Risk provision – financial investments measured at fair value through OCI

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 1 Jan 2018	72	0	0	72
Increases due to origination and acquisition	0	0	0	0
Decreases due to derecognition	-19	0	0	-19
Changes due to change in credit risk	-24	0	0	-24
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Changes due to update in the institution´s methodology for estimation	-5	0	0	-5
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2018	**26**	**0**	**0**	**26**

16) Assets held for trading

Euro thousand	31 Dec 2018	31 Dec 2017
Fixed-income securities	6,067	8,320
Equities and other variable-yield securities	86	0
Positive fair values of derivative instruments	54,343	60,847
Exchange rate related transactions	26	33
Interest rate related transactions	54,317	60,814
Assets held for trading	**60,496**	**69,167**

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
Up to 3 months	238	1,383
Up to 1 year	329	0
Up to 5 years	1,337	504
More than 5 years	4,161	6,433
Fixed-income securities	**6,067**	**8,320**

Since the acquisition of the CO function the company maintains a trading book. The volume of the trading book as at 31 December 2018 amounts to euro 3,560,190 thousand (2017: euro 3,951,958 thousand).

17) Financial investments

Euro thousand	31 Dec 2018	31 Dec 2017
Amortised cost	1,707,603	316,104
Fair value through OCI	337,242	1,526,889
Fair value through profit or loss	47,060	0
Risk provisions	-464	0
Financial investments	**2,091,440**	**1,842,992**

Risk provisions for financial investments measured at fair value through OCI are part of the fair value reserve for debt instruments. Hence, they are not shown together with assets less risk provisions on the asset side of the balance sheet in this table.

All equity instruments included in this position are measured at fair value through profit or loss.

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
Up to 3 months	204,285	44,267
Up to 1 year	45,176	39,907
Up to 5 years	708,278	561,356
More than 5 years	1,093,847	1,157,667
Fixed-income securities	**2,051,586**	**1,803,197**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2018	31 Dec 2017
Listed securities	1,773,349	1,776,732
Fixed-income securities	1,772,654	1,776,018
Equity and other variable-yield securities	695	714
Securities allocated to fixed assets	1,726,425	1,697,310
Securities eligible for rediscounting	1,701,247	1,717,851

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
Costs as at 1 Jan 2017	31,436
Reclassification	0
Additions	69
Disposals	-3,602
Assets held for sale	0
Costs as at 31 Dec 2017	27,903
Reclassification	5,044
Additions	0
Disposals	-3,558
Assets held for sale	-53
Costs as at 31 Dec 2018	**29,335**

Euro thousand	Investment properties
Cumulative valuation 1 Jan 2017	1,513
Reclassification	0
Disposals	1,152
Assets held for sale	0
Valuation losses	-293
Valuation gains	489
Cumulative valuation 31 Dec 2017	2,861
Reclassification	-4
Disposals	-4,152
Assets held for sale	-25
Valuation losses	-402
Valuation gains	4,716
Cumulative valuation 31 Dec 2018	**2,994**

Euro thousand	Investment properties
Carrying amount 1 Jan 2017	32,949
Carrying amount 31 Dec 2017	30,764
Carrying amount 31 Dec 2018	32,329

The valuations shown in the table above are included within result from financial investments. These valuations include holdings of investment property assets in the amount of euro 636 thousand (2017: euro 262 thousand) at the reporting date. Furthermore, other operating expenses include repairs and maintenance expenses for investment properties in the amount of euro 76 thousand (2017: euro 112 thousand).

In 2018, investment properties with a carrying amount of euro 7,710 thousand (2017: euro 2,450 thousand) was disposed of.

Investment properties contain 12 completed properties (2017: 9) with a carrying amount of euro 19,684 thousand (2017: euro 15,958 thousand), as well as undeveloped land with a carrying amount of euro 12,645 thousand (2017: euro 14,806 thousand). These properties are located in Austria. At reporting date, the investement properties are measured at fair value.

The valuation of investment properties uses parameters which 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 carrying amount (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

	2018			2017		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	64	4,450	1,647	64	4,030	1,773
Rentable space in sqm	38	2,762	1,425	38	2,762	1,627
Occupancy rate	56 %	100 %	91 %	0 %	100 %	96 %
Discount rate	3.30 %	7.00 %	5.07 %	3.30 %	7.00 %	5.06 %

Sensitivity analysis

Euro thousand	Changes in the carrying amount if assumption is increased	if assumption is decreased
31 Dec 2018		
Discount rate (0.25 % change)	-929	1,026
Discount rate (0.50 % change)	-1,775	2,164
31 Dec 2017		
Discount rate (0.25 % change)	-751	829
Discount rate (0.50 % change)	-1,434	1,748

Undeveloped land

	2018			2017		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	25	2,860	903	24	2,930	779
Plot size in sqm	540	48,263	15,109	540	48,263	12,607
Value per sqm	5	718	169	5	750	199

Sensitivity analysis

Euro thousand 31 Dec 2018	Changes in the carrying amount if assumption is increased	 if assumption is decreased
Land value (10 % change)	1,265	-1,265
Land value (5 % change)	632	-632
31 Dec 2017		
Land value (10 % change)	1,481	-1,481
Land value (5 % change)	740	-740

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 2017	22,046
Additions	673
Comprehensive income proportional	2,907
Impairment	0
Reversal of impairment	5,127
Carrying amount as at 31 Dec 2017	30,753
Additions	3,721
Comprehensive income proportional	665
Impairment	-908
Reversal of impairment	3,605
Carrying amount as at 31 Dec 2018	**37,835**

Associates

VBW holds shares in the following associated companies. Volksbank Kärnten eGen (VB Kärnten) and VB Verbund-Beteiligung eG (VB Bet).

VBW holds a 25.26 % (2017: 25.21 %) 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 29.04 % (2017: 21.85 %) share in VB Bet with registered office in Vienna. The main business of the company is holding of participations within the Association of Volksbanks. In the business year VBW acquired an additional share of 7.17 % of the nominal amount. The fair value attributable to VB Bet´s net assets exceeded its acquisition costs by euro 3,605 thousand. This income together with the current valuation is shown within the result from companies measured at equity.

None of the companies are listed on the stock exchange.

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	2018	2017
Assets		
Liquid funds	11,607	10,993
Loans and receivables credit institutions (net)	214,863	181,459
Loans and receivables customers (net)	1,145,976	1,067,953
Financial investments	22,011	23,514
Other assets	103,493	192,784
Total assets	**1,497,951**	**1,476,703**
Of which current assets	542,383	579,370
Liabilities and Equity		
Amounts owed to credit institutions	34,612	59,344
Amounts owed to customers	1,210,382	1,164,188
Debts evidenced by certificates	2,955	8,828
Subordinated liabilities	26,384	30,024
Other liabilities	21,491	16,815
Equity	202,125	197,504
Total liabilities and equity	**1,497,951**	**1,476,703**
Of which current liabilities	1,085,475	1,001,007
Statement of comprehensive income		
Interest and similar income	28,586	28,639
Interest and similar expense	-4,919	-5,417
Net interest income	23,668	23,222
Risk provision	-2,098	-234
Result before taxes	7,861	6,253
Income taxes	-1,238	-2,191
Result after taxes	6,623	4,062
Other comprehensive income	-4,053	7,842
Comprehensive income	**2,570**	**11,904**

Not recognised proportional loss

Euro thousand	2018	2017
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	2018	2017
Equity	202,125	197,504
Equity interest	n.a.	n.a.
Equity proportional	54,828	46,410
Cumulative impairment and reversals of impairment	-7,789	-6,344
Valuations previous years	-9,204	-9,313
Carrying amount as at 31 Dec 2018	37,835	30,753

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 or VB Bet (not in the event of liquidation or sale). Any dividends of VB Kärnten or VB Bet 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 2018	31 Dec 2017
Investments in unconsolidated affiliates	3,225	4,036
Investments in companies with participating interest	3,948	3,865
Investments in other companies	35,900	35,321
Participations	**43,073**	**43,222**

A list of unconsolidated affiliates can be found in note 55). Participations with a carrying amount of euro 124 thousand (2017: euro 74 thousand) were disposed of during the business year.

Sensitivity analysis

Participations, measured by using the DCF method

Proportional market value in euro thousand		Interest rate		
31 Dec 2018		**-0.50 %**	**Actual**	**0.50 %**
Income component	-10.00 %	12,616	11,959	11,372
	Actual	13,906	**13,175**	12,523
	10.00 %	15,195	14,391	13,674

31 Dec 2017		**-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	Proportional market value		
31 Dec 2018	**If assumption is decreased**	**Actual**	**If assumption is increased**
Net assets (10 % change)	4,009	**4,454**	4,900

31 Dec 2017	**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 2018	Lower band	Actual	Upper band
Proportional market value	20,039	**22,097**	24,120

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

21) Intangible assets

Euro thousand	Software	Goodwill	Others	Total
Costs as at 1 Jan 2017	26,418	13,772	23,820	64,010
Change in the scope of consolidation	4,263	0	1,004	5,267
Additions	594	0	0	594
Disposals	-534	0	0	-534
Costs as at 31 Dec 2017	30,740	13,772	24,824	69,337
Change in the scope of consolidation	361	0	0	361
Additions	64	0	0	64
Disposals	-71	0	0	-71
Costs as at 31 Dec 2018	**31,095**	**13,772**	**24,824**	**69,691**

Euro thousand	Software	Goodwill	Others	Total
Cumulative valuation 1 Jan 2017	-26,089	-5,510	-759	-32,358
Change in the scope of consolidation	-4,263	0	0	-4,263
Disposals	534	0	0	534
Depreciation	-345	0	-1,224	-1,570
Impairment	0	-8,262	0	-8,262
Cumulative valuation 31 Dec 2017	-30,163	-13,772	-1,983	-45,918
Change in the scope of consolidation	-357	0	0	-357
Disposals	71	0	0	71
Depreciation	-200	0	-1,291	-1,492
Impairment	0	0	0	0
Cumulative valuation 31 Dec 2018	**-30,650**	**-13,772**	**-3,274**	**-47,696**

Euro thousand	Software	Goodwill	Others	Total
Carrying amount 1 Jan 2017	329	8,262	23,061	31,652
Carrying amount 31 Dec 2017	577	0	22,841	23,418
Thereof with limited useful life	577	0	22,841	23,418
Carrying amount 31 Dec 2018	445	0	21,550	21,995
Thereof with limited useful life	445	0	21,550	21,995

Other intangible assets comprise customer relationships which were capitalised during the course of a business combination in accordance with IFRS 3 and are subject to regular depreciation for a period of 20 years.

Goodwill which was impaired in the 2017 business year (euro 8,262 thousand) in the retail segment related to the goodwill from the acquisition of VB Ost in the 2015 business year and from the acquisitions of VB Weinviertel, VB Südbgld and VB NÖ Süd in the 2016 business year.

22) Tangible assets

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Costs as at 1 Jan 2017	186,201	7,364	49,388	0	242,954
Change in the scope of consolidation	13,581	1,432	12,727	348	28,088
Reclassification	7,328	-966	-3,653	0	2,709
Additions	410	274	1,073	4	1,760
Disposals	-8,299	-25	-2,534	-351	-11,209
Assets held for sale	-5,615	0	0	0	-5,615
Costs as at 31 Dec 2017	193,606	8,079	57,002	0	258,687
Change in the scope of consolidation	4,447	467	1,840	366	7,120
Reclassification	-6,752	-336	655	-366	-6,799
Additions	856	52	1,515	3	2,426
Disposals	-4,147	-157	-8,149	-3	-12,456
Assets held for sale	-69,932	0	0	0	-69,932
Costs as at 31 Dec 2018	**118,079**	**8,104**	**52,863**	**0**	**179,046**

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Cumulative valuation 1 Jan 2017	-65,300	-6,988	-41,814	0	-114,103
Change in the scope of consolidation	-4,415	-1,059	-9,695	-230	-15,399
Reclassification	-5,602	628	3,963	0	-1,010
Disposals	6,313	25	2,463	233	9,035
Assets held for sale	3,117	0	0	0	3,117
Depreciation	-4,398	-239	-2,211	-4	-6,852
Impairment	-315	0	-1,242	0	-1,557
Reversal of impairment	0	0	159	0	159
Cumulative valuation 31 Dec 2017	-70,600	-7,633	-48,376	0	-126,609
Change in the scope of consolidation	-2,669	-426	-1,746	-283	-5,124
Reclassification	2,464	314	-550	283	2,511
Disposals	2,505	155	7,931	3	10,594
Assets held for sale	11,907	0	0	0	11,907
Depreciation	-4,096	-211	-2,558	-3	-6,867
Impairment	-283	0	0	0	-283
Reversal of impairment	343	0	1,112	0	1,456
Cumulative valuation 31 Dec 2018	**-60,428**	**-7,799**	**-44,187**	**0**	**-112,414**

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Carrying amount 1 Jan 2017	120,901	376	7,574	0	128,851
Carrying amount 31 Dec 2017	123,006	446	8,626	0	132,078
Carrying amount 31 Dec 2018	57,651	305	8,676	0	66,632

23) Tax assets and liabilities

	31 Dec 2018		31 Dec 2017	
Euro thousand	**Tax assets**	**Tax liabilities**	**Tax assets**	**Tax liabilities**
Current tax	4,541	758	1,513	5,692
Deferred tax	57,177	1,085	45,917	1,151
Tax total	**61,718**	**1,842**	**47,429**	**6,843**

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 and liabilities.

	31 Dec 2018		31 Dec 2017		Net deviation 2018		
Euro thousand	**Tax assets**	**Tax liabilities**	**Tax assets**	**Tax liabilities**	**Total**	**In income statement**	**In other compre-hensive income**
Loans and receivables credit institutions (net)	29	1	0	497	526	524	0
Loans and receivables customers (net)	17,914	0	22,976	0	-5,062	-2,757	0
Assets held for trading	37	1	124	0	-88	-88	0
Financial investments	7,017	65,068	0	69,354	11,303	3,239	268
Investment property	0	2,528	0	1,894	-633	-633	0
Participations	2,913	-2	3,756	0	-841	-1,294	342
Intangible and tangible assets	47	9,821	722	9,644	-852	-540	-141
Amounts owed to customers	0	10	13	0	-22	-19	0
Debts evidenced by certificates and subordinated liabilities	17,783	395	17,880	1,710	1,219	-1,683	612
Liabilities held for trading	0	5	0	32	27	27	0
Provisions for pensions, severance payments and other provisions	8,551	4,661	9,190	3,875	-1,424	-1,399	-651
Other assets and liabilities	70,059	17,643	75,893	20,204	-3,272	-3,263	0
Other balance sheet items	0	6,119	0	6,119	0	458	0
Tax loss carryforwards	37,990	0	27,544	0	10,446	9,091	0
Deferred taxes before netting	162,342	106,250	158,096	113,331	11,326	1,661	430
Offset between deferred tax assets and deferred tax liabilities	-105,165	-105,165	-112,180	-112,180	0	0	0
Reported deferred taxes	**57,177**	**1,085**	**45,917**	**1,151**	**11,326**	**1,661**	**430**

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 the adjustment to IFRS 9 in the amount of euro 8,941 thousand as well as the 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 taxes a period up to 4 years was taken as a basis according to the Group's tax planning.

In accordance with IAS 12, no deferred tax liabilities for temporary differences relating to investments in subsidiaries with an amount of euro 11,709 thousand (2017: euro 13,002 thousand) and no deferred tax assets with an amount of euro -7,991 thousand (2017: euro -3,601 thousand) were recognised, as they are not expected to reverse in the forseeable future.

For tax loss carryforwards in the amount of euro 203,542 thousand (2017: euro 267,734 thousand) no deferred taxes were recognised. In the 2018 and 2017 business years, no deferred tax assets for tax loss carryforwards and other deferred 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 carryforwards, euro 203,542 thousand (2017: euro 267,734 thousand) can be carried forward without restriction and especially concern VBW itself.

24) Other assets

Euro thousand	31 Dec 2018	31 Dec 2017
Deferred items	943	710
Other receivables and assets	26,401	24,692
Positive fair values of derivative instruments	86,831	98,575
Other assets	**114,175**	**123,977**

Other receivables and assets essentially consist of open outgoing invoices and deferrals in the amount of euro 12,836 thousand (2017: euro 13,397 thousand), property sales in the amount of euro 4,152 thousand (2017: euro 4,090 thousand), auxiliary accounts of the banking business in the amount of euro 3,837 thousand (2017: euro 318 thousand).

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

Euro thousand	31 Dec 2018 Fair value hedge	31 Dec 2017 Fair value hedge
Interest rate related transactions	37,154	69,144
Positive fair values of derivative instruments	**37,154**	**69,144**

25) Assets held for sale

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

Euro thousand	31 Dec 2018	31 Dec 2017
Investment property	79	0
Tangible assets	57,803	2,319
Other assets	97	118
Assets held for sale	**57,979**	**2,437**

Apart from real estate which is no longer used for operational purposes, this position includes the carrying amount of the head office in 1090 Vienna, Kolingasse.

26) Amounts owed to credit institutions

Euro thousand	31 Dec 2018	31 Dec 2017
Central banks	310,342	169,541
Other credit institutions	2,750,417	2,574,010
Amounts owed to credit institutions	**3,060,759**	**2,743,551**

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
On demand	2,578,668	2,482,510
Up to 3 months	338,442	133,891
Up to 1 year	22,801	15,048
Up to 5 years	11,498	17,275
More than 5 years	109,350	94,827
Amounts owed to credit institutions	**3,060,759**	**2,743,551**

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 2018	31 Dec 2017
Savings deposits	2,175,697	2,215,024
Other deposits	4,168,535	3,576,349
Amounts owed to customers	**6,344,232**	**5,791,374**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
On demand	4,630,786	4,005,733
Up to 3 months	155,916	320,241
Up to 1 year	683,576	513,652
Up to 5 years	212,939	349,852
More than 5 years	661,015	601,895
Amounts owed to customers	**6,344,232**	**5,791,374**

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 2018	31 Dec 2017
Bonds		
Amortised cost	360,100	487,507
Fair value through profit or loss - designated	106,575	0
Debts evidenced by certificates	**466,675**	**487,507**

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
Up to 3 months	14,931	11,758
Up to 1 year	18,815	19,498
Up to 5 years	101,032	143,155
More than 5 years	331,897	313,096
Debts evidenced by certificates	**466,675**	**487,507**

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

29) Liabilities held for trading

Euro thousand	31 Dec 2018	31 Dec 2017
Negative fair values of derivative instruments		
Exchange rate related transactions	4	0
Interest rate related transactions	75,412	82,010
Liabilities held for trading	**75,416**	**82,010**

30) Provisions

Provisions for off-balance risks

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 1 Jan 2018	617	466	3,196	4,278
Increases due to origination and acquisition	470	99	762	1,332
Decreases due to derecognition	-518	-406	-1,385	-2,309
Changes due to change in credit risk	-119	291	580	752
Thereof transfer to stage 1	820	-657	-163	0
Thereof transfer to stage 2	-77	229	-152	0
Thereof transfer to stage 3	-5	-5	10	0
Changes due to modifications without derecognition	0	0	0	0
Changes due to update in the institution´s methodology for estimation	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	25	16	5	47
As at 31 Dec 2018	**476**	**465**	**3,158**	**4,099**

Euro thousand	Provisions for off-balance and other risks
As at 1 Jan 2017	5,300
Changes in the scope of consolidation	28
Reclassification	24
Unwinding	-4
Utilisation	-44
Release	-1,798
Addition	707
As at 31 Dec 2017	**4,212**

Other provisions

Euro thousand	Other provisions
As at 1 Jan 2017	18,391
Changes in the scope of consolidation	4,912
Reclassification	0
Unwinding	0
Utilisation	-4,952
Release	-6,025
Addition	5,650
As at 31 Dec 2017	17,976
Change in the scope of consolidation	2,777
Reclassification	-144
Unwinding	31
Utilisation	-9,272
Release	-5,260
Addition	9,301
As at 31 Dec 2018	**15,409**

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 6,494 thousand (2017: euro 6,128 thousand) as at the reporting date. Other long-term provisions were made for interest claims in connection with corporate loans with floors in the amount of euro 4,629 thousand (2017: euro 1,000 thousand) and pending litigations amounting to euro 2,231 thousand (2017: euro 8,018 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	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
Net present value as at 1 Jan 2017	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 arising from changes in financial assumptions	-381	-2,253	-299	-2,933
Actuarial gains or losses arising from changes in demographic assumptions	0	0	0	0
Net present value as at 31 Dec 2017	11,342	43,933	7,202	62,476
Changes in the scope of consolidation	1,456	1,480	290	3,227
Current service costs	70	2,099	520	2,689
Interest costs	138	518	87	743
Payments	-867	-4,151	-264	-5,282
Actuarial gains or losses arising from changes in financial assumptions	-1,172	-1,568	-638	-3,378
Actuarial gains or losses arising from changes in demographic assumptions	672	-537	512	647
Net present value as at 31 Dec 2018	**11,639**	**41,774**	**7,709**	**61,122**

Net present value of plan assets

Euro thousand	Provision for pensions
Net present value of plan assets as at 1 Jan 2017	877
Return on plan assets	31
Contributions to plan assets	-15
Net present value of plan assets as at 31 Dec 2017	892
Return on plan assets	36
Contributions to plan assets	51
Net present value of plan assets as at 31 Dec 2018	**979**

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

In the 2019 business year, contribution payments to plan assets are expected in the amount of euro 4 thousand (2018: euro 4 thousand).

Euro thousand	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
31 Dec 2017				
Long-term employee provisions	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**
31 Dec 2018				
Long-term employee provisions	11,639	41,774	7,709	61,122
Net present value of plan assets	-979	0	0	-979
Net liability recognised in balance sheet	**10,659**	**41,774**	**7,709**	**60,143**

Historical information

Euro thousand	2018	2017	2016	2015	2014
Net present value of obligation	61,122	62,476	59,445	44,793	23,575
Net present value of plan assets	979	892	877	862	0

Composition of plan assets

	31 Dec 2018			31 Dec 2017		
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	343	0	343	301	0	301
Bond issues credit institutions	46	0	46	39	0	39
Other bond issues	151	0	151	178	0	178
Shares EU countries	90	0	90	95	0	95
Shares USA and Japan	154	0	154	56	0	56
Other shares	67	0	67	104	0	104
Derivatives	27	19	46	24	27	51
Real estate	0	60	60	0	53	53
Cash in hand	0	22	22	0	16	16
Total	**878**	**101**	**979**	**797**	**95**	**892**

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.

	Change in the present value	
Euro thousand	increase of assumption	decrease of assumption
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
31 Dec 2018		
Discount rate (0.75 % modification)	-4,671	5,353
Future wage and salary increases (0.50 % modification)	2,941	-2,718
Future pension increase (0.25 % modification)	281	-269
Future mortality (1 year modification)	708	-684

As of 31 December 2018, the weighted average term of defined-benefit obligations for pensions was 10.3 years (2017: 10.6 years) and for severance payment 13.0 years (2017: 12.4 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 2018	31 Dec 2017
Deferred items	76	391
Other liabilities	57,126	49,273
Negative fair values of derivative instruments	383,473	378,484
Other liabilities	**440,676**	**428,148**

Other liabilities essentially consist of deferrals in the amount of euro 20,837 thousand (2017: euro 34,163 thousand), incoming invoices in the amount of euro 13,158 thousand (2017: euro 6 thousand) as well as taxes and fiscal liabilities in the amount of euro 10,336 thousand (2017: euro 5,504 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 2018 Fair value hedge	31 Dec 2017 Fair value hedge
Exchange rate related transactions	19,613	20,273
Interest rate related transactions	271,550	277,803
Negative fair values from derivatives	**291,163**	**298,076**

33) Subordinated liabilities

Euro thousand	31 Dec 2018	31 Dec 2017
Subordinated capital	402,416	407,209
Supplementary capital	15,939	18,569
Subordinated liabilities	**418,355**	**425,778**

Subordinated liabilities are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
Up to 3 months	0	0
Up to 1 year	684	7,498
Up to 5 years	18,248	18,990
More than 5 years	399,423	399,290
Subordinated liabilities	**418,355**	**425,778**

Presentation of cash in- and outflows of subordinated liabilities

Euro thousand	Subordinated liabilities
As at 1 Dec 2017	**28,881**
Cash inflow	398,988
Cash outflow	-6,107
Non-cash changes	
Changes in the scope of consolidation	4,000
Others	15
Non-cash changes total	4,015
As at 31 Dec 2017	**425,778**
Cash inflow	105
Cash outflow	-7,735
Non-cash changes	
Changes in the scope of consolidation	0
Others	207
Non-cash changes total	207
As at 31 Dec 2018	**418,355**

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	Derivative instruments trading book	Sub-ordinated liabilities	Derivative instruments investment book
31 Dec 2018						
Carrying amount	3,060,759	6,344,232	466,675	75,416	418,355	383,473
Undiscounted cash flows	**3,060,955**	**6,445,293**	**580,694**	**74,802**	**515,533**	**381,032**
Up to 3 months	2,917,126	4,824,557	15,000	0	0	0
Up to 1 year	22,804	713,527	34,110	391	11,865	83,261
Up to 5 years	11,551	215,219	159,427	26,091	62,776	41,826
More than 5 years	109,474	691,990	372,157	48,320	440,892	255,944
31 Dec 2017						
Carrying amount	2,743,551	5,791,374	487,507	82,010	425,778	378,484
Undiscounted cash flows	**2,791,826**	**5,888,438**	**622,388**	**81,899**	**534,236**	**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	1,307	18,770	2,676
Up to 5 years	25,883	350,953	204,242	31,219	63,699	114,641
More than 5 years	130,803	631,475	370,618	49,373	451,767	252,024

Cash flows for contingent liabilities are displayed in note 44) Contingent liabilities and credit risks.

35) Equity

As at 31 December 2018, the subscribed capital of VBW before deduction of treasury stocks amounted to euro 137,547 thousand. It consists of registered shares as follows:

		Euro thousand
1,467,163	No-par value shares	137,547

By way of an agreement on a transfer and contribution in kind dated 24 April 2018 Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung contributed its undertaking, the Horn banking operation, as contribution in kind against the granting of 49,629 new no-par value shares with a value of 4,653 thousand. Registration in the Commercial Register was effected on 20 June 2018.

Changes in subscribed capital

Number of units	Shares
Shares and participation certificates outstanding as at 1 Jan 2017	1,354,001
Contribution Sparda	12,643
Capital Increase	50,890
Shares and participation certificates outstanding as at 31 Dec 2017	1,417,534
Contribution VB Horn	49,629
Shares and participation certificates outstanding as at 31 Dec 2018	**1,467,163**

Dividend payment

Euro thousand	2018	2017
Dividend voting equity	8,310	0
Dividend non-voting equity	681	13,395
Total	**8,991**	**13,395**

The dividend payment includes the distribution to the federal government from the participation right in RZG in the amount of euro 681 thousand (2017: euro 13,395 thousand). Further details regarding the participation right of the federal government are described in note 2).

Return on capital employed

The return on capital employed for the business year was 0.61 % (2017: 0.51 %) and was calculated as the ratio of the result after taxes to total assets as at the reporting date.

Non-controlling interest

	Minority interest		
Company name; headquarters	**2018**	**2017**	**Assignment**
3V-Immobilien Errichtungs-GmbH; Vienna	<0.001 %	<0.001 %	Other companies
Gärtnerbank Immobilien GmbH; Vienna	<0.001 %	<0.001 %	Other companies
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Vienna	<0.001 %	<0.001 %	Other companies
VB Services für Banken Ges.m.b.H.; Vienna	1.110 %	1.110 %	Other companies
VB Verbund-Beteiligung Region Wien eG; Vienna	9.490 %	9.580 %	Other companies
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	1.000 %	1.000 %	Other companies
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Vienna	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 2018	2017
Assets		
Loans and receivables credit institutions	43,615	42,914
Loans and receivables customers	147	230
Financial investments	651	674
Other assets	71,959	76,280
Total assets	**116,372**	**120,099**
Liabilities and equity		
Amounts owed to credit institutions	50,243	54,564
Amounts owed to customers	0	11
Other liabilities	13,296	14,353
Equity	52,834	51,171
Total liabilities	**116,372**	**120,099**
Statement of comprehensive income		
Interest and similar income	67	105
Interest and similar expense	-1,919	-1,941
Net interest income	-1,852	-1,836
Rental income from investment property and operating lease	3,844	3,898
Risk provision	-1	0
Result before taxes	2,823	2,037
Income taxes	107	-90
Result after taxes	2,930	1,947
Other comprehensive income	170	130
Comprehensive income	3,100	2,077

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 2018	31 Dec 2017
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	341,416	324,241
Retained earnings	380,421	145,730
Accumulated other comprehensive income (and other reserves)	-97,606	96,190
Amount of capital instruments subject to phase out from CET1	8,363	9,907
Non-controlling interest	0	779
Common tier I capital before regulatory adjustments	632,594	576,846
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Intangible assets (net of related tax liability)	-21,995	-23,418
Value adjustments due to the requirement for prudent valuation	-1,338	-2,228
Regulatory adjustments - transitional provisions	0	-5,294
Unrealised gains (0 %; 2017: 20 %)	0	-9,978
Intangible assets (0 %; 2017: 20 %)	0	4,684
Amount exceeding the threshold of 17.65 %	-5,526	0
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	-4,684
Additional CET1 deductions pursuant to article 3 CRR	-9,434	-7,788
Total regulatory adjustments	-38,292	-43,411
Common equity tier I capital - CET1	**594,302**	**533,435**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	0	0
Additional tier I capital before regulatory adjustments	0	0
Additional tier I capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	0	-4,684
Intangible assets (0 %; 2017: 20 %)	0	-4,684
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	4,684
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**0**	**0**
Tier I capital (CET1 + AT1)	**594,302**	**533,435**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	405,991	406,563
Capital instruments subject to phase out from tier II	0	649
Tier II capital before regulatory adjustments	405,991	407,212
Tier II capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	0	0
CET1 instruments of financial sector entities	0	0
Total regulatory adjustments	0	0
Tier II capital - T2	**405,991**	**407,212**
Own funds	**1,000,293**	**940,647**
Common equity tier I capital ratio (tier I)	14.28 %	15.37 %
Tier I capital ratio	14.28 %	15.37 %
Equity ratio	24.04 %	27.11 %
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 2018	31 Dec 2017
Risk weighted exposure amount - credit risk	3,188,634	2,720,792
Total risk exposure amount - settlement risk	33	77
Total risk exposure amount for position, foreign exchange and commodities risks	85,885	111,792
Total risk exposure amount for operational risk	552,151	578,570
Total risk exposure amount for credit valuation adjustment (cva)	55,024	59,092
Other risk exposure amounts	279,376	0
Total risk exposure amount	**4,161,104**	**3,470,323**

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

Euro thousand	31 Dec 2018	31 Dec 2017
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	341,416	324,241
Retained earnings	380,421	145,730
Accumulated other comprehensive income (and other reserves)	-97,606	96,190
Common tier I capital before regulatory adjustments	624,231	566,160
Common tier I capital: regulatory adjustments		
Intangible assets (net of related tax liability)	-21,995	-23,418
Value adjustments due to the requirement for prudent valuation	-1,338	-2,228
Amount exceeding the threshold of 17.65 %	-7,002	0
Additional CET1 deductions pursuant to article 3 CRR	-9,434	-9,735
Total regulatory adjustments	-39,768	-35,381
Common equity tier I capital - CET1	**584,463**	**530,780**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	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)	**584,463**	**530,780**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	414,354	416,470
Tier II capital before regulatory adjustments	414,354	416,470
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**414,354**	**416,470**
Own funds	**998,817**	**947,250**
Common equity tier I capital ratio (tier I)	14.06 %	15.32 %
Tier I capital ratio	14.06 %	15.32 %
Equity ratio	24.02 %	27.33 %
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 2018	31 Dec 2017
Risk weighted exposure amount - credit risk	3,184,944	2,715,925
Total risk exposure amount - settlement risk	33	77
Total risk exposure amount for position, foreign exchange and commodities risks	85,885	111,792
Total risk exposure amount for operational risk	552,151	578,570
Total risk exposure amount for credit valuation adjustment (cva)	55,024	59,092
Other risk exposure amounts	279,376	0
Total risk exposure amount	**4,157,414**	**3,465,456**

Group issues which are included in tier I or tier II

31 Dec 2018 ISIN	Name	Identification IFRS	Redemption date	Conditions	Face value in euro thousand
CET1					
QOXDB4409005	Participation certificate 2006	subordinated liabilities at amortised cost	perpetual	Average 3m Euribor + 130 bp	9,907
Tier II issues					
QOXDBA032238	Subordinated 12/22	subordinated liabilities at amortised cost	01 Dec 2022	3.50 % p. a.	600
AT000B121967	Subordinated 17/27	subordinated liabilities at amortised cost	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 at amortised cost	01 Dec 2022	12m Euribor + 62.5 bp, max. 7.00 % p.a., at least 4.00 % p.a.	4,000
AT0000A05QZ7	Supplementary capital 07/19	subordinated liabilities at amortised cost	16 Jul 2019	Average 3m Euribor + 35 bp, not negative	792
	Promissory note bond	subordinated liabilities at amortised cost	20 Mar 2021	3m Euribor + 75 bp p.q.	4,000

31 Dec 2017 ISIN	Name	Identification IFRS	Redemption date	Conditions	Face value in euro thousand
CET1					
QOXDB4409005	Participation certificate 2006	subordinated liabilities at amortised cost	perpetual	Average 3m Euribor + 130 bp	9,907
Tier II issues					
QOXDB9961364	Subordinated 08/18	subordinated liabilities at amortised cost	25 Aug 2018	3m Euribor + 25 bp, max. 6.00 % p.a.	5,000
QOXDBA032238	Subordinated 12/22	subordinated liabilities at amortised cost	01 Dec 2022	3.50 % p. a.	600
AT000B121967	Subordinated 17/27	subordinated liabilities at amortised cost	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 at amortised cost	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 at amortised cost	16 Jun 2018	3m Euribor + 50 bp, not negative	2,630
AT0000A05QZ7	Supplementary capital 07/19	subordinated liabilities at amortised cost	16 Jul 2019	Average 3m Euribor + 35 bp, not negative	792
	Promissory note bond	subordinated liabilities at amortised cost	20 Mar 2021	3m Euribor + 75 bp p.q.	4,000

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 holds a majority of shares either direct or indirect, are fully consolidated. The carrying amount of institutions, financial institutions and subsidiaries providing banking-related 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 the 2018 business year, 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	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2018					
Liquid funds	1,565,504	0	0	1,565,504	1,565,504
Loans and receivables credit institutions (gross)	1,986,448	0	259	1,986,707	
Individual loan loss provision	0	0	0	0	
Loans and receivables credit institutions less individual loan loss provision	1,986,448	0	259	1,986,707	1,987,214
Loans and receivables customers (gross)	5,216,727	0	199,431	5,416,158	
Individual loan loss provision	-39,172	0	0	-39,172	
Loans and receivables customers less individual loan loss provision	5,177,555	0	199,431	5,376,986	5,440,426
Assets held for trading	0	0	60,496	60,496	60,496
Financial investments (gross)	1,707,603	337,242	47,060	2,091,904	
Individual loan loss provision	0	0	0	0	
Financial investments less individual loan loss provision	1,707,603	337,242	47,060	2,091,904	2,103,389
Participations	0	43,073	0	43,073	43,073
Derivative instruments	0	0	86,831	86,831	86,831
Financial assets total	**10,437,110**	**380,314**	**394,076**	**11,211,501**	**11,286,932**
Amounts owed to credit institutions	3,060,759	0	0	3,060,759	3,060,677
Amounts owed to customers	6,344,232	0	0	6,344,232	6,365,419
Debts evidenced by certificates	360,100	0	106,575	466,675	481,956
Liabilities held for trading	0	0	75,416	75,416	75,416
Derivative instruments	0	0	383,473	383,473	383,473
Subordinated liabilities	418,355	0	0	418,355	403,752
Financial liabilities total	**10,183,446**	**0**	**565,464**	**10,748,909**	**10,770,692**

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2017					
Liquid funds	1,813,951	0	0	1,813,951	1,813,951
Loans and receivables credit institutions (gross)	1,703,912	0	0	1,703,912	
Individual loan loss provision	0	0	0	0	
Loans and receivables credit institutions less individual loan loss provision	1,703,912	0	0	1,703,912	1,708,992
Loans and receivables customers (gross)	4,810,325	0	0	4,810,325	
Individual loan loss provision	-44,047	0	0	-44,047	
Loans and receivables customers less individual loan loss provision	4,766,278	0	0	4,766,278	4,688,398
Assets held for trading	0	0	69,167	69,167	69,167
Financial investments (gross)	316,104	1,526,889	0	1,842,992	
Individual loan loss provision	0	0	0	0	
Financial investments	316,104	1,526,889	0	1,842,992	1,842,025
Participations	0	43,222	0	43,222	43,222
Derivative instruments	0	0	98,575	98,575	98,575
Financial assets total	**8,600,244**	**1,570,110**	**167,742**	**10,338,097**	**10,264,330**
Amounts owed to credit institutions	2,743,551	0	0	2,743,551	2,743,616
Amounts owed to customers	5,791,374	0	0	5,791,374	5,799,307
Debts evidenced by certificates	487,507	0	0	487,507	511,392
Liabilities held for trading	0	0	82,010	82,010	82,010
Derivative instruments	0	0	378,484	378,484	378,484
Subordinated liabilities	425,778	0	0	425,778	424,151
Financial liabilities total	**9,448,210**	**0**	**460,493**	**9,908,704**	**9,938,959**

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 2018				
Loans and receivables credit institutions	0	0	259	259
Loans and receivables customers	0	0	199,431	199,431
Assets held for trading	4,703	55,793	0	60,496
Financial investments	342,498	7,352	34,451	384,301
Fair value through profit or loss	5,257	7,352	34,451	47,060
Fair value through OCI	337,242	0	0	337,242
Participations	0	0	43,027	43,027
Fair value through profit or loss	0	0	0	0
Fair value through OCI - designated	0	0	43,027	43,027
Derivative instruments	0	86,831	0	86,831
Financial assets total	**347,201**	**149,976**	**277,167**	**774,345**
Debts evidenced by certificates	0	0	106,575	106,575
Liabilities held for trading	0	75,416	0	75,416
Derivative instruments	0	383,473	0	383,473
Financial liabilities total	**0**	**458,889**	**106,575**	**565,464**

Euro thousand	Level 1	Level 2	Level 3	Total
31 Dec 2017				
Loans and receivables credit institutions	0	0	0	0
Loans and receivables customers	0	0	0	0
Assets held for trading	8,320	60,847	0	69,167
Financial investments	1,460,779	32,329	33,780	1,526,889
Available for sale	1,460,779	32,329	33,780	1,526,889
Participations	0	0	43,161	43,161
Derivative instruments	0	98,575	0	98,575
Financial assets total	**1,469,100**	**191,751**	**76,942**	**1,737,792**
Debts evidenced by certificates	0	0	0	0
Liabilities held for trading	0	82,010	0	82,010
Derivative instruments	0	378,484	0	378,484
Financial liabilities total	**0**	**460,493**	**0**	**460,493**

Please refer to note 3) u) Participations and investments in companies measured at equity and companies measured at equity for a description of the valuation procedures used for participations. Participations in the amount of euro 46 thousand (2017: euro 60 thousand) were measured at amortised cost due to their insignificance.

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 2018, financial instruments with a carrying amount of euro 1,186 thousand (2017: euro 6,071 thousand), which were still measured at Level 2 market value as at 31 December 2017, were reclassified as Level 1 financial instruments due to an increase in trading activity. In 2018 as well as 2017 no reclassifications from Level 1 into Level 2 were made.

Development of Level 3 fair values of financial assets

Euro thousand	Loans and receivables credit institutions	Loans and receivables customers	Financial investments	Participations	Financial assets total	Debts evidenced by certificates	Financial liabilities total
IFRS 9 adjustment	522	167,877	0	0	168,399	104,827	104,827
As at 01 Jan 2018	522	167,877	33,780	43,161	245,341	104,827	104,827
Changes in the scope of consolidation	0	38,810	0	1,335	40,145	0	0
Reallocation in level 3	0	0	0	1	1	0	0
Additions	0	38,222	208	18	38,449	1,325	1,325
Disposals	-262	-42,078	0	-121	-42,461	0	0
Valuation							
Fair value through profit or loss	-1	-3,401	462	0	-2,940	-2,025	-2,025
Fair value through OCI	0	0	0	-1,367	-1,367	2,449	2,449
As at 31 Dec 2018	**259**	**199,431**	**34,451**	**43,027**	**277,167**	**106,575**	**106,575**

Euro thousand	Financial investments	Participations	Financial assets total
As at 01 Jan 2017	29,384	8,552	37,935
Changes in the scope of consolidation	113	1,614	1,726
Reallocation in level 3	3,300	0	3,300
Additions	852	7,929	8,781
Disposals	0	0	0
Valuation			
Fair value through profit or loss	0	-669	-669
Fair value through OCI	133	25,736	25,868
As at 31 Dec 2017	**33,780**	**43,161**	**76,942**

The valuations shown in the table above are included in the item result from financial investments (income statement) or fair value reserve (other comprehensive íncome). The valuations recorded in the income statement include holdings of financial assets and liabilities to the amount of euro -5,795 thousand (2017: euro -669 thousand) at the reporting date.

The value of loans and receivables is assessed by discounting the cash flows of these loans using the risk-free swap curve plus markup. The markups used for discounting are the standard risk costs and the liquidity costs. The liquidity costs are derived from the market (spreads of senior unsecured bank issues in Austria and Germany; spreads of covered bonds for loans in the coverage fund and loans eligible for credit claims). The standard risk costs are used after clustering of the loans according to rating. The remaining components of the preliminary calculation are summarised in one factor (epsilon factor) upon conclusion of the deal and frozen for subsequent measurement.

As at 31 December 2018 financial investments include participation certificates with a carrying amount of euro 30,687 thousand (2017: euro 30,481 thousand) which are allocated to level 3 of the fair value hierarchy. 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 2020 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.

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

31 Dec 2018 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-1,361
Change in markup +/- 100 bp	612	-601
Change in redemption - 5 %	0	-1,502

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

Apart from measurement parameters and the static master data (derived from the payment profile as shown in the prospectus) that can be derived from the market, only funding premiums for covered bonds are used in the calculation of fair values for issues. Therefore, only these input parameters are subjected to a scenario analysis. For this purpose, the funding curve is subjected to a shift of 0.30 %. Such a shift is considered realistic by the relevant experts at VBW.

The following table shows the change of the fair value after adjustment of the input factors described above

31 Dec 2018 Euro thousand	Positive change in fair value	Negative change in fair value
Change in markup +/- 30 bp	2,711	-2,632

Please refer to note 14) Loans and receivables credit institutions and customers for further details regarding the sensitivity analysis regarding the fair values of loans from and receivables to credit institutions and customers.

The sensitivity analysis regarding the fair values of investment properties (IAS 40) are shown in note 18) Investment property.

The sensitivity analysis regarding the fair values of participations are shown in note 20) Participations.

The fair value of financial instruments which are not measured at fair value is calculated solely for disclosure purposes within the notes. Therefore, it has no influence on the consolidated balance sheet 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 2018					
Liquid funds	0	1,565,504	0	1,565,504	1,565,504
Loans and receivables credit institutions (gross)	0	0	0	0	1,986,448
Individual loan loss provision	0	0	0	0	0
Loans and receivables credit institutions less individual loan loss provision	0	0	1,986,954	1,986,954	1,986,448
Loans and receivables customers (gross)	0	0	0	0	5,216,727
Individual loan loss provision	0	0	0	0	-39,172
Loans and receivables customers less individual loan loss provision	0	0	5,240,995	5,240,995	5,177,555
Financial investments (gross)	0	0	0	0	1,707,603
Individual loan loss provision	0	0	0	0	0
Financial investments less individual loan loss provision	822,708	13,696	882,683	1,719,088	1,707,603
Financial assets total	**822,708**	**1,579,200**	**8,110,633**	**10,512,542**	**10,437,110**
Amounts owed to credit institutions	0	0	3,060,677	3,060,677	3,060,759
Amounts owed to customers	0	0	6,365,419	6,365,419	6,344,232
Debts evidenced by certificates	0	0	375,381	375,381	360,100
Subordinated liabilities	0	0	403,752	403,752	418,355
Financial liabilities total	**0**	**0**	**10,205,228**	**10,205,228**	**10,183,446**

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 receivables credit institutions (gross)	0	0	0	0	1,703,912
Individual loan loss provision	0	0	0	0	0
Loans to credit institutions less individual impairments	0	0	1,708,992	1,708,992	1,703,912
Loans and receivables customers (gross)	0	0	0	0	4,810,325
Individual loan loss provision	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**

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

2018 Euro thousand	Up to 3 months	Up to 1 year	Face value Up to 5 years	More than 5 years	Total	Fair Value 31 Dec 2018
Interest rate related transactions	444,209	134,178	1,725,474	3,052,582	5,356,443	-221,979
Caps & Floors	6,958	91,272	387,270	258,697	744,196	-402
Futures - interest related	7,200	0	35,000	0	42,200	0
Interest rate swaps	430,052	42,906	1,303,204	2,793,885	4,570,047	-221,576
Exchange rate related transactions	696,428	205,307	546,866	298,316	1,746,917	-94,341
Cross currency interest rate swaps	154,394	183,409	546,866	298,316	1,182,985	-94,341
FX Swaps	539,380	15,545	0	0	554,924	0
Forward exchange transactions	2,654	6,354	0	0	9,008	0
Other transactions	10,029	2,811	14,258	235,298	262,395	-1,395
Options	10,029	2,811	14,258	235,298	262,395	-1,395
Total	**1,150,666**	**342,296**	**2,286,598**	**3,586,196**	**7,365,756**	**-317,714**

2017 Euro thousand	Up to 3 months	Up to 1 year	Face value Up to 5 years	More than 5 years	Total	Fair Value 31 Dec 2017
Interest rate related transactions	139,510	198,984	2,134,963	2,726,101	5,199,558	-229,871
Caps & Floors	4,393	36,961	501,434	332,948	875,737	-613
Futures - interest related	4,800	0	35,000	0	39,800	0
Interest rate swaps	130,317	162,023	1,598,529	2,393,152	4,284,021	-229,258
Exchange rate related transactions	625,196	9,604	786,290	292,087	1,713,176	-70,882
Cross currency interest rate swaps	42,728	0	786,161	292,087	1,120,975	-70,882
FX swaps	579,672	8,338	0	0	588,011	0
Forward exchange transactions	2,795	1,266	129	0	4,190	0
Other transactions	12,405	5,407	14,626	306,686	339,124	-318
Options	12,405	5,407	14,626	306,686	339,124	-318
Total	**777,110**	**213,995**	**2,935,879**	**3,324,874**	**7,251,857**	**-301,072**

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

39) Hedging

Fair value hedges of interest rate risk

As at 1 January 2018, IFRS 9 was applied to hedge accounting within the VBW Group. The strict 80 % - 125 % hedge effectiveness requirement has been removed by IFRS 9, yet it is still applied within the VBW Group in order to detect any potential ineffectiveness and restore effectiveness by means of rebalancing a hedging relationship in time. The effectiveness is measured with the dollar offset method on a monthly basis, which compares the fair value changes in the hedged as well as in the hedging instrument. Also, as part of the IFRS 9 project, measuring the hedge effectiveness was insourced in the financial year 2018.

Micro hedges valid under IAS 39, were continued under IFRS 9. Only in case of a few selected own issues, the fair value option was applied under IFRS 9 and the hedging relationship discontinued as at 1 January 2018. No other hedging relationships were discontinued in the financial year 2018. Also, IFRS 9 allows hedging credit portfolios by means of layer hedging, where a pre-defined layer of a credit portfolio is designated as a hedged instrument in a hedging relationship.

As at 31 December 2018, VBW held the following interest rate swaps as well as cross currency interest rate swaps as hedging instruments in fair value hedges of interest risk

31 Dec 2018 Euro thousand Interest rate swaps	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
Loans and receivables customers	0	0	0	384,712	384,712
Financial investments	150,000	0	150,500	650,686	951,186
Debts evidenced by certificates	14,784	0	20,000	215,000	249,784

Cross currency interest rate swaps	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
Loans and receivables customers	0	0	19,133	0	19,133
Financial investments	0	15,295	14,870	0	30,165
Debts evidenced by certificates	0	0	0	0	0

The following table shows interest rate swaps designated as hedging instruments broken down by the type of the related hedged items

Euro thousand	Face value	Carrying amount assets	Carrying amount liabilities	Line item in the statement of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for the current year	Ineffectiveness recognised in profit or loss	Line item in the income statement that includes hedge ineffectiveness
31 Dec 2018							
Loans and receivables customers measured at amortised cost	384,712	0	3,532	Positive/ negative fair values of derivative instruments	-3,160	532	Result from fair value hedge
Financial investments measured at amortised cost	709,686	0	254,299	Positive/ negative fair values of derivative instruments	-1,750	-372	Result from fair value hedge
Financial investments measured at fair value through OCI	241,500	0	13,720	Positive/ negative fair values of derivative instruments	10,045	-354	Result from fair value hedge
Debts evidenced by certificates - bonds measured at amortised cost	249,784	37,154	0	Positive/ negative fair values of derivative instruments	-2,191	-925	Result from fair value hedge
Interest rate swaps total	**1,585,683**	**37,154**	**271,551**		**2,943**	**-1,119**	

The following table shows a breakdown of the corresponding hedged items

Euro thousand	Carrying amount assets	Carrying amount liabilities	Basis adjustment	Line item in the statement of financial position in which the hedged item is included	Changes in value used for calculating hedge ineffectiveness for the current year	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
31 Dec 2018						
Loans and receivables customers measured at amortised cost	388,405	0	3,693	Loans and receivables customers	3,693	0
Financial investments measured at amortised cost	968,705	0	249,640	Financial investments	1,378	3,274
Financial investments measured at fair value through OCI	256,536	0	6,536	Financial investments	-10,398	0
Debts evidenced by certificates - bonds measured at amortised cost	0	278,386	28,386	Debts evidenced by certificates	1,266	19,501
Hedged items of interest rate swaps total	**1,613,645**	**278,386**	**288,254**		**-4,062**	**22,774**

The following table shows cross currency interest rate swaps designated as hedging instruments broken down by type of the related hedged item

Euro thousand	Face value	Carrying amount assets	Carrying amount liabilities	Line item in the statement of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for the current year	Ineffectiveness recognised in profit or loss	Line item in the income statement that includes hedge ineffectiveness
31 Dec 2018							
Loans and receivables customers measured at amortised cost	19,133	0	9,192	Positive/negative fair values of derivative instruments	-416	-932	Result from fair value hedge
Financial investments measured at amortised cost	14,870	0	2,768	Positive/negative fair values of derivative instruments	1,018	-139	Result from fair value hedge
Financial investments measured at fair value through OCI	15,295	0	7,653	Positive/negative fair values of derivative instruments	-134	-609	Result from fair value hedge
Debts evidenced by certificates - bonds measured at amortised cost	0	0	0	Positive/negative fair values of derivative instruments	0	0	Result from fair value hedge
Cross currency interest rate swaps total	**49,298**	**0**	**19,613**		**469**	**-1,680**	

The following table shows a breakdown of the corresponding hedged items

Euro thousand	Carrying amount assets	Carrying amount liabilities	Basis adjustment	Line item in the statement of financial position in which the hedged item is included	Changes in value used for calculating hedge ineffectiveness for the current year	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
31 Dec 2018						
Loans and receivables customers measured at amortised cost	20,766	0	1,634	Loans and receivables customers	-516	0
Financial investments measured at amortised cost	16,392	0	1,522	Financial investments	-1,157	0
Financial investments measured at fair value through OCI	15,927	0	632	Financial investments	-476	0
Debts evidenced by certificates - bonds measured at amortised cost	0	0	0	Debts evidenced by certificates	0	0
Hedged items of cross currency interest rate swaps total	**53,085**	**0**	**3,787**		**-2,149**	**0**

Euro thousand 31 Dec 2017	Interest rate risk	Foreign exchange risk
Financial assets	1,108,721	0
Financial liabilities	385,986	0

Since cross currency interest rate swaps were also used for hedging the interest rate risk in the previous year, the information regarding the previous year was adjusted accordingly.

40) Assets and liabilities denominated in foreign currencies

At balance sheet date, assets denominated in foreign currencies totalled euro 833,667 thousand (2017: euro 864,982 thousand), whereas liabilities denominated in foreign currencies amounted to euro 172,127 thousand (2017: euro 155,406 thousand).

41) Trust transactions

Euro thousand	31 Dec 2018	31 Dec 2017
Trust assets		
Loans and receivables credit institutions	53,430	46,400
Loans and receivables customers	63,800	103,308
Trust liabilities		
Amounts owed to credit institutions	53,430	46,400
Amounts owed to customers	63,800	103,308

42) Subordinated assets

Euro thousand	31 Dec 2018	31 Dec 2017
Financial investments	4,518	5,208

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

Euro thousand	31 Dec 2018	31 Dec 2017
Assets pledged as collateral		
Loans and receivables customers	226,684	312,075
Financial investments	15,512	17,223
Liabilities for which assets have been pledged as collateral		
Amounts owed to credit institutions	226,684	312,075
Amounts owed to customers	15,512	17,223

In the context of corporate funding via Oesterreichische Kontrollbank (OeKB), loans to and receivables from customers in the amount of euro 73 million (2017: euro 79 million) have been provided as collateral. These loans and receivables are guaranteed by means of Austrian government default guarantees, private insurance policies and draft guarantees. OeKB may not repledge or sell these loans to and receivables from customers if the Group performs in accordance with the contract.

Loans to and receivables from customers in the amount of euro 153 million (2017: euro 233 million) were provided as collateral for OeNB refinancing of VBW in the 2018 business year.

Within the scope of gilt-edged savings deposits, financial investments in the amount of euro 16 million (2017: euro 17 million) are held as securities.

44) Contingent liabilities and credit risks

Euro thousand	31 Dec 2018	31 Dec 2017
Contingent liabilities		
Liabilities arising from guarantees	291,728	340,016
Guaranteed letter of credit	1,205	1,382
Others (amounts guaranteed)	19,755	25,066
Commitments		
Unutilised loan commitments	3,152,667	4,375,600

Based on the management´s estimation of cash outflow for financial guarantees, a provision was built for off-balance risks to the amount of the probable cash outflow under consideration of possible available collaterals. It amounts to euro 3,158 thousand (2017: euro 2,504 thousand).

According to the Spin-off and Transfer Agreement dated 1 June 2015, VBW has resumed the central organisation and central institution function from ÖVAG (now immigon portfolioabbau ag, immigon). Following this spin-off, claims for damages were filed against immigon. VBW is a co-defendant in these proceedings based on section 15 (1) SpaltG (Demerger Act); the liability of VBW is limited in terms of net assets assumed through the spin-off (within the meaning of section 15 (1) SpaltG). The total obligation in dispute from complaints under section 15 (1) SpaltG currently amounts to euro 5.4 million. The relevant obligations underlying the claims for damages are attributed to immigon as stipulated in the Spin-off Agreement. Should VBW ever become subject to such claims, the Spin-off Agreement entitles VBW to an indemnification claim against immigon. Based on immigon´s press release published on 31 January 2019 concerning the audited financial statements as at 31 December 2018, VBW expects immigon to be in a position to service its liabilities. In case an economic burden for VBW arises nevertheless, as mutually agreed in the Association of Volksbanks, all members of the Association will take up their pro rata share of the costs.

Moreover, VBW is involved in various judicial proceedings both as plaintiff and as defendant. These proceedings are due to current banking business. The volume of the proceedings is not unusual. The outcome of the proceedings is not expected to have significant impact on the financial situation and profitability of VBW.

Additionally, there are no government interventions, judicial or arbitral proceedings (including those that are still pending or might yet be initiated according to the knowledge of VBW) that have existed or were completed within the last twelve months and have a significant impact on the financial situation or profitability of VBW Group or have recently had such an impact.

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 2018			
Carrying amount	3,152,667	291,728	0
Undiscounted cash flows	**3,152,667**	**291,728**	**3,158**
Up to 3 months	3,152,667	291,728	316
Up to 1 year	0	0	1,263
Up to 5 years	0	0	1,579
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

As for loan commitments, 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.

45) Operating lease liabilities

The future minimum lease payments in connection with operating lease liabilities are presented below:

Euro thousand	31 Dec 2018	31 Dec 2017
Up to 3 months	701	983
Up to 1 year	2,864	2,555
Up to 5 years	10,372	12,015
More than 5 years	67,459	61,423
Operating lease liabilities	**81,396**	**76,976**

The operating lease contracts mainly consist of rental contracts for branches.

46) Repurchase transactions and other transferred assets

As at 31 December 2018, VBW as pledgor had buy-back commitments under genuine repurchase agreements to euro 20,475 thousand (2017: euro 101,571 thousand).

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

47) Related party disclosures

Euro thousand	Unconsolidated affiliates	Companies in which the Group has a participating interest	Companies measured at equity	Companies which exercise a significant influence on the parent as shareholders
31 Dec 2018				
Loans and receivables credit institutions	0	0	34,228	0
Loans and receivables customers	159	1,625	0	0
Fixed-income securities	0	0	271	593,466
Amounts owed to credit institutions	0	0	173,297	0
Amounts owed to customers	4,157	215	61,984	0
Provisions	0	3	6	0
Transactions	4,110	3,966	302,585	0
Administrative expenses	-419	0	-14	0
Other operating income	111	0	5,998	0
Other operating expenses	-674	0	0	0
31 Dec 2017				
Loans and receivables credit institutions	0	0	18,020	0
Loans and receivables customers	284	2,814	16,120	0
Fixed-income securities	0	0	0	759,712
Amounts owed to credit instituions	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
Administrative expenses	-786	0	-14	0
Other operating income	112	0	4,048	0
Other operating expenses	-321	0	0	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. Disclosures are limited to securities of the issuer Republic of Austria.

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

Euro thousand	31 Dec 2018	31 Dec 2017
Outstanding loans and receivables	451	549
Redemptions	98	17

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 10) General administrative expenses. No further contracts were closed with members in key positions.

As at 31 December 2018 loans to and receivables from credit institutions/customers contained transactions with the Volksbank-Sector amounting to euro 1,532,367 thousand (2017: euro 1,261,907 thousand) and amounts owed to credit institutions/customers included transactions with the Volksbank-Sector amounting to euro 2,536,499 thousand (2017: euro 2,388,510 thousand).

48) 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 2018			
Covered bonds			
Amortised cost	1,837,351	1,557,744	279,607
Fair value through profit or loss	98,653	83,640	15,013
Total	**1,936,004**	**1,641,384**	**294,620**
31 Dec 2017			
Covered bonds	2,021,282	1,280,304	740,978
Total	**2,021,282**	**1,280,304**	**740,978**

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

49) Branches

	31 Dec 2018	31 Dec 2017
Domestic	70	78
Foreign	0	0
Total number of branches	**70**	**78**

50) Events after the balance sheet date

In 2018, the Association of Volksbanks was again subjected to the annual SREP (Supervisory Review and Evaluation Process) within the scope of the Single Supervisory Mechanism (SSM) of the ECB. This year's SREP also considered the ECB stress test performed in 2018.

By resolution of the ECB adopted in February 2019, the result of the SREP was announced to VBW as the central organisation of the Association of Volksbanks.

The CET 1 demand amounting to 11.25 %, as determined for the Association of Volksbanks, that applies as at 1 March 2019 consists of the following: Pillar 1 CET requirement of 4.5 %, Pillar 2 requirement of 2.75 %, capital conservation buffer of 2.5 %, systemic risk buffer 0.5 %, buffer for systemically important institutions 0.5 % (new with effect from 1 January 2019), and Pillar 2 capital recommendation of 1.0 %. However, due to the currently applicable regulation, the buffer for systemically important institutions has no effect on the CET 1 demand or on the total capital requirement, since the higher of systemic risk buffer and buffer for systemically important institutions must be applied. As at 1 March 2019, the total capital requirement amounts to 13.75 % (Pillar 1 requirement of 8.0 %, Pillar 2 requirement of 2.75 %, capital conservation buffer of 2.5 %, systemic risk buffer 0.5 % or buffer for systemically important institutions 0.5 %).

Until entry into force of the new resolution with effect from 1 March 2019, the provisions of the decision dated 19 December 2017 continue to apply, extended by the buffer requirements as increased under the transitional provisions: capital conservation buffer 2.5 % as at 1 January 2019 (1.875 % until 31 December 2018) and systemic risk buffer

0.5 % as at 1 January 2019 (0.25 % until 31 December 2018) or buffer for systemically important institutions 0.5 % (new as at 1 January 2019).

Regulatory capital requirements were again increased by the ECB and constitute a challenge for the Association of Volksbanks, since meeting them will require capital enhancement measures.

On 5 February 2019, the international rating agency Fitch confirmed the long-term issuer rating of BBB of the Association of Volksbanks.

On 25 February 2019, VBW placed a covered bond with a face value of euro 500 million and a maturity of seven years (maturity date: 4 March 2026). Moody's provided the bond with a AAA rating, as awarded to the covered bond programme of VBW. The volume of the issue serves to finance credit growth within the entire Association of Volksbanks.

51) 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. Interest 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

1-12/2018 Euro thousand	Retail	CO	Consolidation	Total
Net interest income	102,011	22,717	0	124,728
Risk provisions	952	3,881	0	4,832
Net fee and comission income	57,014	-3,259	67	53,822
Net trading income	250	740	0	990
Result from financial investments	2,959	9,399	-3,186	9,172
Other operating result	8,851	135,360	-44,045	100,166
Of which impairment of goodwill	*0*	*0*	*0*	*0*
General administrative expenses	-141,119	-128,304	47,164	-222,258
Restructuring result	-4,270	243	0	-4,027
Result from companies measured at equity	4,321	213	0	4,534
Result before taxes	**30,969**	**40,989**	**0**	**71,959**
Income taxes	78	-1,546	0	-1,468
Result after taxes	**31,048**	**39,443**	**0**	**70,491**
31 Dec 2018				
Total assets	**6,466,527**	**6,447,649**	**-1,408,683**	**11,505,492**
Loans and receivables customers	5,151,092	264,826	-50,243	5,365,676
Companies measured at equity	29,077	8,759	0	37,835
Amounts owed to customers	5,396,956	1,013,883	-66,607	6,344,232
Debts evidenced by certificates, including subordinated liabilities	114,562	770,468	0	885,030

1-12/2017 Euro thousand	Retail	CO	Consolidation	Total
Net interest income	94,834	25,888	0	120,722
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
Result from financial investments	2,695	-471	-3,178	-954
Other operating result	8,775	89,505	-33,075	65,206
Of which impairment of goodwill	*-8,262*	*0*	*0*	*-8,262*
General administrative expenses	-121,517	-119,297	35,938	-204,876
Restructuring result	321	955	0	1,276
Result from companies measured at equity	-180	6,358	0	6,177
Result before taxes	**44,525**	**4,838**	**-7**	**49,356**
Income taxes	-2,328	6,952	2	4,626
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 receivables customers	4,423,419	383,526	-54,564	4,752,381
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

52) Risk report

General

Assuming and professionally managing the risks associated with the business activities is a core function of every bank. In its capacity as CO of the association of credit institutions under section 30a Austrian Banking Act, consisting of VBW and the affiliated banks of the Volksbank-Sector, VBW performs this central task for the Association of Volksbanks, so that the latter 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) Austrian Banking Act). The implementation of control within the Association of Volksbanks is effected through General, and, if necessary, Individual Instructions and corresponding working practice guidelines in the affiliated banks.

The following risks are classified as material within the Association of Volksbanks in the course of the self-assessment process:

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

Current developments

In 2018, the Association of Volksbanks was again subjected to the annual SREP (Supervisory Review and Evaluation Process) within the scope of the Single Supervisory Mechanism (SSM) of the ECB. This year's SREP also considered the ECB stress test performed in 2018.

By resolution of the ECB adopted in December 2018, the result of the SREP was forwarded to VBW as the central organisation of the Association of Volksbanks.

The CET 1 demand amounting to 11.25 %, as determined for the Association of Volksbanks, that applies as of 1 March 2019 consists of the following: Pillar 1 CET requirement of 4.5%, Pillar 2 requirement of 2.75 %, capital conservation buffer of 2.5 %, systemic risk buffer 0.5 %, buffer for systemically important institutions 0.5 % (new with effect from 1 January 2019), and Pillar 2 Guidance of 1.0 %. However, due to the currently applicable regulation, the buffer for systemically important institutions has no effect on the CET 1 demand or on the total capital requirement, since the higher of systemic risk buffer and buffer for systemically important institutions must be applied.

As at 1 March 2019, the total capital requirement amounts to 13.75 % (Pillar 1 requirement of 8.0 %, Pillar 2 requirement of 2.75 %, capital conservation buffer of 2.5 %, systemic risk buffer 0.5 % or buffer for systemically important institutions 0.5 %).

Until entry into force of the new resolution with effect from 1 March 2019, the provisions of last year's decision dated 19 December 2017 continue to apply, extended by the buffer requirements as increased under the transitional provisions: capital conservation buffer 2.5 % as of 1 January 2019 (1.875 % until 31 December 2018) and systemic risk buffer 0.5 % as of 1 January 2019 (0.25 % until 31 December 2018) or buffer for systemically important institutions 0.5 % (new as at 1 January 2019).

Regulatory capital requirements were again increased by the ECB and constitute a challenge for the Association of Volksbanks, since meeting them will require capital enhancement measures.

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 are managed under an overall perspective subject to risk management principles by creating an appropriate organisational structure and corresponding business processes.

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 credit 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 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 and basis of solid risk management, the Risk Appetite Framework (RAF) for the Association of Volksbanks is continuously being developed also within VBW, in order to define risk appetite and/or the level of risk tolerance (primarily by determining and verifying appropriate limits and controls) that VBW is prepared to accept to achieve its defined goals. The framework is regularly verified and adjusted to any regulatory changes, changes of the market environment or the business model. VBW aims to develop, by way of this framework, a disciplined and constructive control environment where all employees understand their role and responsibility.

Within the Association of Volksbanks, risks are controlled by three decision-making bodies in VBW: (i) Risk Committee (RICO), (ii) Asset Liability Committee (ALCO), (iii) Credit Committee (CC). The responsibilities of these committees include both subject areas of VBW as a single institution and matters concerning the entire Association of Volksbanks pursuant to section 30a Austrian Banking Act. Risk reporting in the affiliated banks takes place in the respective local bodies.

The RICO serves to control all material risks, with a focus at portfolio level, ensuring that risk policy decisions are in compliance with risk appetite. The aim is to provide the Managing Board of VBW with a comprehensive view of all risks (overall bank risk report) and with a summary of regulatory and other risk-relevant topics.

The ALCO is the central body for controlling interest rate, foreign currency and liquidity risks, as well as investment risks through positions in the banking book, with a view to optimising risk and return, and to securing refinancing in the long term.

The CC is the body responsible for credit decisions based on applicable definitions of responsibilities, for approving action plans for customers undergoing restructuring or debt enforcement, as well as for approving allocations to individual allowances for impairment, provisions and waivers.

Regulatory requirements

The regulations regarding equity base at VBW are implemented as follows:

Pillar 1: Minimum capital requirements

The implementation of Pillar 1 at VBW as CO 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 & Liquidity 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, the Association of Volksbanks implements all measures required to ensure sufficient own funds 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 pursuant to Regulation (EU) no. 575 / 2013 (CRR) and Directive 2013/36/EU (CRD IV) on the bank's own website under Volksbank Wien / Offenlegung Volksbank Wien AG.

Risk management across the Association

The risk controlling function of VBW as CO is responsible for risk governance, 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 affiliated banks. The GI ICAAP, GI ILAAP, GI Principles of Credit Risk Management (PCRM) and the downstream manuals of the Association govern the risk management function in a binding and uniform manner. The risk strategy and the NPL strategy for the Association of Volksbanks are also issued in the form of a GI. The aim 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 creation 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 affiliated banks 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 and approved by the latter.

Within the Association of Volksbanks, comprehensive communication about risks and a direct exchange of information is considered extremely important. In order to allow for professional exchange in a working context, an expert committee was set up for risk controlling. Each affiliated bank must dispose of its own Risk Control Function (RCF) that is responsible for independent monitoring and communication of risks within the respective affiliated bank. The risk controlling expert committee facilitates an exchange of information between the Risk Controlling Function of VBW (as CO) and the RCF of the affiliated banks.

Risk governance as well as the methods and models are regularly refined and adjusted to currently prevailing basic conditions by the Risk Controlling Function of VBW as CO. Apart from regular remodelling, recalibration and validation of the risk models, the methods in the ICAAP & ILAAP are being improved continuously, with new regulatory requirements (e.g. IFRS 9) being monitored and implemented in a timely fashion.

a) Internal capital adequacy process

To ensure a sustainable, risk-adequate capital base, VBW, in its capacity as CO of the Association of Volksbanks, has set up an Internal Capital Adequacy Assessment Process (ICAAP) as a revolving control cycle, in line with international best practices, that both VBW and all affiliated banks are subject to. The ICAAP starts by identifying the material risks of the Association of Volksbanks, followed by a risk quantification and aggregation process, determination of risk-bearing capacity, 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 measuring market risk / trading book, 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, and adjusted to the respective current general conditions if necessary; they are approved by the Managing Board of the CO.

Risk inventory

The risk inventory serves the purpose of determining the risk potential of newly accepted significant exposures and of measuring existing significant risks. The risk inventory results are summarised and analysed for VBW. The results of the risk inventory 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 at all times. The risk strategy is prepared in parallel with business planning. Across the Association, the contents of the risk strategy and of business planning are linked up by incorporating the targets of the Risk Appetite Statement in GI Controlling – Planning and Reporting.

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 deepening indicators helps the Managing Board to implement central strategic goals of VBW, specifying the same in operational terms.

The risk appetite, i.e. the indicators of the RAS, are derived from the business model, the current risk profile, the risk capacity and the 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. The RAS set of indicators is made up as follows:

- Capital-ratios (e.g. CET1 ratio, T1 ratio, TC ratio, RBC)
- Credit risk ratios (e.g. NPL ratio, coverage ratio, loans and receivables to foreign customers, net allocation ratio / risk provisions)

- Interest rate risk ratios (e.g. OeNB interest rate risk coefficient, PVBP, IRRBB ratio)
- Liquidity risk ratios (e.g. LCR, survival period)
- Ratios relating to operational risk (e.g. OpRisk losses in proportion to CET1, ICS implementation rate)
- Other risk-relevant ratios (e.g. CIR, LDR, leverage ratio)

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 internal capital 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 internal capital. Compliance with 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 the internal capital defined (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, all 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 result achieved in the current business year, the target profit/loss for the coming 12 months, as well as those own funds that exceed the CET1 capital ratio of 8.25 % as defined in the 2018 risk strategy are essentially recognised as internal capital. 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 100 % of the available internal capital in 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 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 losses/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 internal capital in the economic liquidation perspective.

Stress testing

For credit, market and liquidity risks, as well as for operational risk, risk-type-specific stress tests and/or risk analyses are performed regularly, with crisis scenarios being conceived in such a way that the occurrence of events that are highly unlikely, but not impossible, is simulated and estimated. By way of this approach, huge losses can be identified and analysed.

Apart from these risk-type-specific stress tests and sensitivity analyses, bank internal 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 internal capital 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 bank-wide internal 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.

At present, EU-wide stress tests across risk types are being carried out by the EBA/ECB every two years (most recently in 2018). The results of the stress tests are used to assess the capital requirement within the SREP. In the years between the EBA/ECB stress tests across risk types, the supervisory authority performs risk-specific stress tests. In that context, the ECB plans a liquidity stress test in 2019.

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 overall bank risk report serves as a core element of the reporting framework. The overall bank risk report provides a summary of the situation and development of the RAS indicators, the utilisation of the risk-bearing capacity, addressing all significant risks and containing comprehensive qualitative and quantitative information, among others. The overall 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 overall bank risk report, various risk-specific reports (e.g. analyses within credit risk regarding the development of individual sub-portfolios) are provided in addition to the reporting framework.

Recovery and resolution planning

As VBW belongs to the Association of Volksbanks, which was classified as a significant credit institution, VBW has worked out a recovery plan and submitted the same to the relevant regulatory authorities (e.g. ECB). This recovery 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.

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

Within VBW, the responsibilities associated with credit risk are taken care of by the Credit Risk Management function and certain subdivisions of the Risk Controlling function. The departments Credit Risk Management Retail Branches, Credit Risk Management Real Estate & Corporate Financing, Restructuring & Workout are responsible for operational credit risk management functions. The Risk Controlling function is responsible for risk assessment, risk measurement and risk control as well as for credit risk reporting at portfolio level.

Operational credit risk management

Lending principles

- Loan transactions are necessarily based on decisions involving borrower-specific limits. The determination and monitoring of certain limits is subject to uniform regulations at the level of the Association.
- The rating obligation applies to all borrowers with exposures above the defined minimum amount. The rating process is based on the dual-control principle and is applicable across the Association.
- In selecting collaterals, attention is paid to the cost-benefit ratio, and accordingly recoverable collaterals that cause little administrative effort and are not very cost-intensive will preferably be resorted to, as well as actually realisable collaterals. For this reason, physical collaterals, such as real estate collaterals, and financial collaterals, such as cash collaterals or collaterals in the form of securities, are given priority. The recoverability and enforceability of collaterals must basically be assessed prior to any credit decision. Principles for the management of collaterals and uniform rules for the selection, provision, administration and valuation of collaterals apply at the level of the Association.
- Foreign currency and repayment vehicle loans are basically no longer offered or granted.
- The principal market for lending business is the Austrian market.
- Syndicated credits will basically be concluded together with the CO.

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; clear processes have been defined for this purpose. 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 collaterals

The processes for the review of exposures and collaterals are governed by uniform regulations across the Association and must be observed by all affiliated banks.

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 connected clients (GcC) is used as the basis for limits in case of new lending and for current 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 the credit risk management function of the affiliated bank and is monitored by the credit risk management function of VBW in its role as CO, using centralised analyses.

In connection with portfolio limits, within the Association of Volksbanks, mainly limits for external financing transactions 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 of Volksbanks, 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 warning: During the early warning process, 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 throughout the Association.

Dunning procedure: The dunning procedure applied across the entire Association of Volksbanks and accordingly within VBW is uniform and automatised and based on corresponding predefined processes.

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 of Volksbanks.

Default identification: The process of default identification serves to recognise defaults in time. A customer is deemed defaulted if there is a default of performance of more than 90 days, pursuant to the CRR, and/or if complete settlement of the debt is considered unlikely without realising any collaterals. The Association has defined 13 possible types of default event that are used for the consistent classification of default events across the Association of Volksbanks. Among others, default identification also builds 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 Problem Loan Management system (PLM) applicable throughout the Association, customers are classified 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 debt enforcement (defaulted customers not eligible for restructuring)

and appropriately differentiated processing routines have been put in place consistently throughout the Association of Volksbanks.

Quantitative credit risk management and credit risk controlling

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 for a comparison of internal ratings with classifications by external rating agencies, but also a comparison of credit ratings across customer segments.

The rating classes in rating category 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 of Volksbanks has chosen a statistical simulation method. A refined Merton model, adjusted to internal requirements, is used for modelling the credit exposures in the loan portfolio in detail.

Concentrations

Quantification and valuation of the effects of concentrations takes place monthly, via the risk parameters identified, on the one hand, and in the course of preparing the risk report, on the other hand.

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.

Credit risk mitigation

The consideration of collaterals 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 collaterals 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 of Volksbanks uses credit risk mitigation methods such as netting and exchange of collaterals. 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.

Factors influencing the estimate of Expected Credit Losses (ECL) and impairments

Various influencing factors, assumptions and methods are used to measure any significant increase of credit risk.

Rating systems

Upon initial recognition, each exposure is allocated to a credit risk rating based on the information available about the borrower. The exposures are monitored continuously, and the risk management guidelines of the bank require credit risk renewal at least once a year. The established governance processes, including RAS limits (Risk Appetite Statement), ensure that valid credit assessments exist for more than 98% of exposures.

The bank disposes of a comprehensive set of rating systems to cover all relevant types of receivables. The most important elements of the rating systems for the major portfolios are shown in the following table:

Portfolio	Main influencing factors of the rating systems
SME and Corporate	• Information that was obtained during the regular review of annual financial statements and management accounts (economic circumstances of the owners) of the borrower • Actual and expected material changes of the regulatory, technological or economic environment of the borrower • Qualitative assessment of borrower management, the transparency of information provided by the borrower, the adequacy of the borrower's accounting processes and other soft facts • New and/or expected changes of the financial situation of the borrower not reflected in the most recent financial statements • Internally obtained information about the borrower's conduct, e.g. overdrawing of advances on current account and utilisation of credit facilities • To the extent available, ratings of the borrower or of the borrower's parent company by external rating agencies
Private Customers	• Credit standing indicators as well as sociodemographic assessment of the request • Information obtained from credit agencies • For new lending business with existing customers and for current monitoring – internally collected data regarding the customers' account conduct, e.g. delays in payment and changes with respect to incoming or outgoing payments
Banks	• Information that was obtained during the regular review of annual financial statements, disclosures and reports of the borrower • Qualitative assessment of market position, asset quality and concentration risk of the counterparty's portfolio • Implicit support or explicit guarantees from states, governments or parent companies

All rating systems are regularly validated according to qualitative and quantitative criteria by an independent unit within Risk Controlling, including backtesting for actual rating migrations and defaults.

All rating systems apply the Volksbank master scale that consists of 20 rating classes plus 5 additional classes for defaulted customers. To any rating class, the master scale will allocate intervals of probabilities of default (PD) that do not overlap. The PDs of the rating system are modelled as long-term through-the-cycle (TTC) probabilities of default over a period of 12 months. Ratings by external rating agencies are also reproduced on the Volksbank master scale by way of statistical analyses of the historical default rates published by the rating agencies.

Lifetime Probability of Default

Ratings provide essential input for determining the lifetime PD for ECL calculation. For the purpose of analysing lifetime PD, the portfolio of Volksbank is divided into the following segments:

- SME and Corporate

- Private Customers
- Banks
- Countries
- Big Corporations (companies with ratings by external rating agencies)
- Other Exposures (mainly real estate and public infrastructure projects that are not dealt with using the usual rating systems for SME or Corporate)

For the Private Customers, SME and Corporate, and Other Exposures segments, the bank extracts long-term, representative samples of internal ratings and defaults that cover all material subsegments and rating classes. Statistical models are used to analyse the data collected and to prepare estimates regarding residual term PD and the way these are expected to change over the course of time.

For the Banks and Finance, Non-financial Companies and Countries segments, the bank uses long-term default studies of the external rating agencies to determine the lifetime PD by rating class.

Future-oriented information

The bank takes account of future-oriented information, both in assessing whether the credit risk of any instrument has increased significantly since its initial recognition, and in measuring ECL. Based on the analysis carried out by economists of the bank's research department and taking into account various market data, the bank will formulate:

- a base case scenario for the future development of the relevant economic variables. The base case scenario constitutes the most probable outcome and has been reconciled with the information used by the bank for other purposes, such as strategic planning and budgeting; and
- two further possible prognostic scenarios that constitute one more optimistic and one more pessimistic outcome of the relevant economic variables.

The prognostic process comprises both the forecast of the development of the relevant economic variables over the course of the next three years and the estimate of probability for each scenario. The bank performs regular (semi-annual) stress tests with shocks to quantify the effects of a massive deterioration of economic conditions and to analyse the necessity of re-calibration of the base case scenario and/or of the other prognostic scenarios.

Consideration of future-oriented information

The bank performs a thorough analysis in order to identify and calibrate the relationships between changing default rates and changes of the most important macroeconomic factors.

For private customers, the analysis is based on time series of average default rates estimated on the basis of the internally available data set. A regression model containing the explanatory variables – Austria's unemployment rate and average interest rate of 10-year Austrian government bonds – is used.

The analysis for SME and Corporate as well as for Banks and Finance is based on a simulation method. In the process, several simulations of the financial statements of the borrowers in the portfolio are performed and the rating migrations simulated are used for calibrating the regression model. Explanatory variables in the regression model for SME and Corporate are the total growth of GDP in Austria and the inflation rate (CPI). The gold price and the total growth of GDP of the European Union are used as explanatory variables in the model for Banks and Finance.

The SME and Corporate model is applied to incorporate future-oriented information in risk assessments in the portfolio of externally rated big corporations. This extrapolation is effected because the Volksbank portfolio in this segment is below

0.5 % of total exposures. The model used for the Other Exposures segment is a weighted combination of the models for SME and Corporate (80 %), Private Customers (14 %) and Countries (6 %).

Definition of default and degradation

Any financial asset is considered defaulted (Stage 3), if:

- it is unlikely that the borrower is going to meet its loan obligations in full without recourse to certain measures, such as the realisation of collateral (if available); or
- if the borrower has been in default with respect to any material loan obligation for more than 90 days.

The definition of default is fully in line with the default definition of the bank for capital adequacy purposes (CRR).

The process of assessing unlikeliness-to-pay (UTP) is supported by a comprehensive early warning system (EWS). The EWS uses various qualitative and quantitative indicators to identify potential significant increases in credit risk, including (but not limited to) rating downgrades, negative observations regarding account conduct or deteriorations of certain financial ratios of the borrower. Loans and receivables to borrowers, the repayment of which is considered unlikely will be allocated to Stage 3 for impairment purposes. Borrowers with any less substantial, but still significant increase in credit risk will be rated as Stage 2 for impairment purposes.

Further indicators for allocation to Stage 2 are:

- Borrowers with payments overdue for more than 30 days for material exposures
- Forbearance measures as qualitative indicator for a significant increase in credit risk
- All financial instruments where the bank is not able to assess the credit risk upon initial recognition or the credit risk at the balance sheet date.

The bank calibrates a bidirectional illustration of the changes of lifetime credit losses and the rating migration from initial recognition until the current balance sheet date, taking into account the respective current future-oriented information. Hence, the quantitative stage transfers are derived from significant downgrades of the customer's current rating compared to the credit risk upon initial recognition. Based on the Volksbank master scale with 20 (performing) rating classes, the number of rating class downgrades leading to Stage 2 is 1 to 5, depending on the original maturity and residual term of the respective financial instrument, on the initial rating, on the customer segment and on the current future-oriented information.

Measurement of Expected Credit Loss (ECL)

The bank determines ECL on the basis of the individual instrument, regardless of the materiality of the exposure.

Performing portfolio

For the performing portfolio (Stage 1 and Stage 2), measurement is based on model parameters derived from internally developed statistical models and other historical data.

The most important model parameters for ECL measurement are:

- Probability of Default (PD);
- Exposure at Default (EAD), subdivided into secured EAD and unsecured EAD; and
- Loss Given Default (LGD).

The PD parameters depend on the current rating and on the segment of the borrower and are reconciled with future-oriented information as described above.

The EAD parameter is measured as the forecast future exposure of the relevant financial instrument. The forecast is based on the cash flow plan of the instrument. For ECL calculation, the bank uses the cash flow plan from the Asset Liability Management (ALM) system. It is used to reconcile the ECL calculation and the strategic interest rate and liquidity risk management with each other. The cash flow plan is based on the contractual terms of the financial instrument, including amortisation, and is adjusted in line with the comprehensive ALM models of the bank, including (but not limited to) interest rate forecasts for variable-yield instruments. For off-balance-sheet financial instruments, such as credit facilities or guarantees, the bank uses Credit Conversion Factors (CCF) to determine the amount of the receivable in case of default (off-balance EAD). The CCF parameters are estimated using the account conduct information of previously defaulted customers over a period of 12 months prior to default. The bank uses the regulatory CCF benchmarks set down in the CRR for product types where only limited internal standard data is available.

The EAD is subdivided into secured EAD and unsecured EAD components that depend on the value of the collaterals pledged by the borrower. The starting point for secured EAD calculations are the lending values of the collaterals. These lending values are regularly verified and updated in line with the bank's risk management guidelines (e.g. real estate valuations are re-estimated at least once within 3 years and immediately after the occurrence of any material event within the customer relationship, such as credit loss, extension of credit facility or roll-over. The secured EAD is that part of the EAD that is covered by collaterals (limited to 100 % of EAD). The unsecured EAD is considered as the rest of the EAD.

The LGD is the amount of probable loss upon default. The secured LGD and unsecured LGD parameters are determined separately. The secured LGD parameter reflects the residual risk that derives from the probability that a certain collateral cannot be liquidated at a sustainable price at the time of default. The unsecured LGD parameter reflects any defaulted borrower's readiness and ability to pay back the obligations beyond the lending value of available collaterals. Both LGD parameters combined measure the realisation risk, including the cost of liquidating collaterals, as well as the time value of money (based on the effective interest rate of the defaulted assets).

The bank determines the LGD parameters on the basis of the history of the rates of recovery of claims against defaulted customers. For certain portfolios, where the bank does not dispose of sufficient historical default event data, an expert estimate will be effected. The following table shows the most important segments:

Portfolio	Main influencing factors for LGD
Corporate SME Private Customers	• Internal historical data of default events and recoveries, including date of default and date of conclusion / event status • Most important type of collateral (residential real estate, insurance policies, others) taken into account
Banks	• Expert estimates • Regulatory benchmarks set down in the CRR
Others	• Expert estimates and scenario analyses

Expected losses for financial instruments of Stage 1 are forecast over the shorter of a period of 12 months or the maturity of the instrument. For financial instruments of Stage 2, the expected losses are forecast for the entire term of the instrument. The maturity coincides with the contractual term. In case of financial instruments such as loan commitments and guarantees, the contractual maturity is determined based on the first day when the bank is entitled to request repayment or to terminate any loan commitment or guarantee. In cases where the contractual term could not be determined (e.g. if the borrower has an unlimited option for extension), the total maturity of the instrument is determined to be 50 years.

The ECL is calculated as the present value of the expected losses as forecast. Discounting is effected using the effective interest rate of the instrument.

Defaulted receivables

In case of defaulted customers (Stage 3), measurement depends on the significance of the receivable.

For defaulted customers with a total exposure of more than euro 750 thousand and for a limited number of special cases, the ECL estimate will be performed without applying statistical model parameters. Instead, the bank will estimate the cash flows primarily on the basis of the individual instruments in two scenarios:

- Going concern: After restructuring and forbearance measures, the borrower is able to meet the obligations.
- Gone concern: The borrower is not able to cover the obligations, and the bank liquidates the collateral.

The recovery cash flows and the probabilities of both scenarios will be estimated at the level of the individual instrument, taking into account documented benchmarks and guidelines.

The ECL is calculated as the difference between carrying amount of the financial instruments and the probability-weighted average present value of the return flows in both scenarios. Discounting is effected using the effective interest rate of the instrument.

For defaulted borrowers not treated as described above, the statistical model approach is applied. The ECL is determined by multiplying the carrying amount of the financial instrument with LGD. The LGD parameter is estimated using the same historical random sample data that are used for LGD in the performing portfolio. The type of collateral (residential real estate, commercial real estate, insurance policies etc.) and the amount of the collateral, in particular, are taken into account by dividing the defaulted exposure into a secured and an unsecured component, and by applying the secured LGD and the unsecured LGD. The approach does not require any additional discounting, as the present value effect is incorporated in the LGD estimate anyway.

Regulatory risk provision – NPL backstop

With effect from 30 June 2019, the supplement to the ECB guidance to banks on non-performing loans dated March 2018 stipulates criteria for a so-called statutory provisioning backstop for non-performing loans. It stipulates that a risk provision must be available in the full amount for the unsecured part of a loan after two years at the latest, and for the secured part after seven years at the latest.

In line with the backstop logic (including supplementary letters of the supervisory authority regarding pre-existing loan portfolios), the risk provisions will develop differently in relation to exposures, depending on the time of default. The difference between economic risk provisions under IFRS 9 and regulatory risk provisions in line with the backstop must be recorded directly in equity.

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 VBW, its major units and their key areas of business. The information is also included in the credit risk portions of the overall bank risk report.

The reports comprise a quantitative presentation of credit risk information relevant for risk control, which 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 industry sectors

Development of the credit risk-related portfolio in 2018

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 receivables to credit institutions, gross
- Loans and receivables to customers, gross
- Assets held for trading: 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. Equities 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 2018 compared to the previous year. The relevant figure is the gross value before deduction of any impairments, collaterals or other credit risk mitigating securities.

Credit-risk-relevant portfolio

Euro thousand	31 Dec 2018	31 Dec 2017
Liquid funds	1,510,901	1,758,462
Loans and receivables credit institutions	1,986,707	1,703,912
At amortised cost	1,986,448	1,703,912
At fair value	259	0
Loans and receivables customers	5,416,158	4,810,325
At amortised cost	5,216,727	4,810,325
At fair value	199,431	0
Assets held for trading - fixed-income securities	6,067	8,320
At fair value	6,067	8,320
Financial investments - fixed-income securities	2,051,586	1,803,197
At amortised cost	1,707,603	316,104
At fair value	343,983	1,487,093
Contingent liabilities	292,933	341,397
Credit risks	3,152,667	4,375,600
Total	**14,417,018**	**14,801,213**

As at 31 December 2018, the total credit risk-related portfolio amounted to euro 14,417,018 thousand (2017: euro 14,801,213 thousand). Loans and receivables to customers constitute the biggest group of receivables, which corresponds to the business model of classic lending business with a focus on Private and SME customers. At VBW, there are no receivables from finance leases.

Loans and receivables 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 preferentially used to manage the liquidity of the entire Association of Volksbanks. 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 VBW in its role as CO of the Association of Volksbanks, 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 receivables to customers.

Development by customer segments[1]

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 of Volksbanks, an essential 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. In loans and receivables to customers, the largest customer segment of the credit risk-relevant items is the SME segment with euro 2,575,983 thousand as at 31 December 2018 (2017: euro 2,478,425 thousand), followed by the Private Customer segment.

[1] The definition of customer segments is derived from the regulatory classification criteria.

Portfolio sub-divided by customer segments

31 Dec 2018

Euro thousand	Banks	Retail private	SME	Corporates	Public sector	Others	Total
Liquid funds	0	0	0	0	1,510,901	0	1,510,901
Loans and receivables credit institutions	1,986,707	0	0	0	0	0	1,986,707
At amortised cost	1,986,448	0	0	0	0	0	1,986,448
At fair value	259	0	0	0	0	0	259
Loans and receivables customers	0	2,300,962	2,575,983	256,452	31,987	250,774	5,416,158
At amortised cost	0	2,169,273	2,523,036	255,794	26,950	241,674	5,216,727
At fair value	0	131,689	52,946	658	5,037	9,101	199,431
Assets held for trading - fixed-income securities	5,431	0	0	636	0	0	6,067
At fair value	5,431	0	0	636	0	0	6,067
Financial investments - fixed-income securities	686,543	0	0	57,735	1,307,308	0	2,051,586
At amortised cost	668,809	0	0	57,735	981,059	0	1,707,603
At fair value	17,734	0	0	0	326,249	0	343,983
Contingent liabilities	1,451	34,668	252,975	2,890	8	941	292,933
Credit risks	2,107,460	324,685	455,907	58,082	133,885	72,648	3,152,667
Total	**4,787,592**	**2,660,315**	**3,284,865**	**375,795**	**2,984,089**	**324,363**	**14,417,018**

31 Dec 2017

Euro thousand	Banks	Retail private	SME	Corporates	Public sector	Others	Total
Liquid funds	0	0	0	0	1,758,462	0	1,758,462
Loans and receivables credit institutions	1,703,912	0	0	0	0	0	1,703,912
Loans and receivables customers	0	1,926,128	2,478,425	164,670	76,317	164,784	4,810,325
Assets held for trading - fixed-income securities	6,079	0	0	2,241	0	0	8,320
Financial investments - fixed-income securities	434,208	0	6	17,642	1,351,341	0	1,803,197
Contingent liabilities	2,434	32,254	289,978	3,733	51	12,947	341,397
Credit risks	3,382,635	301,260	448,052	34,635	141,368	67,649	4,375,600
Total	**5,529,269**	**2,259,642**	**3,216,462**	**222,921**	**3,327,539**	**245,380**	**14,801,213**

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 receivables to customers – especially FX loans – are gradually reduced.

Portfolio sub-divided by currencies

31 Dec 2018 Euro thousand	EUR	CHF	USD	GBP	Others	Total
Liquid funds	1,510,901	0	0	0	0	1,510,901
Loans and receivables credit institutions	1,439,859	504,221	16,073	1,416	25,137	1,986,707
At amortised cost	1,439,600	504,221	16,073	1,416	25,137	1,986,448
At fair value	259	0	0	0	0	259
Loans and receivables customers	5,141,829	258,921	864	44	14,499	5,416,158
At amortised cost	4,942,398	258,921	864	44	14,499	5,216,727
Thereof Retail private	2,002,239	160,933	487	0	5,614	2,169,273
Thereof SME	2,450,585	63,145	378	44	8,885	2,523,036
Thereof Corporates	252,218	3,575	0	0	0	255,794
Thereof Others	237,356	31,268	0	0	0	268,624
At fair value	199,431	0	0	0	0	199,431
Thereof Retail private	131,689	0	0	0	0	131,689
Thereof SME	52,946	0	0	0	0	52,946
Thereof Corporates	658	0	0	0	0	658
Thereof Others	14,138	0	0	0	0	14,138
Assets held for trading – fixed-income securities	6,067	0	0	0	0	6,067
At fair value	6,067	0	0	0	0	6,067
Financial investments – fixed-income securities	2,011,334	22,966	0	0	17,286	2,051,586
At amortised cost	1,690,317	0	0	0	17,286	1,707,603
Thereof Banks	668,809	0	0	0	0	668,809
Thereof Corporates	57,735	0	0	0	0	57,735
Thereof Public sector	963,773	0	0	0	17,286	981,059
Thereof Others	0	0	0	0	0	0
At fair value	321,017	22,966	0	0	0	343,983
Thereof Banks	17,734	0	0	0	0	17,734
Thereof Corporates	0	0	0	0	0	0
Thereof Public sector	303,283	22,966	0	0	0	326,249
Thereof Others	0	0	0	0	0	0
Contingent liabilities	291,736	53	1,143	0	0	292,933
Thereof Banks	783	53	615	0	0	1,451
Thereof Retail private	34,668	0	0	0	0	34,668
Thereof SME	252,447	0	529	0	0	252,975
Thereof Corporates	2,890	0	0	0	0	2,890
Thereof Others	948	0	0	0	0	948
Credit risks	3,150,981	2	1,304	0	380	3,152,667
Thereof Banks	2,107,460	0	0	0	0	2,107,460
Thereof Retail private	324,684	2	0	0	0	324,685
Thereof SME	454,222	0	1,304	0	380	455,907
Thereof Corporates	58,082	0	0	0	0	58,082
Thereof Others	206,533	0	0	0	0	206,533
Total	**13,552,707**	**786,163**	**19,385**	**1,461**	**57,303**	**14,417,018**

31 Dec 2017 Euro thousand	EUR	CHF	USD	GBP	Others	Total
Liquid funds	1,758,462	0	0	0	0	1,758,462
Loans and receivables credit institutions	1,171,267	477,030	2,128	515	52,972	1,703,912
Loans and receivables customers	4,518,379	275,489	1,151	0	15,306	4,810,325
Thereof Retail private	1,737,361	181,505	460	0	6,802	1,926,128
Thereof SME	2,398,733	70,497	691	0	8,503	2,478,425
Thereof Corporates	164,670	0	0	0	0	164,670
Thereof Others	217,615	23,487	0	0	0	241,102
Assets held for trading – fixed-income securities	8,320	0	0	0	0	8,320
Financial investments – fixed-income securities	1,762,157	22,475	0	0	18,565	1,803,197
Thereof Banks	434,208	0	0	0	0	434,208
Thereof Corporates	17,642	0	0	0	0	17,642
Thereof Public sector	1,310,301	22,475	0	0	18,565	1,351,341
Thereof Others	6	0	0	0	0	6
Contingent liabilities	340,172	51	1,174	0	0	341,397
Thereof Banks	1,884	51	499	0	0	2,434
Thereof Retail private	32,254	0	0	0	0	32,254
Thereof SME	289,303	0	675	0	0	289,978
Thereof Corporates	3,733	0	0	0	0	3,733
Thereof Others	12,998	0	0	0	0	12,998
Credit risks	4,374,037	2	1,134	0	428	4,375,600
Thereof Banks	3,382,635	0	0	0	0	3,382,635
Thereof Retail private	301,258	1	0	0	0	301,260
Thereof SME	446,491	0	1,134	0	428	448,052
Thereof Corporates	34,635	0	0	0	0	34,635
Thereof Others	209,017	0	0	0	0	209,017
Total	**13,932,794**	**775,047**	**5,587**	**515**	**87,271**	**14,801,213**

Development of repayment vehicle and foreign currency loans

As at 31 December 2018, the total borrowings under repayment vehicle and foreign currency loans amounted to euro 333,717 thousand (2017: euro 368,955 thousand).

Development by countries

The main business activity of the Association of Volksbanks, and thus of VBW, focuses on the Austrian market. This is also evident from the following tables. At 31 December 2018, Austrian exposures accounted for 88.3 % of the credit risk-related portfolio (2017: 90.2 %).

Portfolio sub-divided by countries

31 Dec 2018

Euro thousand	Austria	Germany	Switzerland	Liechten-stein	EEA	EU CEE	Others	Total
Liquid funds	1,510,901	0	0	0	0	0	0	1,510,901
Loans and receivables credit institutions	1,545,167	140,548	18,726	0	233,564	492	48,210	1,986,707
At amortised cost	1,544,908	140,548	18,726	0	233,564	492	48,210	1,986,448
At fair value	259	0	0	0	0	0	0	259
Loans and receivables customers	5,275,352	43,260	36,492	1,154	30,762	18,822	10,315	5,416,158
At amortised cost	5,078,397	43,156	36,144	1,154	30,725	17,563	9,588	5,216,727
Thereof Retail private	2,141,304	13,765	632	1,154	3,537	4,737	4,143	2,169,273
Thereof SME	2,491,290	15,861	4,244	0	1,540	10,101	0	2,523,036
Thereof Corporates	217,551	9,871	0	0	25,647	2,724	0	255,794
Thereof Others	228,252	3,659	31,268	0	0	0	5,445	268,624
At fair value	196,954	104	348	0	37	1,259	727	199,431
Thereof Retail private	129,248	104	348	0	1	1,259	727	131,689
Thereof SME	52,910	0	0	0	36	0	0	52,946
Thereof Corporates	658	0	0	0	0	0	0	658
Thereof Others	14,138	0	0	0	0	0	0	14,138
Assets held for trading - fixed-income securities	6,067	0	0	0	0	0	0	6,067
At fair value	6,067	0	0	0	0	0	0	6,067
Financial investments - fixed-income securities	957,625	59,799	1,051	0	807,580	201,607	23,924	2,051,586
At amortised cost	710,289	55,305	1,051	0	790,979	126,054	23,924	1,707,603
Thereof Banks	241,860	48,566	1,051	0	373,023	0	4,309	668,809
Thereof Corporates	12,720	0	0	0	25,400	0	19,615	57,735
Thereof Public sector	455,709	6,739	0	0	392,556	126,054	0	981,059
Thereof Others	0	0	0	0	0	0	0	0
At fair value	247,336	4,493	0	0	16,601	75,553	0	343,983
Thereof Banks	6,741	2,416	0	0	8,576	0	0	17,734
Thereof Corporates	0	0	0	0	0	0	0	0
Thereof Public sector	240,595	2,077	0	0	8,025	75,553	0	326,249
Thereof Others	0	0	0	0	0	0	0	0
Contingent liabilities	292,286	293	38	0	27	59	230	292,933
Thereof Banks	1,331	119	0	0	0	0	0	1,451
Thereof Retail private	34,365	10	12	0	22	29	230	34,668
Thereof SME	252,792	123	26	0	5	30	0	252,975
Thereof Corporates	2,850	41	0	0	0	0	0	2,890
Thereof Others	948	0	0	0	0	0	0	948
Credit risks	3,149,253	2,338	342	1	46	515	172	3,152,667
Thereof Banks	2,107,460	0	0	0	0	0	0	2,107,460
Thereof Retail private	322,367	1,277	341	1	45	482	172	324,685
Thereof SME	454,811	1,062	0	0	1	33	0	455,907
Thereof Corporates	58,082	0	0	0	0	0	0	58,082
Thereof Others	206,533	0	0	0	0	0	0	206,533
Total	**12,736,650**	**246,237**	**56,650**	**1,155**	**1,071,979**	**221,495**	**82,852**	**14,417,018**

31 Dec 2017

Euro thousand	Austria	Germany	Switzerland	Liechten-stein	EEA	EU CEE	Others	Total
Liquid funds	1,758,462	0	0	0	0	0	0	1,758,462
Loans and receivables credit institutions	1,279,468	122,810	2,043	6	255,575	1,074	42,937	1,703,912
Loans and receivables customers	4,691,329	35,648	28,632	5	21,964	21,013	11,733	4,810,325
Thereof Retail private	1,899,007	12,384	1,139	5	3,368	6,479	3,747	1,926,128
Thereof SME	2,443,484	18,516	4,007	0	1,521	10,201	696	2,478,425
Thereof Corporates	144,457	1,008	0	0	17,075	2,131	0	164,670
Thereof Others	204,382	3,741	23,487	0	0	2,201	7,290	241,102
Assets held for trading - fixed-income securities	8,320	0	0	0	0	0	0	8,320
Financial investments - fixed-income securities	899,649	58,121	1,095	0	584,272	226,717	33,343	1,803,197
Thereof Banks	126,300	49,116	1,095	0	253,394	0	4,303	434,208
Thereof Corporates	8,468	0	0	0	0	0	9,174	17,642
Thereof Public sector	764,875	9,005	0	0	330,878	226,717	19,865	1,351,341
Thereof Others	6	0	0	0	0	0	0	6
Contingent liabilities	340,635	381	38	0	27	62	255	341,397
Thereof Banks	2,315	119	0	0	0	0	0	2,434
Thereof Retail private	31,921	12	12	0	22	32	255	32,254
Thereof SME	289,709	208	26	0	5	30	0	289,978
Thereof Corporates	3,692	41	0	0	0	0	0	3,733
Thereof Others	12,998	0	0	0	0	0	0	12,998
Credit risks	4,372,349	1,563	28	0	35	1,359	266	4,375,600
Thereof Banks	3,382,635	0	0	0	0	0	0	3,382,635
Thereof Retail private	300,142	581	28	0	35	343	132	301,260
Thereof SME	445,951	982	0	0	0	1,016	103	448,052
Thereof Corporates	34,635	0	0	0	0	0	0	34,635
Thereof Others	208,986	0	0	0	0	0	31	209,017
Total	**13,350,212**	**218,522**	**31,837**	**11**	**861,874**	**250,224**	**88,533**	**14,801,213**

Development by sectors[1]

The most important sector within loans and receivables to customers of VBW are private households with 42.5% as at 31 December 2018 (2017: 40.3%). The largest commercial sector within VBW is the real estate sector. It accounts for a share of 35.6% (2017: 31.5%). As at 31 December 2018, the largest commercial sector within loans and receivables to customers in the SME segment is the real estate sector, accounting for 60.78% (2017: 45.95%), followed by the retail and repair sector with a share of 8.04% (2017: 7.23%). As at 31 December 2018, the largest commercial sector within loans and receivables to customers in the Corporate segment is again the real estate sector, accounting for 44.75% (2017: 20.51%).

[1]*The definition of the sector is largely aligned with the ÖNACE codes and cannot be compared directly with customer segments, where a different classification logic is applied.*

Portfolio sub-divided by industries

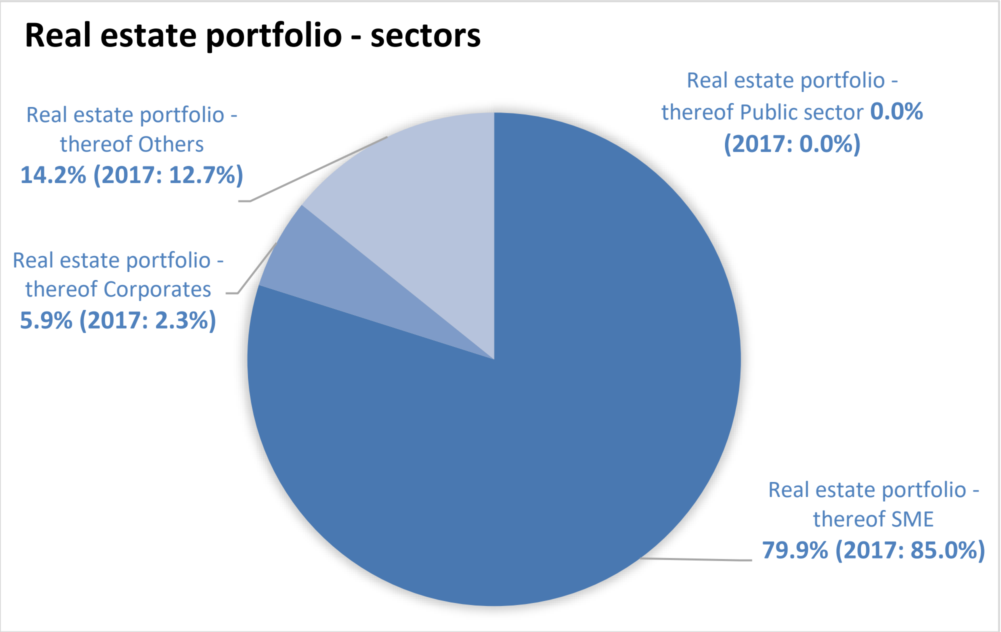
31 Dec 2018 Euro thousand	Private house-holds	Financial services incl. banks	Public authorities	Real estate	Construction industry
Liquid funds	0	0	1,510,901	0	0
Loans and receivables credit institutions	0	1,986,707	0	0	0
At amortised cost	0	1,986,448	0	0	0
At fair value	0	259	0	0	0
Loans and receivables customers	2,301,240	97,750	31,987	1,927,235	131,642
At amortised cost	2,169,551	97,243	26,950	1,900,124	129,612
At fair value	131,689	507	5,037	27,111	2,030
Assets held for trading – fixed-income securities	0	5,431	0	356	0
At fair value	0	5,431	0	356	0
Financial investments – fixed-income securities	0	702,930	1,307,308	0	0
At amortised cost	0	685,196	981,059	0	0
At fair value	0	17,734	326,249	0	0
Contingent liabilities	34,606	174,824	8	15,122	11,226
Credit risks	324,350	2,139,459	133,885	301,003	36,475
Total	**2,660,196**	**5,107,101**	**2,984,089**	**2,243,717**	**179,343**

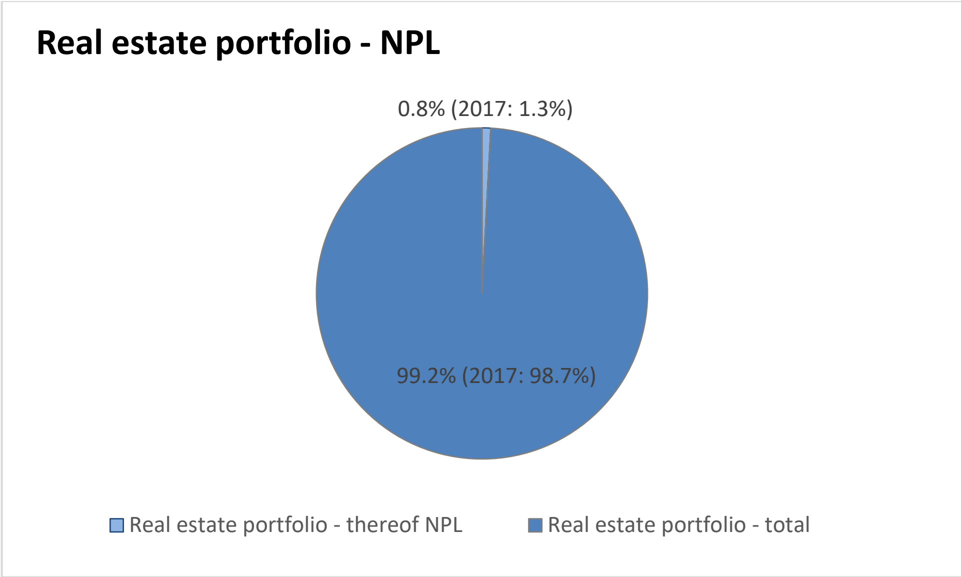
31 Dec 2018 Euro thousand	Tourism	Trade and repairs	Physicians/ healthcare	Food/ agriculture and forestry	Others	Total
Liquid funds	0	0	0	0	0	1,510,901
Loans and receivables credit institutions	0	0	0	0	0	1,986,707
At amortised cost	0	0	0	0	0	1,986,448
At fair value	0	0	0	0	0	259
Loans and receivables customers	133,802	216,273	116,107	152,257	307,864	5,416,158
At amortised cost	129,114	213,653	115,243	137,838	297,398	5,216,727
At fair value	4,688	2,620	864	14,419	10,465	199,431
Assets held for trading – fixed-income securities	0	0	0	0	280	6,067
At fair value	0	0	0	0	280	6,067
Financial investments – fixed-income securities	0	0	0	14,148	27,201	2,051,586
At amortised cost	0	0	0	14,148	27,201	1,707,603
At fair value	0	0	0	0	0	343,983
Contingent liabilities	15,064	16,294	2,837	1,839	21,113	292,933
Credit risks	35,539	47,257	12,352	20,564	101,782	3,152,667
Total	**184,404**	**279,824**	**131,297**	**188,808**	**458,240**	**14,417,018**

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 credit institutions	0	1,703,912	0	0	0
Loans and receivables customers	1,936,387	92,438	79,234	1,514,547	141,009
Assets held for trading – fixed-income securities	0	6,079	0	0	0
Financial investments – fixed-income securities	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	Food/ agriculture and forestry	Others	Total
Liquid funds	0	0	0	0	0	1,758,462
Loans and receivables credit institutions	0	0	0	0	0	1,703,912
Loans and receivables customers	97,085	207,145	82,662	142,694	517,124	4,810,325
Assets held for trading – fixed-income securities	0	0	0	0	2,241	8,320
Financial investments – fixed-income securities	0	0	0	0	10,503	1,803,197
Contingent liabilities	7,969	19,020	11,929	2,209	22,004	341,397
Credit risks	12,533	50,633	6,719	27,963	111,733	4,375,600
Total	**117,586**	**276,798**	**101,310**	**172,866**	**663,606**	**14,801,213**

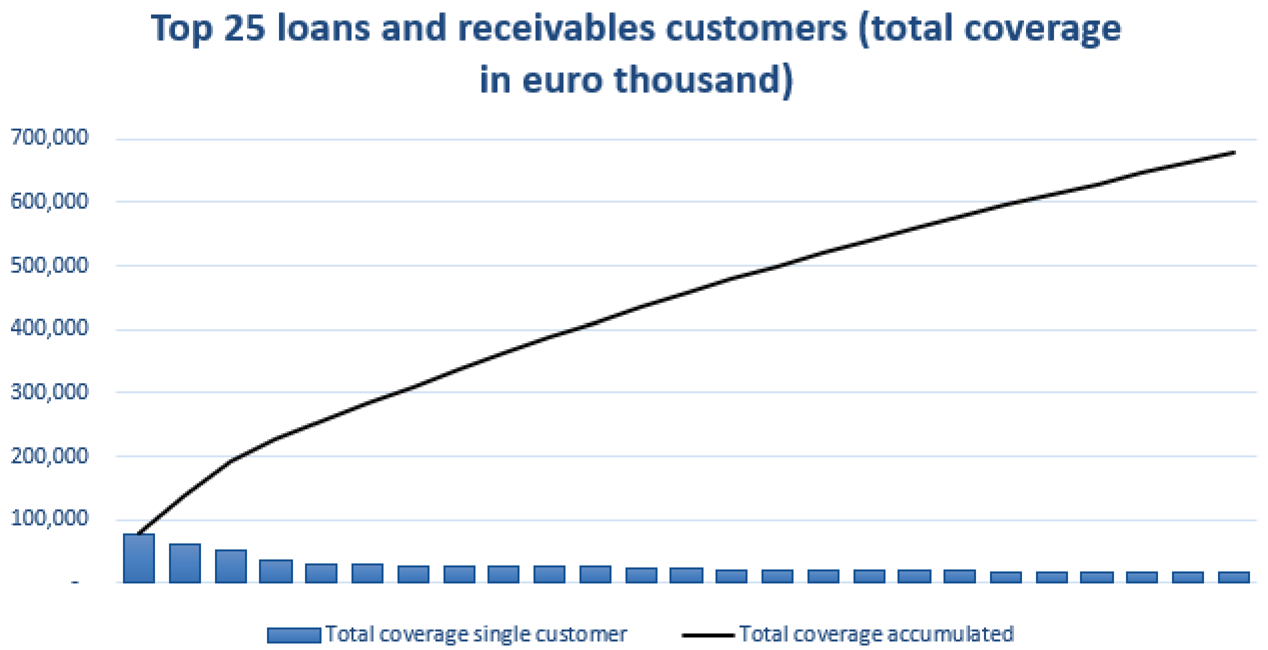
The following charts show the distribution of the real estate portfolio by segments, and the proportion of non-performing loans within the real estate portfolio. The major part of the real estate portfolio is found in the SME segment, with 79.9 % (2017: 85.0 %); at 0.8% (2017: 1.3 %), the NPL ratio in the real estate portfolio is below the NPL ratio of internal risk control of 1.97 % (2017: 2.52 %), as at 31 December 2018.





Top 25 loans and receivables customers

The following chart shows the VBW´s top 25 loans to and receivables from customers as at 31 December 2018 with total coverage per single customer as well as total coverage accumulated in the amount of euro 677,955 thousand. It represents VBW´s business model focussing on low-volume private and SME custoners. The top 25 loans to and receivables from customers represent around 10.5 % of the VBW´s total amount of loans to and receivables from customers (top number 1 customer 1.2 % of the total amount of loans to and receivables from customers). The amounts are shown according to the internal risk point of view meaning receivables from customers as well as credit risks and contingent liabilities to customers excluding transactions within the Association and the pro rata guarantee of the Association which is not allocated to VBW.



Development by ratings

The division 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 (NPLs).

The NR category primarily comprises exposures below the threshold for mandatory rating.

Portfolio sub-divided by ratings

31 Dec 2018				Risk category			
Euro thousand	**1 (1A - 1E)**	**2 (2A - 2E)**	**3 (3A - 3E)**	**4 (4A - 4E)**	**5 (5A - 5E)**	**6 (NR)**	**Total**
Liquid funds	1,510,901	0	0	0	0	0	1,510,901
Loans and receivables credit institutions	255,929	1,730,212	415	150	0	0	1,986,707
At amortised cost	255,929	1,729,956	413	150	0	0	1,986,448
At fair value	0	256	3	0	0	0	259
Loans and receivables customers	216,184	1,536,769	3,206,437	327,933	125,958	2,878	5,416,158
At amortised cost	205,233	1,425,123	3,145,956	319,844	117,708	2,863	5,216,727
Thereof Retail private	62,401	1,109,238	873,045	78,442	45,509	637	2,169,273
Thereof SME	31,821	199,063	1,985,297	234,667	69,974	2,214	2,523,036
Thereof Corporates	28,891	86,241	136,126	3,823	702	12	255,794
Thereof Others	82,120	30,581	151,487	2,913	1,522	0	268,624
At fair value	10,950	111,646	60,481	8,088	8,250	15	199,431
Thereof Retail private	6,417	100,143	14,013	5,140	5,961	14	131,689
Thereof SME	466	11,393	36,713	2,948	1,426	1	52,946
Thereof Corporates	0	0	658	0	0	0	658
Thereof Others	4,067	110	9,097	0	864	0	14,138
Assets held for trading - fixed-income securities	0	5,788	279	0	0	0	6,067
At fair value	0	5,788	279	0	0	0	6,067
Financial investments - fixed-income securities	1,147,497	894,544	9,545	0	0	0	2,051,586
At amortised cost	855,324	842,734	9,545	0	0	0	1,707,603
Thereof Banks	245,571	413,694	9,545	0	0	0	668,809
Thereof Corporates	10,361	47,374	0	0	0	0	57,735
Thereof Public sector	599,393	381,666	0	0	0	0	981,059
Thereof Others	0	0	0	0	0	0	0
At fair value	292,173	51,810	0	0	0	0	343,983
Thereof Banks	8,837	8,897	0	0	0	0	17,734
Thereof Corporates	0	0	0	0	0	0	0
Thereof Public sector	283,336	42,913	0	0	0	0	326,249
Thereof Others	0	0	0	0	0	0	0
Contingent liabilities	1,674	68,984	180,592	9,187	3,647	28,849	292,933
Thereof Banks	112	1,298	41	0	0	0	1,451
Thereof Retail private	1,505	10,245	22,479	423	10	6	34,668
Thereof SME	54	54,972	156,768	8,754	3,601	28,827	252,975
Thereof Corporates	0	2,464	364	10	36	16	2,890
Thereof Others	3	5	941	0	0	0	948
Credit risks	223,372	2,337,921	552,795	30,094	1,308	7,177	3,152,667
Thereof Banks	0	2,107,460	0	0	0	0	2,107,460
Thereof Retail private	89,533	97,449	133,914	2,462	191	1,136	324,685
Thereof SME	749	99,689	321,726	26,702	1,118	5,923	455,907
Thereof Corporates	225	31,206	25,616	930	0	105	58,082
Thereof Others	132,865	2,117	71,538	0	0	13	206,533
Total	**3,355,558**	**6,574,217**	**3,950,062**	**367,363**	**130,913**	**38,904**	**14,417,018**

31 Dec 2017				**Risk category**			
Euro thousand	**1 (1A - 1E)**	**2 (2A - 2E)**	**3 (3A - 3E)**	**4 (4A - 4E)**	**5 (5A - 5E)**	**6 (NR)**	**Total**
Liquid funds	1,758,462	0	0	0	0	0	1,758,462
Loans and receivables credit institutions	133,750	1,511,400	36,066	4,775	0	17,922	1,703,912
Loans and receivables customers	126,444	1,522,676	2,603,736	395,936	157,156	4,378	4,810,325
Thereof Retail private	2,346	1,124,148	649,275	86,776	62,370	1,213	1,926,128
Thereof SME	37,886	294,284	1,753,645	303,481	86,073	3,056	2,478,425
Thereof Corporates	21,959	66,064	72,750	2,872	952	72	164,670
Thereof Others	64,252	38,180	128,066	2,807	7,761	36	241,102
Assets held for trading - fixed-income securities	0	0	8,320	0	0	0	8,320
Financial investments - fixed-income securities	1,061,492	683,343	58,331	0	6	25	1,803,197
Thereof Banks	110,261	313,970	9,978	0	0	0	434,208
Thereof Corporates	0	17,366	251	0	0	25	17,642
Thereof Public sector	951,231	352,008	48,102	0	0	0	1,351,341
Thereof Others	0	0	0	0	6	0	6
Contingent liabilities	723	69,223	223,149	16,382	4,000	27,920	341,397
Thereof Banks	554	1,880	0	0	0	0	2,434
Thereof Retail private	148	12,328	18,387	1,267	117	6	32,254
Thereof SME	0	40,694	202,786	14,742	3,847	27,910	289,978
Thereof Corporates	0	2,082	1,538	73	36	3	3,733
Thereof Others	21	12,239	438	300	0	0	12,998
Credit risks	163,194	3,669,791	492,773	43,489	2,393	3,960	4,375,600
Thereof Banks	148	3,379,429	3,058	0	0	0	3,382,635
Thereof Retail private	21,845	156,102	116,054	4,692	895	1,673	301,260
Thereof SME	135	105,354	302,999	35,974	1,498	2,093	448,052
Thereof Corporates	25	27,449	6,903	104	0	154	34,635
Thereof Others	141,041	1,456	63,760	2,719	0	41	209,017
Total	**3,244,063**	**7,456,433**	**3,422,376**	**460,581**	**163,555**	**54,205**	**14,801,213**

Portfolio sub-divided by ratings and stages

31 Dec 2018				Risk category			
Euro thousand	**1 (1A - 1E)**	**2 (2A - 2E)**	**3 (3A - 3E)**	**4 (4A - 4E)**	**5 (5A - 5E)**	**6 (NR)**	**Total**
Liquid funds	1,510,901	0	0	0	0	0	1,510,901
Loans and receivables credit institutions	255,929	1,730,212	415	150	0	0	1,986,707
At amortised cost	255,929	1,729,956	413	150	0	0	1,986,448
Thereof Stage 1	255,929	1,729,955	412	150	0	0	1,986,446
Thereof Stage 2	0	0	1	0	0	0	1
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	0	256	3	0	0	0	259
Loans and receivables customers	216,184	1,536,769	3,206,437	327,933	125,958	2,878	5,416,158
At amortised cost	205,233	1,425,123	3,145,956	319,844	117,708	2,863	5,216,727
Thereof Stage 1	205,060	1,410,539	2,871,520	147,542	0	582	4,635,242
Thereof Stage 2	174	14,584	274,436	172,303	0	2,281	463,777
Thereof Stage 3	0	0	0	0	117,708	0	117,708
At fair value	10,950	111,646	60,481	8,088	8,250	15	199,431
Assets held for trading - fixed-income securities	0	5,788	279	0	0	0	6,067
At fair value	0	5,788	279	0	0	0	6,067
Financial investments - fixed-income securities	1,147,497	894,544	9,545	0	0	0	2,051,586
At amortised cost	855,324	842,734	9,545	0	0	0	1,707,603
Thereof Stage 1	855,324	842,734	9,545	0	0	0	1,707,603
Thereof Stage 2	0	0	0	0	0	0	0
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	292,173	51,810	0	0	0	0	343,983
Contingent liabilities	1,674	68,984	180,592	9,187	3,647	28,849	292,933
Thereof Stage 1	1,674	68,036	173,513	5,674	0	28,816	277,714
Thereof Stage 2	0	948	7,078	3,512	0	33	11,572
Thereof Stage 3	0	0	0	0	3,647	0	3,647
Credit risks	223,372	2,337,921	552,795	30,094	1,308	7,177	3,152,667
Thereof Stage 1	222,503	2,335,280	527,458	22,645	0	6,194	3,114,080
Thereof Stage 2	869	2,641	25,337	7,449	0	983	37,279
Thereof Stage 3	0	0	0	0	1,308	0	1,308
Total	**3,355,558**	**6,574,217**	**3,950,062**	**367,363**	**130,913**	**38,904**	**14,417,018**

31 Dec 2017 Euro thousand	Risk category 1 (1A - 1E)	2 (2A - 2E)	3 (3A - 3E)	4 (4A - 4E)	5 (5A - 5E)	6 (NR)	Total
Liquid funds	1,758,462	0	0	0	0	0	1,758,462
Loans and receivables credit institutions	133,750	1,511,400	36,066	4,775	0	17,922	1,703,912
Loans and receivables customers	126,444	1,522,676	2,603,736	395,936	157,156	4,378	4,810,325
Assets held for trading - fixed-income securities	0	0	8,320	0	0	0	8,320
Financial investments - fixed-income securities	1,061,492	683,343	58,331	0	6	25	1,803,197
Contingent liabilities	723	69,223	223,149	16,382	4,000	27,920	341,397
Credit risks	163,194	3,669,791	492,773	43,489	2,393	3,960	4,375,600
Total	**3,244,063**	**7,456,433**	**3,422,376**	**460,581**	**163,555**	**54,205**	**14,801,213**

Effects from contract amendments

The following table shows the carrying amounts and effects from contract amendments of financial instruments. Within the Association of Volksbanks, this concerns loans and receivables to customers exclusively.

Euro thousand	31 Dec 2018
Gross carrying amount before modification	51,081
Net modification gain/loss	-109
Gross carrying amount at 31 Dec. of loans and receivables for which loss allowance has changed to 12-months measurement during period	3,481

Development of NPL portfolio

Receivables are considered defaulted if there is a default of payment of more than 90 days, pursuant to the CRR, and/or if it is unlikely that the borrower is going to meet its loan obligations in full without recourse to certain measures, such as the liquidation of any collateral (if available). The defaulted loans or NPLs are allocated to risk category 5 within the Association of Volksbanks. Internal control is effected according to the NPL ratio for balance sheet and off-balance sheet loans and receivables 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 2018, the NPL ratio within internal risk control amounted to 1.97 % for VBW (2017: 2.52 %).

The NPL coverage ratio through risk provisions or Coverage Ratio I for internal reporting amounts to 29.81 % for VBW as at 31 December 2018 (2017: 26.95 %).

The NPL coverage ratio through risk provisions or Coverage Ratio III for internal reporting amounts to 104.73 % for VBW as at 31 December 2018 (2017: 103.7 %).

These ratios under the internal risk perspective exclusively refer to loans and receivables 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. For this reason, these figures are different from the values presented in the following table. The credit risks and contingent liabilities in the table below also include transactions concluded with other Volksbanks. The items substantially increase the NPL denominator, thus reducing, for instance, the NPL ratio significantly (see explanatory notes below); accordingly, this perspective is less relevant for risk control. Moreover, the following table shows the full amounts of the transactions covered by the Association's guarantee. As, however, VBW as the CO of the Association of Volksbanks has passed on parts of the risk under any assumed loan portfolio to other Volksbanks, these parts will not be taken into account within the internal risk perspective for the purpose of steering VBW.

The credit risk volume relevant for calculating the NPL ratio amounted to euro 6,462,068 thousand in internal reporting (2017: euro 5,667,142 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 8,861,757 thousand shown in the following table as at 31 December 2018 (2017: euro 9,527,322 thousand).

The NPL total in internal reporting amounted to euro 127,532 thousand as at 31 December 2018 (2017: euro 143,077 thousand). The NPL amount is lower than the euro 130,913 thousand shown in the following table as at 31 December 2018 (2017: euro 163,549 thousand). This is due to the pro rata allocation of defaulted guarantee transactions of the Association to the remaining Volksbanks. There are no internal transactions within the Association.

Total risk provisions within the NPL portfolio in internal reporting amounted to euro 38,011 thousand as at 31 December 2018 (2017: euro 38,555 thousand). The NPL amount is lower than the euro 42,329 thousand shown in the following table as at 31 December 2018 (2017: euro 49,482 thousand). This is due to the pro rata allocation of defaulted guarantee transactions of the Association to the remaining Volksbanks.

The amount of collaterals in the NPL portfolio in internal reporting amounted to euro 95,548 thousand as at 31 December 2018 (2017: euro 109,820 thousand). This amount is lower than the euro 96,248 thousand shown in the following table (2017: euro 117,346 thousand). This is due to the pro rata allocation of defaulted guarantee transactions of the Association to the remaining Volksbanks.

NPL Portfolio:

31 Dec 2018

Euro thousand	Loan volume - total	NPL	NPL ratio	Risk provisions for NPL	Risk provisions for NPL - thereof individually assessed	Risk provisions for NPL - thereof collectively assessed
Liquid funds	1,510,901	0	0.00 %	0	0	0
Loans and receivables credit institutions	1,986,707	0	0.00 %	0	0	0
At amortised cost	1,986,448	0	0.00 %	0	0	0
At fair value	259	0	0.00 %	0	0	0
Loans and receivables customers	5,416,158	125,958	2.33 %	39,172	17,242	21,930
At amortised cost	5,216,727	117,708	2.26 %	39,172	17,242	21,930
Thereof Retail private	2,169,273	45,509	2.10 %	12,198	2,232	9,966
Thereof SME	2,523,036	69,974	2.77 %	26,352	14,904	11,448
Thereof Corporates	255,794	702	0.27 %	214	0	214
Thereof Others	268,624	1,522	0.57 %	408	107	302
At fair value	199,431	8,250	4.14 %	0	0	0
Thereof Retail private	131,689	5,961	4.53 %	0	0	0
Thereof SME	52,946	1,426	2.69 %	0	0	0
Thereof Corporates	658	0	0.00 %	0	0	0
Thereof Others	14,138	864	6.11 %	0	0	0
Assets held for trading - fixed-income securities	6,067	0	0.00 %	0	0	0
At fair value	6,067	0	0.00 %	0	0	0
Financial investments - fixed-income securities	2,051,586	0	0.00 %	0	0	0
At amortised cost	1,707,603	0	0.00 %	0	0	0
At fair value	343,983	0	0.00 %	0	0	0
Contingent liabilities	292,933	3,647	1.25 %	2,795	1,525	1,270
Credit risks	3,152,667	1,308	0.04 %	362	20	342
Total	**14,417,018**	**130,913**	**0.91 %**	**42,329**	**18,788**	**23,541**
Loans and receivables customers, contingent liabilities, credit risks	8,861,757	130,913	1.48 %	42,329	18,788	23,541
Liquid funds, loans and receivables credit institutions and customers	8,913,766	125,958	1.41 %	39,172	17,242	21,930

31 Dec 2018

Euro thousand	NPL coverage ratio (Loan loss allowance)	Collateral for NPL	NPL coverage ratio (Loan loss allowance + collateral)
Liquid funds	0.00 %	0	0.00 %
Loans and receivables credit institutions	0.00 %	0	0.00 %
At amortised cost	0.00 %	0	0.00 %
At fair value	0.00 %	0	0.00 %
Loans and receivables customers	31.10 %	94,785	106.35 %
At amortised cost	33.28 %	86,983	107.18 %
Thereof Retail private	26.80 %	36,551	107.12 %
Thereof SME	37.66 %	48,910	107.56 %
Thereof Corporates	30.47 %	0	30.47 %
Thereof Others	26.83 %	1,522	126.83 %
At fair value	0.00 %	7,802	94.57 %
Thereof Retail private	0.00 %	6,452	108.24 %
Thereof SME	0.00 %	1,350	94.69 %
Thereof Corporates	0.00 %	0	0.00 %
Thereof Others	0.00 %	0	0.00 %
Assets held for trading - fixed-income securities	0.00 %	0	0.00 %
At fair value	0.00 %	0	0.00 %
Financial investments - fixed-income securities	0.00 %	0	0.00 %
At amortised cost	0.00 %	0	0.00 %
At fair value	0.00 %	0	0.00 %
Contingent liabilities	76.65 %	1,463	116.75 %
Credit risks	27.68 %	0	27.68 %
Total	**32.33 %**	**96,248**	**105.85 %**
Loans and receivables customers, contingent liabilities and credit risks	32.33.%	96,248	105.85 %
Liquid funds, loans and receivables credit institutions and customers	31.10 %	94,785	106.35 %

31 Dec 2017

Euro thousand	Loan volume - total	NPL	NPL ratio	Risk provisions for NPL
Liquid funds	1,758,462	0	0.00 %	0
Loans and receivables credit institutions	1,703,912	0	0.00 %	0
Loans and receivables customers	4,810,325	157,156	3.27 %	46,555
Thereof Retail private	1,926,128	62,370	3.24 %	12,343
Thereof SME	2,478,425	86,073	3.47 %	26,616
Thereof Corporates	164,670	952	0.58 %	440
Thereof Others	241,102	7,761	3.22 %	7,156
Assets held for trading - fixed-income securities	8,320	0	0.00 %	0
Financial investments - fixed-income securities	1,803,197	6	0.00 %	0
Contingent liabilities	341,397	4,000	1.17 %	2,400
Credit risks	4,375,600	2,393	0.05 %	526
Total	**14,801,213**	**163,555**	**1.11 %**	**49,482**
Loans and receivables customers, contingent liabilities and credit risks	9,527,322	163,549	1.72 %	49,482
Liquid funds, loans and receivables credit institutions and customers	8,272,699	157,156	1.90 %	46,555

31 Dec 2017

Euro thousand	NPL coverage ratio (Loan loss allowance)	Collateral for NPL	NPL coverage ratio (Loan loss allowance + collateral)
Liquid funds	0.00 %	0	0.00 %
Loans and receivables credit institutions	0.00 %	0	0.00 %
Loans and receivables customers	29.62 %	115,553	103.15 %
Thereof Retail private	19.79 %	51,898	103.00 %
Thereof SME	30.92 %	61,455	102.32 %
Thereof Corporates	46.26 %	703	120.13 %
Thereof Others	92.21 %	1,497	111.50 %
Assets held for trading - fixed-income securities	0.00 %	0	0.00 %
Financial investments - fixed-income securities	0.00 %	0	0.00 %
Contingent liabilities	60.01 %	1,793	104.83 %
Credit risks	22.00 %	0	22.00 %
Total	**30.25 %**	**117,346**	**102.00 %**
Loans and receivables customers, contingent liabilities and credit risks	30.26 %	117,346	102.00 %
Liquid funds, loans and receivables credit institutions and customers	29.62 %	115,553	103.15 %

The following table shows the development of NPL holdings in the business year. The NPL portfolio as at 1 January 2018 takes account of the effect of transition from IAS 39 to IFRS 9 in the amount of euro -8,554 thousand compared to the portfolio as at 31 December 2017.

Development NPL portfolio

Euro thousand	Total
NPL as at 1 Jan 2017	203,454
Classified as impaired during the year	43,159
Transferred to not-impaired during the year	-19,330
Account coverage and write off - NPL	-62,850
Net repayments and other movements	-884
NPL as at 31 Dec 2017	163,549
Transition effect IFRS 9	-8,554
NPL as at 1 Jan 2018	154,995
Classified as impaired during the year	29,769
Transferred to not-impaired during the year	-11,035
Account coverage and write off - NPL	-42,395
Net repayments and other movements	-421
NPL as at 31 Dec 2018	**130,913**

The other portfolio changes in the 2017 business year include the increase of the carrying amount of NPL holdings from the Sparda Bank merger in the amount of euro 11,214 thousand. The other portfolio changes in the 2018 business year include the increase of the carrying amount of NPL holdings from the Waldviertler Volksbank Horn merger in the amount of euro 2,615 thousand.

Development forbearance portfolio

Forbearance refers to contractual 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 are classified as forborne are subject to special monitoring regulations within the Association of Volksbanks.

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 78,631 thousand (2017: euro 95,902 thousand). This amount relates to performing forborne credit exposures in the amount of euro 39,076 thousand (2017: euro 41,299 thousand) and non-performing forborne credit exposures in the amount of euro 39,554 thousand (2017: euro 54,603 thousand).

Development of overdue positions

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

31 Dec 2018

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	More than 365 days past due	Total
Liquid funds	1,510,901	0	0	0	0	0	1,510,901
Loans and receivables credit institutions	1,986,331	376	0	0	0	0	1,986,707
At amortised cost	1,986,072	376	0	0	0	0	1,986,448
At fair value	259	0	0	0	0	0	259
Loans and receivables customers	5,237,528	111,044	10,381	9,193	12,417	35,594	5,416,158
At amortised cost	5,046,235	105,669	10,173	8,708	12,215	33,728	5,216,727
Thereof Retail private	2,132,484	16,190	1,783	2,147	4,355	12,313	2,169,273
Thereof SME	2,422,705	58,333	8,388	5,038	7,161	21,412	2,523,036
Thereof Corporates	226,704	28,386	2	0	699	3	255,794
Thereof Others	264,342	2,759	0	1,522	0	0	268,624
At fair value	191,293	5,376	208	486	202	1,866	199,431
Thereof Retail private	127,415	2,105	130	308	161	1,569	131,689
Thereof SME	50,361	1,992	78	177	41	297	52,946
Thereof Corporates	658	0	0	0	0	0	658
Thereof Others	12,859	1,279	0	0	0	0	14,138
Assets held for trading - fixed-income securi-ties	6,067	0	0	0	0	0	6,067
At fair value	6,067	0	0	0	0	0	6,067
Financial investments - fixed-income securities	2,051,586	0	0	0	0	0	2,051,586
At amortised cost	1,707,603	0	0	0	0	0	1,707,603
At fair value	343,983	0	0	0	0	0	343,983
Contingent liabilities	292,933	0	0	0	0	0	292,933
Credit risks	3,152,667	0	0	0	0	0	3,152,667
Total	**14,238,013**	**111,420**	**10,381**	**9,193**	**12,417**	**35,594**	**14,417,018**

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	More than 365 days past due	Total
Liquid funds	1,758,462	0	0	0	0	0	1,758,462
Loans and receivables credit institutions	1,698,734	5,172	6	0	0	0	1,703,912
Loans and receivables customers	4,679,534	36,658	31,622	5,536	9,109	47,866	4,810,325
Thereof Retail private	1,897,570	6,639	2,224	1,476	3,997	14,222	1,926,128
Thereof SME	2,401,123	29,932	12,320	4,055	5,112	25,882	2,478,425
Thereof Corporates	147,504	83	17,078	5	0	0	164,670
Thereof Others	233,337	4	0	0	0	7,761	241,102
Assets held for trading - fixed-income securities	8,320	0	0	0	0	0	8,320
Financial investments - fixed-income securities	1,803,197	0	0	0	0	0	1,803,197
Contingent liabilities	341,397	0	0	0	0	0	341,397
Credit risks	4,375,600	0	0	0	0	0	4,375,600
Total	**14,665,244**	**41,830**	**31,628**	**5,536**	**9,109**	**47,866**	**14,801,213**

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

In the case of receivables that are overdue but not individually impaired, the present value of the expected cash flows corresponds to that of the contractual cash flows.

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

Loans and receivables customers past due

31 Dec 2018

Euro thousand	Loans and receivables customers (gross)	Collaterals	NPL	Collateral for NPL	NPL not impaired
At amortised cost					
Not past due	5,046,235	4,657,914	57,911	42,864	2,876
Past due	170,492	134,786	59,797	44,119	4,391
1-30 days past due	105,668	86,166	2,787	1,929	0
31-90 days past due	10,173	8,546	2,362	2,116	1,625
91-180 days past due	8,708	7,159	8,708	7,159	0
181-365 days past due	12,215	7,702	12,215	7,702	360
More than 365 days past due	33,728	25,213	33,725	25,213	2,406
At fair value					
Not past due	191,293	175,189	5,292	4,747	5,292
Past due	8,138	7,805	2,959	3,055	2,959
1-30 days past due	5,376	5,035	352	383	352
31-90 days past due	208	143	52	45	52
91-180 days past due	486	539	486	539	486
181-365 days past due	202	221	202	221	202
More than 365 days past due	1,866	1,867	1,866	1,867	1,866
Total	**5,416,158**	**4,975,694**	**125,958**	**94,785**	**15,517**

31 Dec 2018

Euro thousand	Collateral for NPL not impaired	NPL impaired	Collateral for NPL impaired	Receivables impaired
At amortised cost				
Not past due	2,875	55,035	39,989	24,512
Past due	4,145	55,406	39,974	14,660
1-30 days past due	0	2,787	1,929	619
31-90 days past due	1,625	737	491	1,144
91-180 days past due	0	8,708	7,159	1,001
181-365 days past due	103	11,855	7,599	2,474
More than 365 days past due	2,417	31,319	22,796	9,423
At fair value				
Not past due	4,747	0	0	0
Past due	3,055	0	0	0
1-30 days past due	383	0	0	0
31-90 days past due	45	0	0	0
91-180 days past due	539	0	0	0
181-365 days past due	221	0	0	0
More than 365 days past due	1,867	0	0	0
Total	**14,822**	**110,441**	**79,964**	**39,172**

31 Dec 2017

Euro thousand	Loans and receivables customers (gross)	Collaterals	NPL	Collateral for NPL	NPL not impaired
Not past due	4,679,534	4,294,975	89,200	67,924	15,134
Past due	130,791	94,469	67,956	47,629	10,840
1-30 days past due	36,658	22,300	1,211	931	0
31-90 days past due	31,622	28,051	4,234	2,581	638
91-180 days past due	5,536	3,991	5,536	3,991	1,729
181-365 days past due	9,109	7,286	9,109	7,286	772
More than 365 days past due	47,866	32,841	47,866	32,841	7,701
Total	**4,810,325**	**4,389,444**	**157,156**	**115,553**	**25,975**

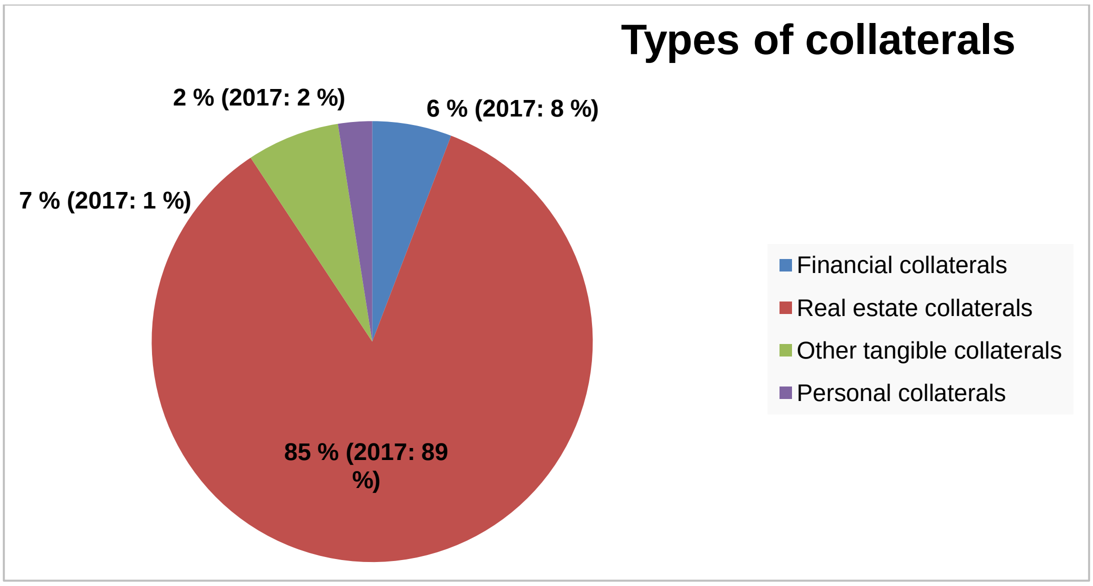
31 Dec 2017

Euro thousand	Collateral for NPL not impaired	NPL impaired	Collateral for NPL impaired	Receivables impaired
Not past due	13,433	74,066	54,491	22,785
Past due	10,832	57,115	36,796	23,770
1-30 days past due	0	1,211	931	325
31-90 days past due	635	3,596	1,946	2,011
91-180 days past due	1,729	3,806	2,262	1,457
181-365 days past due	772	8,338	6,514	2,600
More than 365 days past due	7,696	40,164	25,145	17,377
Total	**24,265**	**131,181**	**91,288**	**46,555**

Development of the portfolio of collaterals:

The following diagram and table show the development of the portfolio of collaterals, with real estate collaterals accounting for the major part at VBW. The values reported represent the credited value of the collaterals (after measurement and cap based on the amount of the receivable secured).

In the 2018 business year, no significant changes to the principles – applicable across the Association – for the management of loan collaterals occurred.



31 Dec 2018

Euro thousand	Loan volume - total	Allowable collateral amount - total	Real estate collaterals	Financial collaterals	Personal collaterals	Other collaterals	Loan loss allowances	Provisions
Liquid funds	1,510,901	0	0	0	0	0	0	0
Loans and receivables credit institutions	1,986,707	357,834	0	0	36,468	321,366	67	0
At amortised cost	1,986,448	357,834	0	0	36,468	321,366	67	0
At fair value	259	0	0	0	0	0	0	0
Loans and receivables customers	5,416,157	4,975,694	4,532,573	302,844	95,046	45,232	50,482	0
At amortised cost	5,216,727	4,792,700	4,365,752	288,612	93,336	45,000	50,482	0
Thereof Retail private	2,169,273	2,042,588	1,886,360	154,704	473	1,051	15,923	0
Thereof SME	2,523,036	2,281,111	2,088,462	123,031	67,375	2,243	32,610	0
Thereof Corporates	255,794	195,430	135,333	3,664	17,954	38,478	386	0
Thereof Others	268,624	273,571	255,597	7,212	7,534	3,229	1,563	0
At fair value	199,431	182,994	166,820	14,232	1,710	232	0	0
Thereof Retail private	131,689	127,624	115,408	12,004	0	212	0	0
Thereof SME	52,946	46,630	44,181	2,228	202	20	0	0
Thereof Corporates	658	684	561	0	123	0	0	0
Thereof Others	14,138	8,055	6,670	0	1,385	0	0	0
Assets held for trading - fixed-income securities	6,067	0	0	0	0	0	0	0
At fair value	6,067	0	0	0	0	0	0	0
Financial investments - fixed-income securities	2,051,586	0	0	0	0	0	464	0
At amortised cost	1,707,603	0	0	0	0	0	464	0
At fair value	343,983	0	0	0	0	0	0	0
Contingent liabilities	292,933	54,206	40,278	11,054	2,744	131	0	3,092
Credit risks	3,152,667	0	0	0	0	0	0	1,007
Total	**14,417,018**	**5,387,734**	**4,572,850**	**313,898**	**134,257**	**366,729**	**51,012**	**4,099**

31 Dec 2017

Euro thousand	Loan volume - total	Allowable collateral amount - total	Real estate collaterals	Financial collaterals	Personal collaterals	Other collaterals	Loan loss allowances	Provisions
Liquid funds	1,758,462	0	0	0	0	0	0	0
Loans and receivables credit institutions	1,703,912	368,968	75	213	54,776	313,905	0	0
Loans and receivables customers	4,810,325	4,389,444	3,938,613	325,938	93,679	31,214	57,944	0
Thereof Retail private	1,926,128	1,854,358	1,678,607	173,411	1,150	1,189	15,524	0
Thereof SME	2,478,425	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	241,102	205,214	190,443	4,132	8,407	2,232	7,416	0
Assets held for trading - fixed-income securities	8,320	0	0	0	0	0	0	0
Financial investments - fixed-income securities	1,803,197	0	0	0	0	0	0	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	**14,801,213**	**4,819,393**	**3,984,672**	**338,688**	**150,688**	**345,346**	**57,944**	**4,212**

Acquisition of real estate collaterals

As at 31 December 2018 VBW holds two real estate collaterals from mergers with its predecessors. One was sold in January 2019, the second one is in the process of being sold. No further acquisition of real estate collaterals is made.

Development of the netting positions

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

31 Dec 2018
Euro thousand

Derivatives	**Assets**	**Liabilities**	**Net values**
Banking book	57,156	-103,202	-46,046
Trading book	57,032	-321,280	-264,248
Cash collaterals	**Pledged**	**Received**	**Net values**
Banking book	346,968	-38,293	308,675
Total			**-1,619**

31 Dec 2017
Euro thousand

Derivatives	**Assets**	**Liabilities**	**Net values**
Banking 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**

c) 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 rate 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)
- Other valuation risks (IFRS fair value change)

Interest rate risk in the banking book

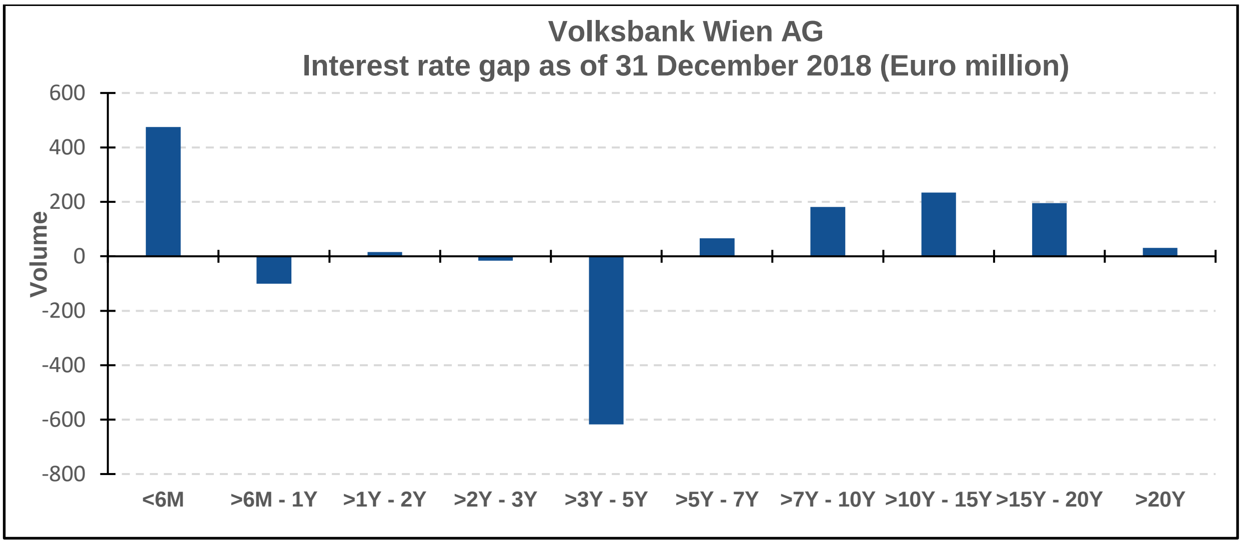
Interest rate risks emerge primarily through term transformation, which arises from deviations of fixed interest rate periods between assets and liabilities. Term transformation is a source of income for the bank in the form of a structural contribution.

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 lending business and variable-interest deposits (in the form of sight and savings deposits), as well as from implicit floors, in both the assets side and the liabilities side retail business. In lending business, this is associated with a shift from index-linked positions towards fixed-interest positions, as increasingly fixed-interest loans are granted within new business. By controlling the growth of fixed-interest volumes, the gradual development of a rolling fixed-interest position is ensured. Other 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 2018, VBW reports a relatively low positive term transformation. As at 31 December 2018, the present-value interest rate risk (regulatory interest rate risk statistics according to the OeNB standard procedure, interest rate risk coefficient) amounted to 5.2 % 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) was around euro -0.7 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 via the risk strategy. The ALCO is the central body for the management of interest rate risks. It is convened monthly at the CO 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 function in cooperation with Risk Controlling and the local ALCOs of the affiliated banks. The aim is to create a structural 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.

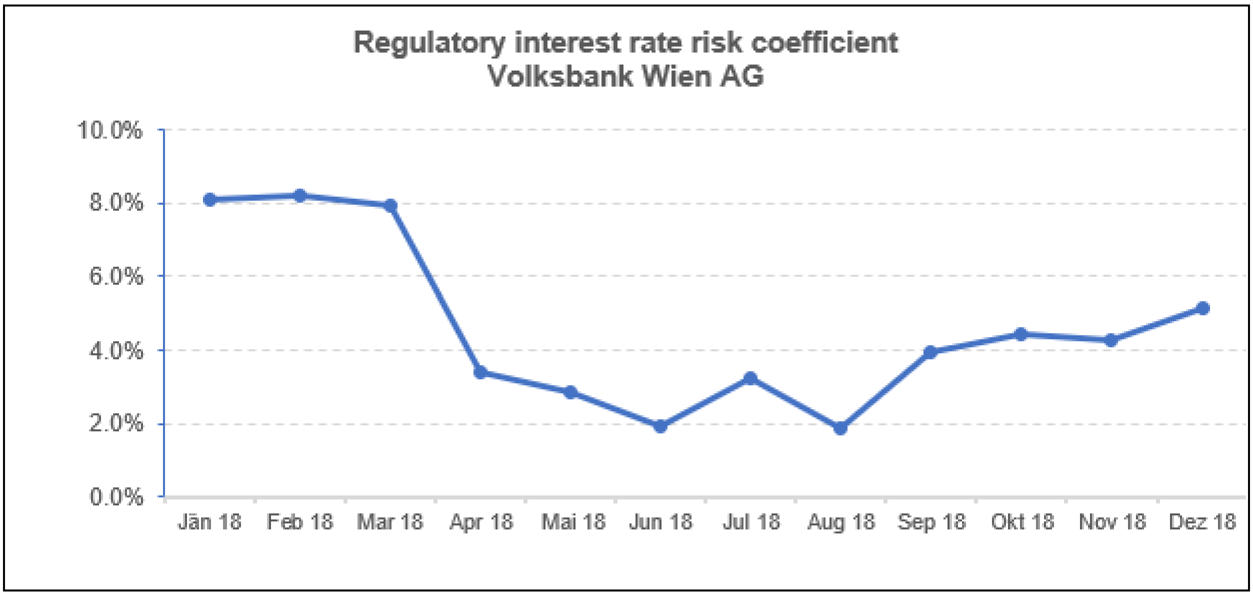
Present-value risk measurement and limitation are mainly effected on the basis of interest rate gaps (net position of the contractual or modelled fixed interest rates per maturity band), an interest rate book VaR based on historical simulations, the interest rate sensitivity in the form of a PVBP, and regulatory interest rate statistics. Period-based risk measurement is implemented in the form of a net interest income simulation. In the process, the effects on net interest income of the next 12 months are calculated for five potentially unfavourable scenarios. For 2019, net interest income decreases by euro 78 million in the least favourable scenario (a marked interest rate reduction (parallel 200 BP)). The results of the net interest income 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 (present value and periodic), positions without fixed 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. Modelling aims to describe the development of customer interest rates depending on market interest rates. This is done on the basis of historically observed correlations (minimising the volatility of the margin compared to a combination of reference interest rates). Due to the high proportion of positions without fixed interest rates within the balance sheet, replication modelling has a significant impact on the measurement of interest rate risk. Since the key date of April 2018, revised replication assumptions have been applied, which have led to a prolongation of fixed interest rates of liabilities on average. This has caused a reduction of term transformation.



Interest rate gap of Volksbank Wien AG as at 31 December 2018

A distinguishing feature is the large short-term asset gap (net) which mainly arises through the index-linked loan portfolio. In the long-term range of more than 10 years, asset gaps mainly arise due to fixed-interest loans, which are compensated for the major part through liability replication assumptions in the maturity bands of under 10 years. The large gap in the 3- to 5-year maturity band mainly results from one issue.



OeNB interest rate risk coefficient of Volksbank Wien AG in 2018

The marked reduction in April 2018 is due to the modified modelling of replication assumptions. Ever since, the interest rate risk coefficient has shown a slight tendency to increase, which is mainly due to the continuous granting of fixed-interest loans in accordance with the interest rate control policy applicable across the Association.

Concentration risk

No concentration risks exist within interest rate risk.

Credit spread risk

The credit spread is defined as additional premium on the risk-free interest rate. 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 securities portfolio in the banking book, and not loans and receivables to customers. This essentially comprises bonds, funds as well as bonded loans. The securities portfolio in the banking book of the Association of Volksbanks is primarily held as a liquidity buffer, centrally at VBW. CDS positions would also have to be included, but currently do not exist either at VBW or within the Association. Within the scope of the ICAAP, credit spread risk is considered during calculation of the risk-bearing capacity and the bank-wide internal stress test. Reporting takes place monthly within the ALCO and is part of the overall bank risk report.

Risk measurement is mainly effected via credit spread VaR and sensitivity to any increase in credit spreads by 100 bps. The calculation of the credit spread VaR is based on a historical simulation for a 99.9% confidence level and a holding period of one year. 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 department on a recurring basis.

The risk ratios for the VBW are as follows

31 Dec 2018 Euro thousand	Credit spread value at risk	100 basis points-shift
Section 30a of the Austrian Banking Act - Association of Volksbanks	175,005	-147,098

31 Dec 2017 Euro thousand	Credit spread value at risk	100 basis points-shift
Section 30a of the Austrian Banking Act - Association of Volksbanks	110,485	-131,013

In line with the investment strategy, the securities portfolio in the banking book 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. As at 31 December 2018, within the securities portfolio, the biggest concentrations exist in the Republic of Austria risk cluster with 34% and in covered bonds with 30%. Concentrations with individual issuers are limited by the issuer lines within credit risk.

Portfolio structure by credit rating:

Euro thousand	31 Dec 2018	31 Dec 2017
Risk category 1 (1A - 1E)	1,630,545	1,392,248
Risk category 2 (2A - 2E)	439,698	313,004
Risk category 3 (3A - 3E)	4,371	86,676
Risk category 4 (4A - 4E)	0	251
Risk category 5 (5A - 5E)	0	0
Risk category 6 (NR)	0	0
Total	**2,074,614**	**1,792,179**

Top 10 exposures in the public sector

The major part of the portfolio is allocated to the category 'measured at amortised cost'. In line with the investment strategy, new investments are allocated to this category

31 Dec 2018 Euro thousand	Amortised cost Carrying amount	Fair value through OCI Carrying amount	Fair value through profit or loss Carrying amount	Total Carrying amount
Sovereigns Austria	478,458	233,631	0	712,089
Covered EUR AAA	574,736	2,146	0	576,881
Sovereigns Italy	156,346	0	0	156,346
Sovereigns Poland	62,868	35,103	0	97,971
Sovereigns Belgium	59,067	0	0	59,067
Sovereigns Portugal	56,251	0	0	56,251
Other Sovereigns EUR AA	43,035	8,346	3,049	54,430
Other Sovereigns EUR A	19,002	31,664	0	50,666
Sovereigns Spain	50,477	0	0	50,477
Covered EUR AA	46,177	0	0	46,177
Total	**1,546,418**	**310,889**	**3,049**	**1,860,356**

31 Dec 2017 Euro thousand	Amortised cost Carrying amount	Fair value through OCI Carrying amount	Fair value through profit or loss Carrying amount	Total Carrying amount
Sovereigns Austria	10,308	735,606	3,175	749,089
Covered EUR AAA	154,198	226,211	0	380,410
Sovereigns Italy	20,000	116,057	0	136,057
Sovereigns Poland	0	95,559	0	95,559
Other Sovereigns EUR A	0	64,687	0	64,687
Sovereigns Belgium	10,699	50,354	0	61,053
Sovereigns Portugal	0	48,102	0	48,102
Sovereigns Spain	0	42,105	0	42,105
Other Sovereigns EUR AA	30,624	9,042	0	39,666
Sovereigns France	34,812	0	0	34,812
Total	**260,641**	**1,387,723**	**3,175**	**1,651,540**

Portfolio structure according to IFRS 9 categories:

31 Dec 2018 Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	1,713,132	28,258	0	1,741,390
Fair value through OCI	328,059	0	0	328,059
Fair value through profit or loss	2,116	0	3,049	5,165
Total	**2,043,307**	**28,258**	**3,049**	**2,074,614**

31 Dec 2017 Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	307,953	25,637	0	333,590
Fair value through OCI	1,455,414	0	0	1,455,414
Fair value through profit or loss	0	0	3,175	3,175
Total	**1,763,367**	**25,637**	**3,175**	**1,792,179**

Market risk in the trading book

The market risk in the trading book of VBW is of subordinate importance. The trading book is kept centrally at the CO. The affiliated banks do not keep any trading book. 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 limit structure reflects the risk and Treasury strategy. 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.

Within the scope of the ICAAP, market risk is considered within calculation of the risk-bearing capacity and the bank-wide internal stress test. Reporting is effected daily to the Treasury and Risk Controlling functions and monthly within the ALCO. Additionally, it is incorporated in the overall bank risk report.

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 measure the current portfolio. 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 department 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

Euro thousand	Interest	Currency	Volatility	Credit Spread	Total
31 Dec 2018					
Trading book	65	0	15	12	95
31 Dec 2017					
Trading book	19	0	39	35	76

The following table shows interest, interest volatility and credit spread sensitivity in the trading book

Euro thousand	Interest +1 basis point	Interest volatility +1 %	Credit spread +1 basis point
31 Dec 2018			
Trading book	14	-17	-3
31 Dec 2017			
Trading book	4	-23	-1

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

Since extreme situations are not covered by the VaR, comprehensive stress tests are carried out monthly or on an ad hoc basis across all portfolios in the trading book.

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.

The following table shows FX VaR (99.9 % confidentiality niveau, holding period 1 year)

31 Dec 2018 Euro thousand	FX Value at Risk
Section 30a of the Austrian Banking Act - Association of Volksbanks	112

31 Dec 2017 Euro thousand	FX Value at Risk
Section 30a of the Austrian Banking Act - Association of Volksbanks	361

The following table shows the FX sensitivity per currency (open FX positions)

Currency Euro thousand	31 Dec 2018	31 Dec 2017
CHF	575	1,085
CZK	-250	2,891
USD	-126	65
JPY	-42	-32
GBP	-2	12
Others	38	574
Total	**192**	**4,594**

Other valuation risks (IFRS fair value change)

Receivables that do not meet the SPPI criteria must be designated as fair value through profit or loss and must be measured. Due to fair value fluctuations of these receivables, this causes an effect on the income statement. During valuation of these receivables, the cash flows are discounted using the risk-free swap curve plus markup. The markups used for discounting are the standard risk costs and the liquidity costs. The remaining components are summarised in one factor (epsilon factor) upon conclusion of the deal, and frozen for subsequent measurement. This measurement risk is considered during calculation of the risk-bearing capacity and the bank-wide internal stress test. Reporting takes place monthly within the ALCO.

The portfolio concerned is a maturing portfolio, as any SPPI-non-compliant new business is only concluded in exceptional cases.

The following table shows the sensitivities of loans and receivables measured at fair value through profit or loss

31 Dec 2018 Euro thousand	Market liquidity costs +10 basis points	Interest rate sensitivity +10 basis points
Fair value through profit or loss - loans and receivables	-853	-68

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 affiliated banks. The affiliated banks cover their refinancing requirements and invest their excess liquidity via VBW.

The most important source of refinancing of VBW consists of customer deposits, which have proven to be a stable source of funding in the past. Obviously, this is responsible for the major part of liquidity risk. The capital market offers additional opportunities for refinancing through securities issues, mainly covered bonds.

Both operational, short-term liquidity management and medium- to long-term liquidity management are performed in a centralised manner at VBW for the Association, in the Treasury division, through the Liquidity Management department. The monitoring and limitation of liquidity risk across the Association, 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 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 within the Association.

At VBW, funding risk 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 for VBW.

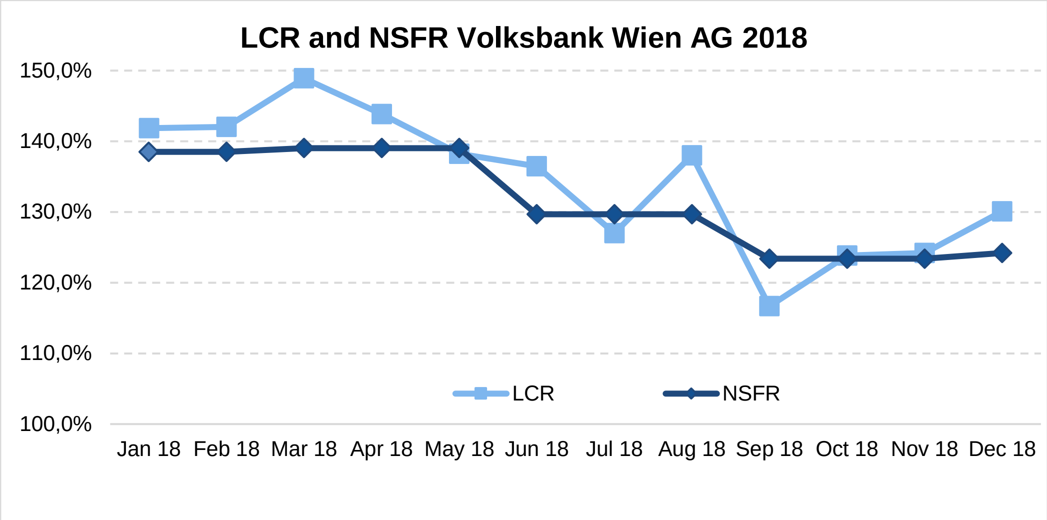
The survival period is the period during which, under a given stress scenario, the liquidity buffer held is sufficient to cover cumulated net liquidity outflows. Currently, five stress scenarios of varying degrees of severity are calculated. The scenario assumptions include a crisis of the Volksbank-Sector, a national banking crisis and pan-European stressed market conditions. The least favourable of the scenarios calculated is applied to the survival period. The survival period is calculated at the level of the Association, not the individual bank.

The funding risk is measured by way of a scenario analysis that takes into account the effect on funding costs, considering general planning uncertainties and adverse idiosyncratic conditions. These calculations provide input to the ICAAP as well as stress testing activities across the Association.

Regulatory liquidity ratios LCR, NSFR and survival period in 2018:

In 2018, both regulatory ratios were always clearly above the regulatory limits. Over the past 12 months, the LCR has always been above the internal target of 115% on the last day of each month. The LCR depends on payment transactions and calendar effects causing material monthly changes. The LCR decreases during the month due to effects of payment transactions, therefore it is sometimes clearly above the limit at the end of the month.

The NSFR is calculated quarterly and has always been above target over the past months



LCR and NSFR development at VBW as at 31 December 2018

The LCR shows typical jumps mainly due to payment transactions and/or calendar effects. The growth of the loan portfolio in 2018 has caused a slight decrease in liquidity ratios. In 2018, the survival period of the Association of Volksbanks always exceeded 150 days at the last day of the month, and thus clearly above internal limits.

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. Generally, they amount to less than 1% of total assets. There are only a few temporary exceptions with a few major accounts for implementing payment transactions or balancing liquidity peaks. These deposits are regularly monitored and reported on within the scope of liquidity risk management.

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 collaterals across the Association, the determination of the funding structure, the disposition of available liquid funds, and compliance with the refinancing strategy; it takes care of 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 collaterals 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 of Volksbanks, and the control system put into effect by VBW as CO with the approval under section 30a Austrian Banking Act, for the affiliated banks – among others liquidity reports, refinancing management, utilisation of collaterals, 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

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 using the standard approach. As of 1 January 2018, an internal method based on loss data and scenarios is used for the economic perspective.

Organisation

At VBW, line management is responsible for the management of operational risks (OpRisk Management). It is supported in this function by centrally and 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. Moreover, close cooperation with security, safety and insurance management allows for optimal, 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 at the level of the Association, 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 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.

Operational risk management and risk controlling function

The following principles, derived from the risk strategy of the Association of Volksbanks, apply in OpRisk Management at VBW:

- 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 Association. 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 in OpRisk Management are defined by the CO and must be complied with by the respective banks.
- 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. Measures for risk control comprise, for instance, awareness-building measures/training events, the monitoring of the OpRisk indicators, maintaining the confidentiality, availability and integrity of customer and corporate data, as well as business continuity planning, but also – in particular – the adequate separation of responsibilities, as well as observance of the dual-control principle. 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 ICS. 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 of Volksbanks.

In 2018, one focus was on revising the training concept and process-related adaptation of the ICS based on the qualitative risk analysis at VBW within the scope of its function as CO, which is then also carried out in the other banks

f) Other risks

In terms of other risks, VBW is confronted with strategic, reputational, equity, direct real estate, as well as business 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).

VBW 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 internal capital if needed.

The direct real estate risk describes the risk of negative value changes in the real estate portfolio (real estate in the company’s own balance sheet or in the balance sheet of any subsidiary).

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.

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, among others, in the compliance framework and the framework for operational risks.

Organisational and process-based measures, in particular, have been implemented to manage other risks

53) Fully consolidated companies[1)]

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
3V-Immobilien Errichtungs-GmbH; Vienna	HD	100.00 %	100.00 %	35
Gärtnerbank Immobilien GmbH; Vienna	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Vienna	HD	100.00 %	100.00 %	35
VB Rückzahlungsgesellschaft mbH; Vienna	HO	100.00 %	100.00 %	35
VB Services für Banken Ges.m.b.H.; Vienna	HD	98.89 %	98.89 %	327
VB Verbund-Beteiligung Region Wien eG; Vienna	HO	90.51 %	90.51 %	3,853
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	HD	99.00 %	99.00 %	36
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Vienna	FI	100.00 %	100.00 %	872

1) All fully consolidated companies are under control.

54) Companies measured at equity

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VB Verbund-Beteiligung eG; Vienna	HO	29.04 %	29.04 %	51,918
Volksbank Kärnten eG; Klagenfurt	KI	25.26 %	25.26 %	34,676

55) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
ARZ-Volksbanken Holding GmbH; Vienna	HO	74.48 %	74.48 %	256
Immo-Contract Baden Maklergesellschaft m.b.H.; Baden	SO	93.51 %	93.51 %	175
UVB-Holding GmbH; Vienna	SO	100.00 %	100.00 %	35
VB ManagementBeratung GmbH; Vienna	SO	100.00 %	100.00 %	36
VBKA-Holding GmbH; Vienna	SO	100.00 %	100.00 %	35
VOME Holding GmbH; Vienna	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 of 31 December 2018, 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 2018, 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, the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and the Section 59a BWG (Austrian Banking Act).

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 („AP 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 company law 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 judgment, 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 to and receivables from customers at amortised cost

Risk for the consolidated Financial Statements

Loans to and receivables from customers at amortised cost represent a significant item in the consolidated Statement of Financial Position. As of 31 December 2018, the carrying amount of loans to and receivables from customers at amortised cost amounts to EUR 5,216.7 million, accounting for 45 % of total assets of EUR 11,505.5 million. The loan loss provisions for these loans to and receivables from customers at amortised cost amount to EUR 50.5 million.

The Managing Board of VOLKSBANK WIEN AG describes the approach to determine loan loss provisions which has changed compared to prior year in accordance with IFRS 9, in Note 3o), 3q) and 52b) of the Notes to the consolidated Financial Statements.

For loans to and receivables from customers at amortised cost that have objective evidence of impairment (stage 3) and are individually significant, a specific loss loan provision based on szenario-weighted, expected cash flows is recognized. These take into account assessment of the financial position of the customer and valuation of collaterals. Generally, loan loss provisions at an amount equal to 12-month expected credit losses (stage 1) are recognized for all other loans to and receivables from customers at amortised cost. In case the credit risk has increased significantly (stage 2) and for loans to and receivables from customers at amortised cost not individually significant, for which there is objective evidence of impairment (stage 3), ECL is calculated based on lifetime expected credit loss. Determination of ECL requires extensive estimation and assumptions. These mainly comprise rating based default probabilities and loss given default, which take information about current conditions and forecasts of future economic conditions into account.

AUDITOR'S REPORT

This results in the risk for the consolidated Financial Statements that the transfer between stages and the calculation of loan loss provisions are subject to significant estimations and assumptions, resulting in room for discretion as well as estimation uncertainty in respect of the amount of the loan loss provisions.

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

On a sample basis, we evaluated whether evidence of credit default exists. Sampling was performed risk-oriented, by particularly taking into account rating levels with higher default risk and based on random samples as well as statistical sampling methods. 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.

For all other loans to and receivables from customers at amortised cost for which the loan loss provisions are calculated based on the ECL, we analysed the Group's documentation of the applied method for consistency with the requirements of IFRS 9. Additionally, we evaluated the criteria for stage–transfer and, based on the Group's internal validation, the models and parameters used therein as to whether they are suitable to determine loan loss provisions in adequate amounts. We assessed the appropriateness of the statistical models used and the mathematical functionalities to determine the probabilities of default and loss rates based on 12 months and lifetime. Furthermore, we analysed the selection and measurement of future estimates and szenarios by comparison with external forecasts and assessed their consideration in the allocation to the stages and in estimating the parameters. We assessed the accuracy of the loan loss provisions on a sample basis. For these procedures, we consulted our financial mathematicians as specialists.

Additionally, for the underlying IT-systems, we evaluated the effectiveness of selected automated controls.

Finally, we evaluated the adequacy of the disclosures on the determination of loan loss provisions for loans to and receivables from customers at amortised cost in the Notes to the consolidated Financial Statements.

Recognition of deferred tax assets on tax loss carryforwards
Risk for the consolidated Financial Statements
Based on future expected taxable income, the Group recognized deferred tax assets on tax loss carryforwards amounting to EUR 38.0 million as of 31 December 2018.

The Managing Board of VOLKSBANK WIEN AG describes the approach to recognize deferred tax assets on tax loss carryforwards in Note 3w) and 23) of the Notes to the consolidated Financial Statements.

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, mainly in VOLKSBANK WIEN AG, is based on forecasts and is subject to uncertainties and therefore represents a risk to the consolidated Financial Statements.

Our response
We evaluated the assumptions underlying the forecast of future taxable profit on which deferred tax assets are expected to be realised, for traceability and plausibility.

For this purpose, we compared the key input parameters for the forecast of future taxable profit with internal budgeting and with an externally prepared valuation report of VOLKSBANK WIEN AG as of 31 December 2018. Moreover, we assessed the appropriateness of the assumptions made, using externally available data, such as macroeconomic forecasts, and the Group's past results is respect of their planning accuracy. For these procedures, we consulted our valuation specialists.

Finally, we evaluated the adequacy of the disclosures on the deferred tax assets, particular with respect to unused tax loss carryforwards, in the Notes to the consolidated Financial Statements.

AUDITOR'S REPORT

Presentation of the business combination VB Horn

Risk for the consolidated Financial Statements

The transfer of Waldviertler Volksbank registrierte Genossenschaft mit beschränkter Haftung („VB Horn") into the parent company VOLKSBANK WIEN AG was registered in the companies' register on 20 June 2018.

The Managing Board of VOLKSBANK WIEN AG describes the approach of recognition of the business combination VB Horn in Note 2) of the Notes to the consolidated Financial Statements.

For the purpose of initial consolidation, in a first step, the transferred assets and assumed liabilities were identified. In a second step, the identified assets and liabilities of VB Horn were measured, taking into account planning and other assumptions and recognized at their fair values in the consolidated Financial Statements as of 31 December 2018. Both steps were based on estimates and judgement made by the Managing Board of VOLKSBANK WIEN AG, both of which are subject to significant uncertainties and therefore, represent a risk to the consolidated Financial Statements.

Our response

In the course of our audit we assessed the existence of control as of 20 June 2018 by assessing whether the terms of the acquisition agreement in respect of the closing were complied with and whether the identified acquired assets and assumed contingent liabilities and liabilities qualify for recognition.

Additionally, we evaluated the determination of the fair values of the identified customer relations and the new shares in VOLKSBANK WIEN AG granted as compensation for the 100 % of the shares based on external valuation reports of the identified customer relations and company values of VOLKSBANK WIEN AG and VB Horn.

We assessed the assumptions used for the recognition and calculation of the fair values of the identified customer relations and compensation including the underlying planned results for VB Horn for traceability and plausibility.

We further evaluated whether the method of valuation and its implementation in the valuation models as well as the significant valuation parameters such as cash flows, useful lives, cost of capital are appropriate. For these procedures, we consulted our valuation specialists.

Finally, we evaluated the adequacy of the disclosures on the business combination VB Horn 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, 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 AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material

AUDITOR'S REPORT

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 AP Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

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 Austrian company law, 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 Austrian company law 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.

AUDITOR'S REPORT

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.

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 AP Regulation
At the Annual General Meeting dated 18 May 2017, we were elected as group auditors. We were appointed by the Supervisory Board on 1 June 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 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP 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 2019

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 2019

Gerald Fleischmann
Chairman of the Managing Board

Retail Branches, General Secretariat, Real Estate Financing, Front Office Service Center/Customer Service Center, Organisation & IT, HR Management, PR & Communication, Private Banking/Treasury, Transition „Adler“ & Strategy, Corporate Financing, Sales Management/Marketing

Rainer Borns
Deputy Chairman of the Managing Board

Control, Financial Data Steering, Finance, Capital and Stakeholder Management, Legal and Compliance, Audit, VB Services for Banks Facilitymanagement

Thomas Uher
Deputy Chairman of the Managing Board

Digitalisation, Credit risk management, Risk controlling, VB Services for Banks/Loan Processing & Handling

INDIVIDUAL ANNUAL FINANCIAL STATEMENTS VOLKSBANK WIEN AG

BALANCE SHEET

Assets	Euro	31 Dec 2018 Euro	Euro Thousand	31 Dec 2017 Euro Thousand
1. Cash in hand, balances with central banks		1,565,504,035.86		1,813,951
2. Debt instruments issued by public bodies and similar securities		1,046,174,120.10		1,031,280
3. Loans and advances to credit institutions				
a) Due on demand	352,368,706.76		249,671	
b) Other receivables	1,643,159,632.74	1,995,528,339.50	1,461,855	1,711,526
4. Loans and advances to customers		5,482,600,263.05		4,879,881
5. Bonds and other fixed-income securities				
a) From public issuers	38,404,314.21		38,589	
b) From other issuers	1,946,110,799.57	1,984,515,113.78	1,290,918	1,329,507
Of which: In-house issues Euro 1,235,053,871.11 (2017: Euro thousand 855,047)				
6. Shares and other variable-yield securities		39,799,882.37		39,189
7. Participations		57,556,329.69		50,727
Of which: in credit institutions Euro 16,057,617.47 (2017: Euro thousand 15,745)				
8. Investments in affiliates		27,215,775.96		26,413
Of which: in credit institutions Euro 0.00 (2017: Euro thousand 0)				
9. Intangible non-current assets		366,969.24		532
10. Fixed assets		69,450,408.44		79,524
Of which: Land and buildings used by the credit institution within the scope of its own activities Euro 38,888,546.31 (2017: Euro thousand 46,164)				
11. Other assets		355,623,949.94		373,990
12. Deferred items		1,488,724.57		2,128
13. Deferred tax assets		29,296,572.06		30,258
Total assets		**12,655,120,484.56**		**11,368,906**

Off-balance sheet items				
1. Foreign assets		1,539,435,236.83		1,322,204

Liabilities	Euro	31 Dec 2018 Euro	Euro Thousand	31 Dec 2017 Euro Thousand
1. Amounts owed to credit institutions				
a) Due on demand	2,578,668,462.29		2,482,510	
b) With agreed term or period of notice	482,090,058.80	3,060,758,521.09	261,041	2,743,551
2. Amounts owed to customers				
a) Saving deposits				
aa) Due on demand	1,707,967,101.71		1,309,883	
bb) With agreed term or period of notice	467,729,859.13		905,141	
	2,175,696,960.84		2,215,024	
b) Other liabilities				
aa) Due on demand	2,956,719,945.45		2,729,050	
bb) With agreed term or period of notice	1,278,461,308.84		913,164	
	4,235,181,254.29	6,410,878,215.13	3,642,214	5,857,238
3. Debts evidenced by certificates				
a) Issued debt securities	1,350,820,600.05		974,977	
b) Other debts evidenced by certificates	281,441,106.67	1,632,261,706.72	308,201	1,283,178
4. Other liabilities		464,541,205.05		445,720
5. Deferred items		5,936,665.44		7,078
6. Provisions				
a) Provisions for severance payments	20,658,477.00		21,026	
b) Provisions for pensions	9,465,708.23		8,707	
c) Provisions for taxes	757,755.85		6,892	
d) Other	103,302,764.92	134,184,706.00	88,925	125,550
7. Supplementary capital pursuant to Part Two, Title 1, Chapter 4 of Regulation (EU) No 575/2013		419,299,536.56		424,643
8. Subscribed capital		137,546,531.25		132,894
9. Capital reserves				
a) Appropriated	237,217,207.68		222,893	
b) not appropriated	0.00	237,217,207.68	0	222,893
10. Retained earnings				
Other reserves		74,532,125.80		74,532
11. Liability reserve pursuant to section 57 (5) BWG		44,819,308.55		36,972
12. Net profit		33,144,755.29		14,657
Total liabilities and equity		**12,655,120,484.56**		**11,368,906**

Off-balance sheet items	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
1. Contingent liabilities and liabilities from sureties, guarantees and provision of collateral	314,102,757.97	369,083
2. Credit risks	3,152,401,435.46	4,376,100
Of which: Liabilities from repurchase agreements Euro 0.00 (2017: Euro thousand 0)		
3. Liabilities from fiduciary transactions	117,230,001.27	149,758
4. Eligible capital pursuant to Part Two of Regulation (EU) No 575/2013	945,924,588.35	907,330
Of which: Supplementary capital pursuant to Part Two, Title 1, Chapter 4 of Regulation (EU) No 575/2013 Euro 423,868,686.30 (2017: Euro thousand 437,834)		
5. Capital requirement pursuant to Article 92 of Regulation (EU) No 575/2013	4,079,329,205.98	3,394,266
Of which: Capital requirement pursuant to Article 92 (1)		
(a) of Regulation (EU) No 575/2013 (Common Equity Tier 1 capital ratio in %)	12.80%	13.83%
(b) of Regulation (EU) No 575/2013 (Tier 1 capital ratio in %)	12.80%	13.83%
(c) of Regulation (EU) No 575/2013 (Total capital ratio in %)	23.19%	26.73%
6. Foreign liabilities	542,077,429.12	514,694

INCOME STATEMENT

	Euro	1-12 2018 Euro	Euro Thousand	1-12 2017 Euro Thousand
1. Interest and similar income		145,517,413.22		139,554
Of which: From fixed-income securities	8,966,936.11		8,393	
2. Interest and similar expenses		-36,642,490.75		-31,139
I. NET INTEREST INCOME		108,874,922.47		108,415
3. Income from securities and investments				
a) Income from shares, other ownership interests and variable-yield securities	427,131.17		818	
b) Income from investments	1,221,431.53		2,233	
c) Income from shares in affiliates	2,471,033.11	4,119,595.81	1,701	4,752
4. Fee and commission income		89,219,821.06		89,234
5. Fee and commission expenses		-26,522,354.50		-28,183
6. Net trading income/expenses		1,612,554.73		3,075
7. Other operating income		117,324,667.73		87,476
II. OPERATING INCOME		294,629,207.30		264,769
8. General administrative expenses				
a) Staff expenses				
aa) Wages and salaries	-79,016,022.35		-78,773	
bb) Expenses for statutory social contributions and remuneration-related charges and compulsory contributions	-20,686,112.91		-20,608	
cc) Other social expenses	-1,522,553.88		-1,573	
dd) Expenses for retirement benefits and support	-2,574,276.77		-2,521	
ee) Allocation to provision for pensions	-283,166.00		677	
ff) Allocation to provision for severance payments and employee welfare funds	394,305.82		-7,097	
	-103,687,826.09		-109,895	
b) Other administrative expenses (administrative expenses)	-115,686,180.40	-219,374,006.49	-101,533	-211,428
9. Value adjustments on assets within items 9 and 10		-8,818,624.99		-6,600
10. Other operating expenses		-22,013,629.06		-25,331
III. OPERATING EXPENSES = AMOUNT CARRIED FORWARD		-250,206,260.54		-243,359

	Euro	1-12 2018 Euro	Euro Thousand	1-12 2017 Euro Thousand
III. OPERATING EXPENSES = AMOUNT CARRIED FORWARD		-250,206,260.54		-243,359
IV. OPERATING PROFIT		44,422,946.76		21,410
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		14,623,568.11		6,916
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		-21,093,092.27		12,291
V. RESULT FROM ORDINARY OPERATIONS		37,953,422.60		40,617
13. Extraordinary income = result from extraordinary items		3,604,984.63		0
14. Income taxes		-5,236,384.66		-322
15. Other taxes not shown under item 14		-2,213,137.72		-2,254
VI. ANNUAL RESULT AFTER TAXES		34,108,884.85		38,041
16. Movement in reserves		-7,201,233.04		-38,041
Of which: Liability reserve pursuant to section 57 (5) BWG	7,847,060.69		1,095	
VII. ANNUAL RESULT		26,907,651.81		0
17. Profit carried forward		6,237,103.48		14,657
VIII. NET PROFIT		33,144,755.29		14,657

NOTES TO THE 2018 FINANCIAL STATEMENTS

Due to the contribution of the banking operation of Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung, 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", "VB Vienna" or the "Company") has been performing the function of the central organisation of the Austrian Association of Volksbanks pursuant 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 Austrian Banking Act must be met by the Association of Volksbanks on the basis of the consolidated financial situation (section 30a (7) Austrian Banking Act). Furthermore, VBW must meet all regulatory provisions on single-entity and consolidated levels.

By letter dated 19 December 2017, the European Central Bank (ECB) informed VBW that it expects VBW as central organisation of the Association of Volksbanks pursuant to section 30a Austrian Banking Act to observe a Pillar 2 Guidance of 1.8% on a consolidated basis, which must consist of Common Equity Tier 1 (CET1) capital exclusively and shall be held available in addition to the minimum own funds requirement under Art 92 (1) (a) CRR, the own funds requirement under Art 16 (2) (a) of Regulation (EU) 1024/2013 and the combined capital buffer requirement under Art 128 (6) of Directive 2013/36/EU.

Due to the amended classification of speculative real estate financing transactions, RWAs increased substantially as at 31 December 2018. Based on the preliminary figures available as well as on the updated budgets of the Association, however, the capital ratios continue to be complied with.

The annual financial statements of VBW as at 31 December 2018 were prepared by the Managing Board in accordance with the Austrian Commercial Code (UGB) and the Austrian Banking Act. 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 assets, financial and earning position of the Company.

Pursuant to section 221 (3) Austrian Business Code, 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 the 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 2018 business year or in any of the previous business years were taken into account, if known.

The previous form of presentation was applied during preparation of the present annual financial statements as well.

The application of the provisions of IFRS 9, applied for the first time with effect from 1 January 2018, for determining credit risk provisions in the consolidated financial statements of VBW constitutes sufficient justification for deviating from the principle of consistency pursuant to section 201 (3) Austrian Business Code. Therefore, in the 2018 business year, VBW has changed the method of determining credit risk provisions, now applying the rules of IFRS 9 for the subsequent measurement of loan receivables also in terms of Austrian Commercial Code, if admissible, taking into account the recommendations of the "Joint policy document of AFRAC and FMA – aspects of subsequent measurement for credit institutions" (Gemeinsames Positionspapier des AFRAC und der FMA – Fragen der Folgebewertung bei Kreditinstituten). The impact on net assets and financial position is not significant.

Loans and receivables to credit institutions and to customers are reported at acquisition costs.

Subsequent measurement is effected at the fair value if lower, pursuant to section 207 Austrian Business Code in combination with section 189a (4) Austrian Business Code. The risk provision/impairment is determined applying the impairment method as applied in the IFRS-compliant consolidated financial statements (IFRS 9), taking into account the recommendations of the "Joint policy document of AFRAC and FMA – aspects of subsequent measurement for credit institutions".

There is a monthly procedure for the valuation of loan receivables under which the organisational units responsible for risk are required to make a proposal for risk provisioning on the basis of current developments. In this context, the impairment model is based on the proposition to represent expected losses. In this way, not only losses that have already occurred, but also expected losses are recognised. A distinction is made as to whether or not the default risk of financial assets has deteriorated significantly since their addition. If the default risk has not increased significantly at the balance sheet date, compared to initial recognition, the expected loss is valuated in the amount of the 12-month expected credit loss ("12-M-ECL"; Stage 1). In case of any material deterioration, all lifetime expected credit losses must be recognised with effect from that date ("lifetime ECL"; Stages 2 and 3).

Exceptions exist for trade receivables. For these assets, all expected losses must (receivables without any significant financing component) or may (receivables with a significant financing component and lease receivables) be taken into account already at the time of addition. The option to choose a simplified procedure for trade receivables or lease receivables was not exercised, as such receivables either do not occur at present or, if they do, are insignificant.

General approach to risk provisions: Expected losses will be reported on the basis of either 12-M ECL or lifetime ECL. This depends on whether the credit risk for the financial instrument has increased significantly since first-time recognition. Changes of the amount of the risk provision must be reported as a write-up or impairment loss in the income statement.

A significant increase in credit risk is primarily measured on the basis of the rate of change of the probability of default (PD) 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 by lifetime ECL. 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 the Group corresponds to the requirements of CRR I Art. 178.

Information regarding the calculation logic:
- Time horizon: The expected losses are calculated either for a 12-month period or for the entire residual term.
- Individual transaction or portfolio perspective: The calculation of the impairment at individual transaction level usually takes place for customers at Stage 3 from a certain minimum exposure (so-called Verbund-Metakunden-Obligo; meta-customer exposure of the Association) of euro 750 thousand (individual allowances for impairment and specific provisions). While for all other credit exposures, 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 loan loss provisions and collective allowances for impairment/provisions).
- Scenario anaysis: 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 cash flows from collaterals, 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.

According to internal instructions, credit customers with an internal rating of 4C to 4E (watchlist loans) and all other credit customers where other indications for an increased default risk exist, i.e. where repayment pursuant to the contract appears jeopardised, are subjected to a more thorough examination. For unsecured or only partially secured exposures, an appropriate risk provision requirement is reported. In case of non-performing loans (rating category 5A-5E), the appropriateness of the amount of risk provision is checked regularly, if the individual loan loss provision method is used.

For irrevocable loan commitments and financial guarantees, impairments are determined by applying the procedure used for loan receivables and reported as provisions.

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) Austrian Banking Act.

The main currencies were evaluated at the average exchange rates of the European Central Bank (ECB) as published on 31 December 2018. Other currencies were converted at the average rate of exchange of the balance sheet date. The foreign exchange portfolios were converted at the mean foreign exchange rate (foreign notes and coins).

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 designated for operations were measured as fixed assets, while securities held as 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) Austrian Business Code to effect impairments 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 controlled, the fair value calculation is performed on the basis of the dividend paid as well as the annual results of the last five years. In case of companies whose business model 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 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 2018 financial year, range between 6.86 and 8.90% (2017: 6.90-8.90%). The market risk premium used for the calculation is 7.30% (2017: 6.75%), the beta values used range between 0.80 and 1.08 (2017: 0.8-1.1). 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 assets (land, buildings, office equipment and furniture) was performed at the acquisition or production cost less depreciation. Intangible assets are capitalised at the cost of acquisition, if they were acquired in return for payment. Scheduled depreciation is effected on a straight-line basis. The depreciation period ranges between 10 and 66 years for buildings, between 3 and 20 years for office equipment and furniture, and between 2 and 5 years for intangible assets. Impairments to an attributable value that is lower on the reporting date are performed where the impairments are likely to be permanent. Impairments are reversed if the reasons for the impairment have lapsed. Reversal of the impairment is effected to not more than the net carrying amount derived after taking account of scheduled depreciation 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.

Premiums and discounts for securitised liabilities 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, anniversary bonuses and pensions are determined according to generally recognised actuarial principles, applying 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 2.23% (2017: 2.91%), planned salary increases of 3% (2017: 3%) and a retirement age of 60-65 years (2017: 60-65 years) for women and 65 years (2017: 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 2018 P-Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, Angestelltenbestand" are applied. The expenditure from the use of the current mortality tables is insignificant with respect to the net assets and financial position. 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.

The discount rate used is derived from the 7-year average interest rate (for 12-year maturities), as published by Deutsche Bundesbank at 30 September 2018 (cf. AFRAC statement 27 "Provisions for staff costs (Austrian Business Code)"). 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 1.1% (2017: 1.5%).

Other provisions include obligations to pay anniversary 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 pursuant 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 under the conditions of the CRR. Moreover, participation capital that is only eligible as CET1 capital within the scope of the transitional regulations is reported in the balance sheet in the item Supplementary capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) no. 575/2013. Supplementary capital that is eligible as own funds only due to 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.

Forward exchange transactions and currency swaps are measured at the mean 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 pursuant to AFRAC statement 15 "Derivatives and hedging instruments (Austrian Business Code)" 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 in the banking book, provisions are basically recorded for imminent losses, if there were open positions or no effective hedging relationships.

As at 31 December 2018, only cash 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 receivables to customers.

Moreover, cross currency swaps, forward exchange transactions, currency swaps and, in exceptional cases, foreign exchange options serve to hedge against interest rate and foreign exchange risks from loans and receivables, as well as amounts owed, to credit institutions and customers, as well as from issues denominated in foreign currencies.

As standard, hedging instruments are directly concluded with the counterparty, and subsequently (if clearing is mandatory) the transaction is subjected to clearing. External and internal derivatives are used for the accounting of valuation units. No new internal derivatives are concluded for hedging relationships.

The valuation units established pursuant to AFRAC statement 15 "Derivatives and hedging instruments (Austrian Business Code)" comprise own fixed-income issues as well as loans and receivables, and amounts owed, to credit institutions 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 valuation units. 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.

In 2018, in the course of the IFRS 9 project, hedge accounting was switched to a new application. Different methods resulted in an increase of the provision requirement due to the switch by some euro 1.5 million in the reporting year.

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 foreign exchange options. Measurement is effected taking account of the 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 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 receivables to credit institutions:

Residual term:	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
repayable on demand	352,368,706.76	249,671
up to 3 months	625,532,808.89	724,758
more than 3 months up to 1 year	239,768,432.13	205,456
more than 1 year up to 5 years	687,561,419.84	469,277
more than 5 years	90,296,971.88	62,364
not repayable on demand	1,643,159,632.74	1,461,855
Loans and receivables to credit institutions, total	1,995,528,339.50	1,711,526

Breakdown of loans and receivables to customers:

Residual term:	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
repayable on demand	69,669,170.24	64,473
up to 3 months	113,965,797.10	107,269
more than 3 months up to 1 year	320,721,487.43	309,432
more than 1 year up to 5 years	770,269,194.72	730,867
more than 5 years	4,207,974,613.56	3,667,840
not repayable on demand	5,412,931,092.81	4,815,408
Loans and receivables to customers, total	5,482,600,263.05	4,879,881

Loans and receivables to affiliates and participating interests:

	31 Dec 2018		31 Dec 2017	
	towards affiliated companies Euro	towards participations Euro	towards affiliated companies Euro Thousand	towards participations Euro Thousand
Loans and receivables to credit institutions	0.00	949,050,943.96	0	777,766
Loans and receivables to customers	50,274,465.12	43,806,755.61	54,591	70,253
Equities and other variable-yield securities	0.00	1,603,241.39	0	1,280
	50,274,465.12	994,460,940.96	54,591	849,299

Composition of risk provisions:

	31 Dec 2018		31 Dec 2017	
	Risk provision Euro	Collective allowance pursuant to sec. 57 (1) Austrian Banking Act Euro	Risk provision Euro Thousand	Collective allowance pursuant to sec. 57 (1) Austrian Banking Act Euro Thousand
Loans and receivables to credit institutions	1,597,299.16	0.00	688	0
Loans and receivables to customers	53,426,462.62	17,870,754.88	57,649	29,599
Provisions for off-balance sheet transactions	4,227,855.96	0.00	4,240	0
	59,251,617.74	17,870,754.88	62,577	29,599

Breakdown of securities, participations and shares in affiliates admitted for stock exchange trading of balance sheet items 2, 5, 6, 7 and 8 (excluding accrued interest) into listed and unlisted securities:

31 Dec 2018:	Listed Euro	Unlisted Euro
Debt instruments issued by public bodies and similar securities	1,020,718,398.23	0.00
Bonds and other fixed-income securities	1,978,667,154.55	0.00
Equities and other variable-yield securities	771,128.88	39,028,753.49

31 Dec 2017:	Listed Euro Thousand	Unlisted Euro Thousand
Debt instruments issued by public bodies and similar securities	1,004,641	0
Bonds and other fixed-income securities	1,324,607	0
Equities and other variable-yield securities	746	38,443

As at 31 December 2018, VBW does not hold any own supplementary capital within assets (31 December 2017: euro 97 thousand) and no own subordinate capital (31 December 2017: euro 0). Bonds with a carrying amount of euro 1,235,000,000.00 (31 December 2017: euro 855,000 thousand) are reported at the balance sheet date.

Breakdown of securities admitted to stock exchange trading of balance sheet items 2, 5 and 6 in fixed and current assets:

31 Dec 2018:	Fixed assets Euro	Current assets (incl. trading book) Euro
Debt instruments issued by public bodies and similar securities	918,398,522.63	102,319,875.60
Bonds and other fixed-income securities	736,042,001.53	1,242,625,153.00
Equities and other variable-yield securities	724,917.25	46,211.63

31 Dec 2017:	Fixed assets Euro Thousand	Current assets (incl. trading book) Euro Thousand
Debt instruments issued by public bodies and similar securities	877,096	127,545
Bonds and other fixed-income securities	464,375	860,232
Equities and other variable-yield securities	725	46

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 12,029,184.40 as at 31 December 2018 (31 December 2017: euro 10,385 thousand).

Other information on securities

The difference, to be written down pro rata temporis over the residual term, between historical cost and redemption amount in case of non-current securities amounts to euro 31,470,840.72 in total (31 December 2017: euro 25,537 thousand). As at 31 December 2018, euro 16,545,779.82 of that amount (31 December 2017: euro 18,255 thousand) need to be written down over the residual term yet.

The difference, to be written up pro rata temporis over the residual term, between historical cost and redemption amount in case of non-current securities amounts to euro 26,686,846.04 in total (31 December 2017: euro 25,213 thousand). As at 31 December 2018, euro 17,384,727.28 of that amount (31 December 2017: euro 16,927 thousand) need to be written up over the residual term yet.

With respect to the below-mentioned non-current securities that were reported above fair value, impairment was omitted, as an intention to hold them and service them in full – accordingly full recoverability – is assumed. In the 2018 business year, as in the 2017 business year, no contractual violations and no delays in payment were found due to serious financial difficulties of the issuers.

31 Dec 2018:	Fair value Euro	Carrying amount Euro	Difference Euro
Debt instruments issued by public bodies and similar securities	47,068,827.00	47,750,238.29	-681,411.29
Loans and receivables to credit institutions	1,089,504.81	1,103,754.03	-14,249.22
Bonds and other fixed-income securities	225,761,771.00	229,104,545.83	-3,342,774.83
Equities and other variable-yield securities	3,791,980.06	3,844,592.02	-52,611.96
	277,712,082.87	281,803,130.17	-4,091,047.30

31 Dec 2017:	Fair value Euro Thousand	Carrying amount Euro Thousand	Difference Euro Thousand
Debt instruments issued by public bodies and similar securities	53,962	55,018	-1,056
Bonds and other fixed-income securities	137,619	140,600	-2,981
Equities and other variable-yield securities	688	725	-37
	192,269	196,343	-4,073

Securities with market prices from inactive markets are primarily designated as fixed assets and are periodically reviewed with a view to any required impairments.

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 2019, receivables from bonds and other fixed-income securities in the amount of euro 169,765,392.31 will mature (in 2017 for 2018: euro 147,612 thousand).

In the 2018 business year, there were genuine repurchase transactions with a carrying amount of euro 20,346,404.59 (31 December 2017: euro 94,916 thousand).

The credit institution keeps a trading book. As at 31 December 2018, securities with a fair value of euro 6,162,775.03 (31 December 2017: euro 8,206 thousand) and other financial instruments with a fair value including accrued/deferred interest in the amount of euro 31,846,617.71 (31 December 2017: euro 40,674 thousand) have been designated for this trading book, of which an amount of euro -237,085,264.71 (31 December 2017: euro -243,478 thousand) with external counterparties.

In 2018, securities with a face value of euro 4,312,600.00 were reclassified from current assets (trading book) to fixed assets. No reclassifications of fixed assets to current assets were effected.

Subordinated assets:

	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
Loans and receivables to credit institutions	4,213,813.09	4,221
Bonds and other fixed-income securities	0.00	252
	4,213,813.09	4,473

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 2018 Euro
Wiener Landwirtschaftliche Siedlungsgesellschaft mbH 1220 Vienna, Kagraner Platz 48	33.33%	31 Dec 2017	212	-2	71,000.00
VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram e.Gen. 2120 Obersdorf, Hauptstraße 57	32.35%	31 Dec 2017	9,212	-28	160,040.00
VB Verbund-Beteiligung eG (vormals: Verwaltungsgenossenschaft der start:gruppe e.Gen.) 1090 Vienna, Kolingasse 14-16	29.04%	31 Dec 2017	101,733	6,826	18,668,564.56
ARZ Allgemeines Rechenzentrum GmbH 6020 Innsbruck, Tschamlerstraße 2	25.99%	31 Dec 2017	8,709	0	294,473.45
Volksbanken - Versicherungsdienst - Gesellschaft m.b.H. 1071 Vienna, Lindeng. 5	25.97%	31 Dec 2017	4,167	278	65,340.50
Volksbank Kärnten eG 9020 Klagenfurt, Pernhartgasse 7	25.26%	31 Dec 2017	121,081	2,023	8,758,405.98
VB Südburgenland Verwaltung eG 7423 Pinkafeld, Marktplatz 3	21.97%	31 Dec 2017	17,843	-20	318,772.50
VB-Beteiligungsgenossenschaft der Obersteiermark eG 8700 Leoben, Hauptplatz 4	20.55%	31 Dec 2017	19,319	16	1,500,047.27
Volksbanken Holding eGen 1030 Vienna, Löwelstraße 14	16.87%	30 June 2018	5,901	-30	12,578,000.00
PSA Payment Services Austria GmbH 1030 Vienna, Marxergasse 1B	6.89%	31 Dec 2017	32,710	5,971	3,828,767.48
Schulze-Delitzsch Ärzte und Freie Berufe e.Gen. 1010 Vienna, Schottengasse 10	5.61%	31 Dec 2017	15,853	-6,228	887,900.00
Volksbank Steiermark AG 8010 Graz, Schmiedgasse 31	5.11%	31 Dec 2017	200,519	12,122	5,751,434.52
Österreichische Kontrollbank Aktiengesellschaft 1010 Vienna, Am Hof 4	1.50%	31 Dec 2017	800,864	39,863	1,180,061.00
CEESEG Aktiengesellschaft 1010 Vienna, Wallnerstraße 8	1.41%	31 Dec 2017	372,627	29,383	1,377,582.14
Other participations					2,115,940.29
					57,556,329.69

Information about total equity and annual result corresponds to the most recent annual financial statements pursuant to the Austrian Business Code.

Information on mutual participations:

Share of VBW	Participations	Share in VBW
32.355%	VB Beteiligungsgenossenschaft Obersdorf-Wolkersdorf-Deutsch-Wagram eG	1.29%
25.260%	Volksbank Kärnten eG	2.22%
21.974%	VB Südburgenland Verwaltung eG (formerly: Volksbank Südburgenland eG)	3.11%
29.035%	VB Verbund-Beteiligung eG (formerly: Verwaltungsgenossenschaft der start:gruppe e.Gen)	3.81%
16.874%	Volksbanken Holding eGen	0.62%
8.209%	VB Ost Verwaltung eG	6.61%
5.112%	Volksbank Steiermark AG	5.11%
0.060%	VB Wien Beteiligung eG	10.48%
0.003%	Volksbank Salzburg eG	4.48%
0.003%	Volksbank Niederösterreich AG	3.08%

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 2018 Euro
VOME Holding GmbH 1090 Vienna, Kolingasse 14-16	100.00%	31 Dez 2017	1,211	904	227,000.00
VB ManagementBeratung GmbH 1090 Vienna, Kolingasse 14-16	100.00%	31 Dez 2017	501	245	36,336.40
VBKA-Holding GmbH 1090 Vienna, Kolingasse 14-16	100.00%	31 Dez 2017	29	-2	1.00
UVB-Holding GmbH 1090 Vienna, Kolingasse 14-16	100.00%	31 Dez 2017	33	-2	0.00
VB Rückzahlungsgesellschaft mbH 1010 Vienna, Schottengasse 10	100.00%	30 June 2018	23,677	681	53,000.00
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H. 1010 Vienna, Schottengasse 10	99.50%	31 Dez 2017	1,619	3	867,713.64
VOBA Vermietungs- und Verpachtungsges.m.b.H. 2500 Baden, Hauptplatz 9-13	99.00%	31 Dez 2017	7,821	115	5,679,448.53
3V-Immobilien Errichtungs-GmbH 1090 Vienna, Kolingasse 14-16	99.00%	31 Dez 2017	8,462	91	15,877,897.92
Gärtnerbank Immobilien GmbH 1220 Vienna, Kagraner Platz 48	99.00%	31 Dez 2017	285	59	34,650.00
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH 1220 Vienna, Kagraner Platz 48	99.00%	31 Dez 2017	2,731	53	84,650.00
VB Services für Banken Ges.m.b.H. 1090 Vienna, Kolingasse 14-16	98.89%	31 Dez 2017	4,675	1,427	436,983.01
Immo-Contract Baden Maklergesellschaft m.b.H. 2500 Baden, Hauptplatz 9-12	93.51%	31 Dez 2017	466	167	200,648.25
VB Verbund-Beteiligung Region Wien eG (formerly: Verwaltungsgenossenschaft der IMMO-BANK eG) 1090 Vienna, Kolingasse 14-16	90.51%	31 Dez 2017	21,036	-62	3,486,307.30
ARZ-Volksbanken Holding GmbH 1090 Vienna, Kolingasse 14-16	74.48%	30 June 2018	276	0	231,139.91
					27,215,775.96

Relationships with affiliates

Since 2010, VBW has been the group leader of a group of companies pursuant to section 9 Corporate Income Tax Act (KStG). 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 2018, the number of group members amounts to 10 (31 December 2017: 9). In the 2018 business year, 3V-Immobilien Errichtungs GmbH was included in the group of companies of VOLKSBANK WIEN AG. Under the group and tax compensation agreement, the allocation rate was fixed at 6.25%.

Fixed assets

The value of developed and undeveloped land amounts to euro 11,332,856.88 (31 December 2017: euro 12,644 thousand). As for the development of fixed assets, please refer to page 202 of these Notes.

Breakdown of other assets:

	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
Receivables from derivative financial instruments	328,843,919.38	352,780
Receivables from taxes and charges	5,344,960.73	1,884
Auxiliary accounts of banking business	332,402.19	318
Land and buildings acquired to secure receivables	130,290.00	140
Sundry other receivables	20,972,377.64	18,868
	355,623,949.94	373,990

Income in the amount of euro 20,921,303.74 (31 December 2017: euro 22,026 thousand) 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 maturities of more than one year in the amount of euro 280,118.46 (31 December 2017: euro 401 thousand).

Prepayments and accrued income

Prepayments and accrued income in the amount of euro 1,448,724.57 (31 December 2017: euro 2,128 thousand) 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 recognised for the following items under fiscal and under company law:

	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
Collective provisions pursuant to section 9 (3) Income Tax Act (EStG)	44,292,753.34	24,155
Portfolio loan loss provisions and impairments as per section 57 (1) Austrian Banking Act	32,433,358.53	45,202
Participations	21,139,894.79	24,366
Provision for severance payments	6,925,697.00	7,051
Provision for pensions	3,256,370.23	2,686
Provision for anniversary bonuses	2,350,989.90	2,887
Long-term provisions	1,904,789.27	1,040
Fifth part of severance payments	686,897.03	1,132
LIVEBank	500,000.00	567
Tangible assets and intangible assets	365,360.48	449
Provision for expenses	0.00	6,868
Other temporary differences	140,000.00	1,401
	113,996,110.56	117,804
Deferred tax assets from difference amounts determined (25%)	28,499,027.64	
Deferred tax assets of group members from (contractual) tax rate differences	797,544.42	
Deferred tax assets (25%)	29,296,572.06	

The effects of movements in deferred taxes on profit or loss are as follows:

	EUR
As at 31 Dec 2017	30,257,659.94
Addition from Horn merger	1,275,915.65
Change in profit or loss	-2,237,003.53
As at 31 Dec 2018	29,296,572.06

2.2 Explanatory notes on liabilities

Breakdown of amounts owed to credit institutions:

Residual term:	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
repayable on demand	2,578,668,462.29	2,482,510
up to 3 months	338,441,525.72	133,891
more than 3 months up to 1 year	22,801,087.14	15,048
more than 1 year up to 5 years	11,497,600.00	17,275
more than 5 years	109,349,845.94	94,827
not repayable on demand	482,090,058.80	261,041
Amounts owed to credit institutions, total	3,060,758,521.09	2,743,551

Breakdown of amounts owed to customers:

Residual term:	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
repayable on demand	4,664,687,047.16	4,038,933
up to 3 months	158,926,781.31	323,246
more than 3 months up to 1 year	713,296,940.01	543,310
more than 1 year up to 5 years	212,952,151.24	349,853
more than 5 years	661,015,295.41	601,896
not repayable on demand	1,746,191,167.97	1,818,305
Amounts owed to customers, total	6,410,878,215.13	5,857,238

At the balance sheet date, charge money savings deposits amount to euro 15,512,118.61 (31 December 2017: euro 12,377 thousand). The underlying stock dedicated to this purpose consists of investment grade securities and amounts to euro 20,000,000.00 (31 December 2017: euro 17,223 thousand).

Amounts owed to affiliates and participating interests:

	31 Dec 2018		31 Dec 2017	
	towards affiliated companies Euro	towards participations Euro	towards affiliated companies Euro Thousand	towards participations Euro Thousand
Amounts owed to credit institutions	0.00	1,366,500,367.24	0	932,425
Amounts owed to customers	69,422,632.41	79,138,662.98	119,026	69,450
Debts evidenced by certificates	0.00	0.00	0	1,280
Supplementary capital pursuant to Part 2 Title 1 Chapter 4 of Reg. (EU) no. 575/2013	0.00	0.00	0	1,630
	69,422,632.41	1,445,639,030.22	119,026	1,004,785

Debts evidenced by certificates

Issued bonds will mature in the 2019 business year in the amount of euro 125,000,000.00 (in 2017 for 2018: euro 120,000 thousand).

Debts evidence by certificates do not include any subordinate bonds (31 December 2017: euro 5,015 thousand).

The breakdown of issued subordinated liabilities and supplementary capital in the amount of euro 421,905,932.30 (31 December 2017: euro 429,657 thousand) into supplementary capital pursuant 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 186.

Other liabilities

	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
Liabilities from derivative financial instruments	429,427,296.78	423,847
Liabilities from taxes and charges	9,825,475.22	5,091
Deferred interest	2,606,395.74	0
Sundry other liabilities	22,682,037.31	16,782
	464,541,205.05	445,720

Expenses in the amount of euro 34,172,460.01 (31 December 2017: euro 35,577 thousand) are included in the item Other liabilities, which will be cash effective only after the balance sheet date. They mainly consist of deferred interest.

Other liabilities (except for fair values of derivative financial instruments) include items with a residual term of less than one year in the amount of euro 67,406,970.41 (31 December 2017: euro 55,527 thousand).

Deferred interest for supplementary capital in the amount of euro 2,606,395.74 are reported in other liabilities as at 31 December 2018. In the previous year, the corresponding amount of euro 2,609 thousand was reported in the item Supplementary capital.

Deferred income

The deferred income in the amount of euro 5,936,665.44 (31 December 2017: euro 7,078 thousand) essentially concerns premiums for loans.

Other provisions

Other provisions break down as follows:

	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
Repayment of subsidies from the reorganisation agreement	46,500,002.95	26,362
Outstanding supplier invoices	12,331,775.39	14,609
Imminent losses from derivative financial instruments	11,089,665.71	8,741
Losses and risks due to the granting of loans and guarantees	10,977,790.03	10,500
Recovery (redundancy programme, transformation, restoration of leased property to its original condition)	8,985,423.22	14,256
Anniversary bonuses	6,015,348.00	5,417
Leave not yet taken	3,856,909.00	4,038
Other liabilities	3,545,850.65	5,002
	103,302,764.95	88,925

The item Repayment of subsidies from the reorganisation agreement includes provisions 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 2018:	Supplementary capital under Part 2 Euro	Debts evidenced by certificates Euro
Subordinated liabilities	407,194,021.41	0.00
Supplementary capital, eligible without restrictions	4,804,888.89	0.00
Participation capital not meeting the criteria of CET1 capital	9,907,000.00	0.00

31 Dec 2017:	Supplementary capital under Part 2 Euro Thousand	Debts evidenced by certificates Euro Thousand
Subordinated liabilities	407	5,015
Supplementary capital, eligible without restrictions	7,541	0
Participation capital not meeting the criteria of CET1 capital	9,907	0

As at 31 December 2018, the terms of the issued subordinated liabilities and supplementary capital are as follows:

ISIN	Name	Nominal value	Currency	Interest rate (Dec 31)	Redemption
SSD, no security	Subordinated liabilities Sparda	2,000,000	euro	3M Eurib. +0.75%	19 March 2021
SSD, no security	Subordinated liabilities Sparda	2,000,000	euro	3M Eurib. +0.75%	19 March 2021
QOXDBA000383	TIER 2 CAPITAL DEB. 2007-2022	4,000,000	euro	4.000%	1 Dec 2022
AT0000A05QZ7	VAR. TIER 2 CAP. DEB. 2007-2019	792,000	euro	0.023%	16 July 2019
AT000B121967	2.75% VBWIEN FIX TO FIX 17-27	400,000,000	euro	2.750%	6 Oct 2027
QOXDBA032238	3.50% Volksbank Wien-Baden AG Nachrangige Tier 2 Anleihe 2014-2022	600,000	euro	3.500%	1 Dec 2022
QOXDB4408833	PS 2006	6,744	qty		perpetual
QOXDB4409005	PS 2006	260	qty		perpetual
QOXDB4408908	PS 2006	1,370	qty		perpetual
QOXDB4409039	PS 2006	341	qty		perpetual
QOXDB4409195	PS 2006	962	qty		perpetual
QOXDB4409120	PS 2006	230	qty		perpetual

The supplementary capital is subordinated pursuant to section 45 (4) Austrian Banking Act 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 11,382,245.06 (2017: euro 2,977 thousand).

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 bonds.

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 under Article 63 of the CRR. The bond will mature on 6 October 2027 and will be redeemed at a rate of 100% of the face 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 premium 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 2018	Balance sheet item
no sec.	impossible	no	2,000,268.28	Supplementary capital acc. to Part 2 Title 1 Chapter 4
no sec.	impossible	no	2,000,268.28	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	792,000.00	Supplementary capital acc. to Part 2 Title 1 Chapter 4
no	issuer	no	402,591,780.82	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	6,744,000.00	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	1,370,000.00	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	962,000.00	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

Equity

As at 31 December 2018, the subscribed capital of VBW amounted to euro 137,546,531.25 (31 December 2017: euro 132,894 thousand) and consisted of 1,467,163 (31 December 2017: 1,417,534) no-par shares.

The following shareholders participate in the share capital as at 31 December 2018:

	Euro Thousand	%
Banks of the Association	39,307	28.58
Republic of Austria	34,387	25.00
VB Wien Beteiligung eG	14,425	10.49
VB Baden Beteiligung e.Gen.	11,512	8.37
VB Ost Verwaltung eG	9,096	6.61
VB Niederösterreich Süd eG	7,271	5.29
VB Verbund-Beteiligung eGen	5,237	3.81
VB Südburgenland Verwaltung eG	4,283	3.11
WV Beteiligung EG	4,131	3.00
VB Weinviertel Verwaltung eG	3,860	2.81
VB Beteiligungsgen. Obersdorf-Wolkersdorf-Deutsch-Wagram eG	1,779	1.29
Verwaltungsgenossenschaft Gärtnerbank e.Gen.	1,053	0.77
Volksbank Holding eGen	851	0.62
SPARDA AUSTRIA Verwaltungsgenossenschaft eGen	355	0.26
	137,547	100.00

By way of the contribution agreement and contribution in kind agreement dated 24 April 2018, the banking operation of Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung (FN 47971 x) was taken over into VBW pursuant to section 92 Austrian Banking Act by way of universal succession. The contribution was effected pursuant to Art. III Austrian Reorganisation Tax Act (UmGrStG) applying the continuation of carrying amounts, and was entered in the Companies' Register on 20 June 2018.

By resolution of the General Meeting dated 24 April 2018, a capital increase in the face value of 4,652,718.75 was resolved upon, and carried out, in that context by issuing 49,629 registered no-par shares (contribution of Horn banking operation).

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) Austrian Banking Act). 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 pursuant section 57 (5) Austrian Banking Act

As at 31 December 2018, the liability reserve amounts to euro 44,819,308.55 (31 December 2017: euro 36,972 thousand).

2.3 Explanatory notes on contingent liabilities

Composition of contingent liabilities:

	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
Sureties and guarantees	292,422,328.25	342,074
Haftsummenzuschläge (guaranteed amounts)	23,242,733.81	28,554
Letters of credit	1,205,254.60	1,382
less: provisions	-2,767,558.69	-2,927
	314,102,757.97	369,083

Composition of credit risks:

	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
Loan commitments	3,153,861,732.73	4,376,100
less: provisions	-1,460,297.27	-
	3,152,401,435.46	4,376,100

2.4 Other financial obligations

Composition of liabilities from trust transactions:

	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
Loans on a trust basis/deposits	63,800,001.27	100,382
Other assets from trust transactions	54,430,000.00	46,400
Export fund loans	0.00	2,976
	117,230,001.27	149,758

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 2015 reorganisation agreement 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 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 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 fail to 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 "disposal 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 VBW shareholders. Overall, accordingly, in case the disposal 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.

Under 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 under the Austrian Business Code/Austrian Banking Act).

In the 2017 business year, item 4.1. of the 2015 reorganisation agreement was amended by the rider dated 12 December 2017 to the effect that profit distributions to unconsolidated holding companies are admissible under certain conditions.

In the 2018 business year, further payments were effected to the federal government under the reorganisation agreement. In this way, the first threshold determined for creditable amounts and dividends for the business year ending on 31 December 2019 has already been exceeded. The next threshold must be reached with the distribution in respect of the business year ending on 31 December 2021.

Legal risks from the spin-off of CO operations into VBW

Pursuant 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) Spin-off Act (SpaltG); 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) Spin-off Act). The total amounts in dispute from pending complaints under section 15 (1) Spin-off Act are euro 5,439,000.

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 press release of immigon published on 31 January 2019 with respect to the audited annual financial statements as at 31 December 2018, VBW expects immigon to be in a position to service its liabilities. Should any economic burden on 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.

Letter of Comfort VB Forum

The main tenant of the future headquarters of VBW (the VB Forum) is VOBA Vermietungs- und Verwaltungsgesellschaft m.b.H. (VOBA), a 99% subsidiary of VBW. VBW intends to rent office premises and car parking spaces as subtenant from VOBA (the final terms of the sublease have not yet been negotiated definitively between VOBA and VBW).

With a view to moving into the VB Forum, which is planned to take place in Q4/2019, VBW has provided a written statement to the external lessor of VOBA: In the event of termination with notice of the entire lease agreement, or any parts thereof, by VOBA, VBW undertakes vis-à-vis the external lessor to nominate a new tenant (that meets certain requirements) for a successor lease agreement, unless the lease agreement is terminated with notice by VOBA with effect on certain fixed dates. In the event of VOBA giving notice of the lease with effect on any date not so fixed and simultaneous failure to conclude any successor lease, VBW undertakes to put the external lessor in the same position, in economic terms, as if a successor lease had been concluded. This results in a maximum effect of this other financial obligation in the amount of euro 11.8 million.

2.5 Additional disclosures

Breakdown of assets pledged as collateral for liabilities:

	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
Loans and receivables to customers	2,162,688,215.39	2,333,356
Debt instruments issued by public bodies, bonds and other fixed-income securities	15,512,118.61	17,223
	2,178,200,334.00	2,350,580
Assets were pledged as collateral for the following obligations		
Amounts owed to credit institutions	226,683,978.57	312,075
Debts evidenced by certificates	1,936,004,236.82	2,021,282
Amounts owed to customers (savings deposits)	15,512,118.61	17,223
	2,178,200,334.00	2,350,580

Assets pledged as collateral include the underlying stock for covered bonds in the amount of euro 1,936,004,236.82 (31 December 2017: euro 2,021,282 thousand).

For the following business year, the total amount of obligations from using tangible assets not reported in the balance sheet is euro 7,647,586.15 (31 December 2017: euro 9,663 thousand), of which affiliates euro 4,097,336.45 (31 December 2017: euro 3,805 thousand) and for the following five business years euro 18,234,669.85 (31 December 2017: euro 44,980 thousand), of which affiliates euro 4,447,153.25 (31 December 2017: euro 19,025 thousand).

Total amount of assets and liabilities denominated in foreign currencies:

	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
Foreign currency assets	834,085,441.34	862,872
Foreign currency liabilities	172,238,258.04	155,683

An amount of euro 4,901,000.00 (31 December 2017: euro 4,687 thousand) 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 2018**

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 2018	thereof hedge 31 Dec 2018	Other receiveables 31 Dec 2018	Other liabilities 31 Dec 2018
INTEREST RATE RELATED TRANSACTIONS	**578,387**	**1,725,474**	**3,052,582**	**5,356,443**	**-197,341**	**-261,907**	**315,134**	**323,730**
Caps&Floors	98,229	387,270	258,697	744,196	-376		1,133	1,281
FRA's	0	0	0	0	0	0	0	0
Interest Futures	7,200	35,000	0	42,200	24,488	0	0	0
IRS	472,957	1,303,204	2,793,885	4,570,047	-221,453	-261,907	314,001	322,449
Swaptions	0	0	0	0	0	0	0	0
EXCHANGE RATE RELATED TRANSACTIONS	**901,736**	**546,866**	**298,316**	**1,746,917**	**-94,392**	**-19,621**	**10,952**	**105,697**
Cross Currency Interest Rate Swaps	337,803	546,866	298,316	1,182,985	-93,600	-19,621	11,354	105,293
Foreign exchange options	0	0	0	0	0	0	0	0
Foreign exchange transactions/FX SWAPS	563,933		0	563,933	-792	0	-402	405
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	**12,840**	**14,258**	**235,298**	**262,395**	**-1,394**	**0**	**2,733**	**0**
Market price guarantees								
Pension provision/guarantee funds	0	0	231,040	231,040	-4,262	0	0	0
Options	12,840	14,258	4,258	31,355	2,868	0	2,733	0
TOTAL	**1,492,962**	**2,286,598**	**3,586,196**	**7,365,756**	**-293,127**	**-281,528**	**328,819**	**429,427**
Check	0	0	0	0	0		0	0
of which internal*	310,255	529,182	1,026,228	1,865,665	0	-268,320	247,774	135

TRADING BOOK — **31 DEC 2018**

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 2018	thereof hedge 31 Dec 2018	Other receiveables 31 Dec 2018	Other liabilities 31 Dec 2018
INTEREST RATE RELATED TRANSACTIONS	**397,215**	**1,398,093**	**1,690,876**	**3,486,184**	**31,838**	**0**	**308,357**	**321,493**
Caps&Floors	94,888	366,953	255,198	717,039	-146	0	1,131	1,281
FRA's	0	0	0	0	0	0	0	0
Interest Futures	7,200	35,000	0	42,200	24,488	0	0	0
IRS	295,127	996,140	1,435,678	2,726,945	7,497	0	307,225	320,212
Swaptions	0	0	0	0	0	0	0	0
EXCHANGE RATE RELATED TRANSACTIONS	**37,479,952**	**30,420**		**67,900**	**8**	**0**	**9,757**	**10,425**
Cross Currency Interest Rate Swaps	37,480	30,420		67,900	8	0	9,757	10,425
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	**434,695**	**1,428,513**	**1,690,876**	**3,554,084**	**31,847**	**0**	**318,113**	**331,918**
of which internal*	158,572	264,931	513,114	936,617	268,932	0	247,772	0

BANKING BOOK — **31 DEC 2018**

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 2018	thereof hedge 31 Dec 2018	Other receiveables 31 Dec 2018	Other liabilities 31 Dec 2018
INTEREST RATE RELATED TRANSACTIONS	**181,172**	**327,381**	**1,361,706**	**1,870,259**	**-229,179**	**-261,907**	**6,778**	**2,237**
Caps&Floors	3,341	20,317	3,499	27,157	-230		2	0
FRA's	0	0	0	0	0	0	0	0
Interest Futures	0	0	0	0	0	0	0	0
IRS	177,831	307,064	1,358,207	1,843,101	-228,950	-261,907	6,776	2,237
Swaptions	0	0	0	0	0	0	0	0
EXCHANGE RATE RELATED TRANSACTIONS	**864,256**	**516,446**	**298,316**	**1,679,018**	**-94,401**	**-19,621**	**1,195**	**95,272**
Cross Currency Interest Rate Swaps	300,323	516,446	298,316	1,115,085	-93,609	-19,621	1,597	94,868
Foreign exchange options	0	0	0	0	0	0	0	0
Foreign exchange transactions/FX SWAPS	563,933		0	563,933	-792	0	-402	405
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	**12,840**	**14,258**	**235,298**	**262,395**	**-1,394**	**0**	**2,733**	**0**
Market price guarantees								
Pension provision/guarantee funds[1]	0	0	231,040	231,040	-4,262	0	0	0
Options	12,840	14,258	4,258	31,355	2,868	0	2,733	0
TOTAL BANKING BOOK	**1,058,267**	**858,085**	**1,895,320**	**3,811,672**	**-324,974**	**-281,528**	**10,705**	**97,509**
of which internal*	151,683	264,251	513,114	929,048	-268,932	-268,320	2	135

* 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 of risk assumed by banks of the Association.

31 DEC 2017

Provisions 31 Dec 2018	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	Provisions 31 Dec 2017
6,052	338,493	2,134,963	2,726,101	5,199,558	-194,303	-234,471	338,497	342,810	4,726
253	41,354	501,434	332,948	875,737	-578		1,499	1,783	355
0	0	0	0	0	0	0	0	0	0
0	4,800	35,000	0	39,800	28,536	0	0	0	0
5,800	292,339	1,598,529	2,393,152	4,284,021	-222,262	-234,471	336,998	341,028	4,371
0	0	0	0	0	0	0	0	0	0
481	634,800	786,290	292,087	1,713,176	-70,911	-20,284	11,769	81,036	298
29	42,728	786,161	292,087	1,120,975	-70,650	-20,284	11,849	80,965	114
0	0	0	0	0	0	0	0	0	0
452	592,072	129	0	592,201	-261	0	-80	72	184
0			0			0	0	0	
0			0			0	0	0	
0	0	0	0	0	0	0	0	0	0
4,557	17,812	14,626	306,686	339,124	73	0	2,489	0	2,221
4,557	0	0	299,657	299,657	-2,774	0	0	0	2,221
0	17,812	14,626	7,029	39,467	2,846	0	2,489	0	0
11,090	991,105	2,935,879	3,324,874	7,251,857	-265,142	-254,755	352,755	423,847	7,245
0	0	0	0	0	0		0	0	0
	93,987	802,055	1,081,220	1,977,261	0	-283,842	261,422	176	

31 DEC 2017

Provisions 31 Dec 2018	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	Provisions 31 Dec 2017
142	286,500	1,693,455	1,894,491	3,874,446	40,663	0	331,752	341,319	478
0	38,194	477,416	326,265	841,875	-279	0	1,496	1,783	0
0	0	0	0	0	0	0	0	0	0
0	4,800	35,000	0	39,800	28,536	0	0	0	0
142	243,506	1,181,039	1,568,226	2,992,771	12,406	0	330,256	339,536	478
0	0	0	0	0	0	0	0	0	0
0	0	67,194		67,194	11	0	10,322	10,973	0
0		67,194		67,194	11	0	10,322	10,973	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
142	286,500	1,760,649	1,894,491	3,941,640	40,674	0	342,074	352,293	478
	46,993	404,459	540,610	992,062	284,152	0	261,417	0	

31 DEC 2017

Provisions 31 Dec 2018	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	Provisions 31 Dec 2017
5,911	51,993	441,508	831,610	1,325,112	-234,967	-234,471	6,745	1,491	4,248
253	3,160	24,018	6,683	33,862	-299		3	0	355
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
5,658	48,833	417,490	824,926	1,291,250	-234,668	-234,471	6,742	1,491	3,893
0	0	0	0	0	0	0	0	0	0
481	634,800	719,096	292,087	1,645,982	-70,921	-20,284	1,447	70,063	298
29	42,728	718,967	292,087	1,053,781	-70,661	-20,284	1,527	69,992	114
0	0	0	0	0	0	0	0	0	0
452	592,072	129	0	592,201	-261	0	-80	72	184
0			0			0	0	0	
0			0			0	0	0	
0	0	0	0	0	0	0	0	0	0
4,557	17,812	14,626	306,686	339,124	73	0	2,489	0	2,221
4,557	0	0	299,657	299,657	-2,774	0	0	0	2,221
0	17,812	14,626	7,029	39,467	2,846	0	2,489	0	0
10,948	704,605	1,175,230	1,430,383	3,310,218	-305,816	-254,755	10,681	71,554	6,767
	46,993	397,596	540,610	985,199	-284,152	-283,842	5	176	

3. Explanatory notes on the income statement

Net interest income

	2018 Euro	2017 Euro Thousand
Interest and similar income		
from loan and investment transactions		
from loans and receivables to credit institutions	12,789,858.91	14,994
from loans and receivables to customers	107,355,110.81	100,544
fees and commissions equivalent to interest	8,359,885.61	7,967
from bonds and other fixed-income securities	8,966,936.11	8,393
from other assets – total	8,045,621.78	7,656
	145,517,413.22	139,554
Interest and similar expenses		
from refinancing transactions		
from amounts owed to credit institutions	-13,744,210.09	-13,293
from amounts owed to customers	-5,695,433.32	-8,760
from debts evidenced by certificates	-17,202,847.34	-9,086
	-36,642,490.75	-31,139
	108,874,922.47	108,415

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 8,900,290.57 (2017: euro 7,151 thousand) and interest expenses (negative interest income) in the amount of euro 9,658,165.64 (2016: euro 8,167 thousand) were realised in the 2018 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

	2018 Euro	2017 Euro Thousand
a) Income from stocks, other share rights and variable-income securities	427,131.17	818
b) Income from participations	1,221,431.53	2,233
c) Income from shares in affiliates	2,471,033.11	1,701
	4,119,595.81	4,752

Net fee and commission income

	2018 Euro	2017 Euro Thousand
Fee and commission income		
from payment transactions	35,513,393.79	34,526
from securities business	28,256,171.39	31,155
from lending business	15,498,717.62	13,686
from other service business	9,885,435.61	9,797
from foreign exchange, foreign notes and coins, precious metals business	66,102.65	70
	89,219,821.06	89,234
Fee and commission expenses		
for payment transactions	-4,974,514.45	-4,281
for securities business	-8,044,000.21	-8,979
for lending business	-13,480,063.12	-14,887
for other service business	-23,776.72	-36
	-26,522,354.50	-28,183
	62,697,466.56	61,051

Income/expenses from financial transactions

	2018 Euro	2017 Euro Thousand
Result from financial transactions		
Equity-related transactions	34,076.88	18
Interest rate-related transactions	266,175.78	1,819
Foreign exchange business	583,347.67	-514
Foreign notes and coins, and precious metals business	766,343.86	784
Other financial transactions	-37,389.46	968
	1,612,554.73	3,075

Other operating income breaks down as follows:

	2018 Euro	2017 Euro Thousand
Charged-out staff expenses and administrative expenses	71,404,453.74	53,048
Income from Gemeinschaftsfonds (cooperative fund) payment	10,000,000.00	0
Income from the release of provisions	8,073,809.00	10,647
Charged-out structural cost contributions	7,510,353.60	7,638
Charged-out contributions to Single Resolution Fund (SRF)	4,317,278.01	3,867
Charged-out issuing costs	8,753,828.66	3,660
Income from the disposal of assets	4,604,968.07	1,628
Income from letting and leasing	2,366,655.07	2,473
Income from derivative financial instruments	0.00	2,992
From other transactions	293,321.58	1,523
	117,324,667.73	87,476

Charged-out staff expenses 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.

Impairments of the assets included in asset items 9 and 10 (tangible assets and intangible assets) increased substantially due to impairments effected in the past business year in relation to land and buildings in the amount of euro 3.2 million (2017: euro 0.2 million).

Other operating expenses break down as follows:

	2018 Euro	2017 Euro Thousand
Charged-out expenses	8,466,503.57	12,685
Charged-out contributions to Single Resolution Fund (SRF)	4,317,278.02	3,993
Losses on redemption – issues	7,410.00	8
Expenses – derivative financial instruments	0.00	131
Other expenses	9,222,437.47	8,514
	22,013,629.06	25,331

Charged-out expenses primarily include amounts charged out from joint advertising, as well as costs incurred under regulatory provisions. Other expenses essentially concern expenses for fund liabilities in the amount of euro 2,062,746.71 (2017: euro 2,614 thousand).

Result from valuations and disposals:

	2018 Euro	2017 Euro Thousand
Result from valuations and disposals	**-6,469,524.16**	**19,206**
Impairments on receivables, and allocations to provisions for contingent liabilities and for credit risks	-27,058,874.79	-27,042
Lending business	-26,810,710.08	-26,732
Securities held as current assets	-248,164.71	-310
Income from the reversal of impairments on receivables and from provisions for contingent liabilities and for credit risks	41,682,442.90	33,957
Lending business	29,941,046.96	30,532
Reversal/release Sec. 57 (1) Austrian Banking Act	11,727,910.67	3,172
Securities held as current assets	13,485.27	253
Balance Item 11 of the income statement	14,623,568.11	6,916
Impairments on securities valued as financial assets, as well as on participations and shares in affiliates	-24,100,968.32	-13,409
Non-current securities	-1,494,796.12	-1,064
Participations, shares in affiliates	-22,606,172.20	-12,461
Income from impairments on securities valued as financial assets, as well as on participations and shares in affiliates	3,007,876.05	25,700
Non-current securities	1,964,187.51	2,281
Participations, shares in affiliates	1,043,688.54	23,419
Balance Item 12 of the income statement	-21,093,092.27	12,291

Extraordinary income in the amount of euro 3.6 million (2017: euro 0) concerns a gratuitous contribution in connection with the acquisition of shares in VB Verbund- Beteiligung eG.

Taxes on income and earnings

Income taxes only relate to the result from ordinary operations. The tax expense in the amount of euro 5,236,384.66 (2017: euro 322 thousand) essentially comprises a tax expense from current corporate income tax in the amount of euro 1,227,950.34 (2017: euro 3,101 thousand), tax expenses from previous periods of euro 1,720,998.55 (2017: euro 0), a tax expense from the deferred tax change in the amount of euro 2,237,003.53 (2017: tax income from the change of deferred taxes in the amount of euro 2,870 thousand), as well as corporate income tax income from current offsetting within the Austrian tax group of euro 172,266.81 (2017: euro 127 thousand).

Other taxes, unless they must be reported in item 14

Other taxes in the amount of euro 2,213,137.72 (2017: euro 2,254 thousand) essentially include the bank levy under the Stability Levy Act (Stabilitätsabgabegesetz) in the amount of euro 1,859,825.71 (2017: euro 1,938 thousand).

4. Other Disclosures

As the central organisation, VBW prepares the consolidated financial statements pursuant to section 59 Austrian Banking Act and financial statements of the Association of Volksbanks pursuant to section 59a Austrian Banking Act. 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 pursuant to the Sustainability and Diversity

Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz; NaDiVeG) in a separate sustainability report.

In 2018, the average headcount was 1,158.0 (2017: 1,202.1), with 1,156.7 (2017: 1,197.5) white-collar employees and 1.3 (2017: 4.6) blue-collar employees.

Expenses for severance payments and contributions to employee pension funds include expenses from severance payments in the amount of euro 2,031,808.01 (2017: euro 6,422 thousand) and the release of a provision for restructuring pay-offs in the amount of euro 3,163,822.21.

The auditing expenses for the business year are reported in the notes to the consolidated financial statements of VOLKSBANK WIEN AG.

Return on total capital employed

Pursuant to section 64 (1) (19) Austrian Banking Act as amended by Fed. Law Gazette I 2014/184, the return on total capital employed is 0.27% (31 December 2017: 0.33%). Return on total capital employed under the Austrian Banking Act is the quotient of annual result after taxes divided by total assets at the balance sheet date.

Capital requirements pursuant to Art. 92 (1) lit. a to c of Regulation (EU) No. 575/2013

By assuming the function of central organisation pursuant to section 30a Austrian Banking Act, VBW is subject to the external capital requirements based on the CRD IV and CRR of the European Union (Basel III) at individual bank level.

Pursuant to Art 92 CRR, VBW must meet the following capital requirements at all times:

a) a CET1 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 pursuant to Art. 92 (3) CRR is euro 4,079,329,205.98 (2017: euro 3,394,266 thousand).

The capital ratios are calculated as follows:

a) the CET1 capital ratio derives from the CET1 capital of the bank, expressed as a percentage of the aggregate risk amount; accordingly, the CET1 capital ratio of VBW amounts to 12.80% (31 December 2017: 13.80%).
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 12.80% (31 December 2017: 13.80%), 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 23.19% (31 December 2017: 26.70%).

As at 31 December 2018, the eligible own funds of VBW pursuant to Part 2 of Regulation (EU) No. 575/2013 (CRR) amount to euro 945,924,588.35 (31 December 2017: euro 907,330 thousand) and break down as follows:

	31 Dec 2018 Euro	31 Dec 2017 Euro Thousand
Core capital (Tier 1)		
CET1 capital (Common Equity Tier 1))		
Share capital	137,546,531.25	132,894
Participation capital Art. 484, 486 CRR	8,362,800.00	9,907
Open reserves	356,568,642.03	334,397
Profit brought forward	33,033,881.01	6,237
	535,511,854.29	483,435
less:		
Deduction		
Value adjustment (Art. 35 and Art. 105 CRR)	-510,983.00	-427
Intangible assets (Art. 36 (1) lit b CRR)	-366,969.24	-532
Under Article 3 CRR	-12,578,000.00	-12,980
	-13,455,952.24	-13,939
	522,055,902.05	469,496
Supplementary capital (Tier 2)		
Supplementary capital (item 2.7)	419,299,536.56	424,643
Supplementary capital (item 2.3)	0.00	649
General credit risk adjustment (hidden reserves section 57 (1) Austrian Banking Act)	17,870,754.88	29,599
	437,170,291.44	454,891
less:		
Own supplementary capital instruments	0.00	-9
Correction for ineligible equity	-13,301,605.14	-17,049
	-13,301,605.14	-17,058
	423,868,686.30	437,834
Eligible own funds pursuant to Part 2 CRR	945,924,588.35	907,330

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 CET1 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 pursuant 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, among others, were ordered to hold a systemic risk buffer. 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. From 1 January 2019 until 31 December 2019, a risk buffer of 0.5% was prescribed. From 1 January 2019, the Association of Volksbanks is subject to an additional capital buffer ratio for systemically important institutions. This is limited to 0.5% until 31 December 2019 and will increase to 1% from 1 January 2020. As, pursuant to section 23 c (9) Austrian Banking Act, the higher capital buffer requirement of systemic risk buffer and capital buffer for systemically important institutions must be met, and since in 2019 the amount of both buffers is the same, no additional capital burden results for the Association of Volksbanks in 2019.

Disclosures regarding transactions with related parties

Expenses for severance payments and pensions amount to euro 760,598.07 (2017: euro 552 thousand) for both active and former members of the Managing Board. Expenses for severance payments and pensions amount to euro 4,799,941.17 (2017: euro 8,389 thousand).

Pension expenses for commitments for which provisions are recorded amount to euro 874,438.51 (2017: euro 876 thousand) in the business year. Changes in provisions for anniversary bonuses are included in the item Wages and salaries in the amount of euro 526,320.53 (2017: euro 369 thousand).

The total remuneration for the Supervisory Board members active in the business year amount to euro 291,666.67 (2017: euro 193 thousand). The total remuneration of the Managing Board (without incidental wage costs) amounted to euro 2,061,398.81 (2017: euro 1,942 thousand). The total remuneration of former Managing Board members and their surviving dependants amounted to euro 571,313.83 (2017: euro 412 thousand) in the business year.

As at 31 December 2018, the loans granted to members of the Managing Board amount to euro 50,000.00 (2017: euro 50 thousand). No repayments were made in the business year (31 December 2017: euro 0).

As at 31 December 2018, the loans granted to members of the Supervisory Board amount to euro 400,710.11 (2017: euro 499 thousand). In the 2018 business year, euro 98,126.40 (previous year: euro 17 thousand) 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 exclusively in the business year.

Significant events after the balance sheet date

By resolution of the ECB adopted in February 2019, the result of the SREP was forwarded to VBW as the central organisation of the Association of Volksbanks. The CET1 demand amounting to 11.25%, as determined for the Association of Volksbanks, that applies as of 1 March 2019, consists of the following: Pillar 1 CET requirement of 4.5%, Pillar 2 requirement of 2.75%, capital conservation buffer of 2.5%, systemic risk buffer 0.5%, buffer for systemically important institutions 0.5% (new with effect from 1 January 2019), and Pillar 2 capital recommendation of 1.0%. However, due to the currently applicable regulation, the buffer for systemically important institutions has no effect on the CET1 demand or on the total capital requirement, since the higher of systemic risk buffer and buffer for systemically important institutions must be applied. As of 1 March 2019, the total capital requirement amounts to 13.75% (Pillar 1 requirement of 8.0%, Pillar 2 requirement of 2.75%, capital conservation buffer of 2.5%, systemic risk buffer 0.5%, and/or buffer for systemically important institutions 0.5%).

Until entry into force of the new resolution with effect from 1 March 2019, the provisions of the decision dated 19 December 2017 shall continue to apply, extended by the buffer requirements as increased under the transitional provisions: capital conservation buffer 2.5% as of 01 January 2019 (1.875% until 31 December 2018) and systemic risk buffer 0.5% as of 1 January 2019 (0.25% until 31 December 2018) and/or buffer for systemically important institutions 0.5% (new as of 1 January 2019).

On 5 February 2019, the international rating agency Fitch confirmed the long-term issuer rating of BBB of the Association of Volksbanks.

On 25 February 2019, VBW placed a bank bond with a face value of euro 500 million and a maturity of seven years (maturity date: 4 March 2026). Moody's provided the bond with a rating of Aaa, as awarded to the covered bond programme of VBW. The volume of the issue serves to finance credit growth within the entire Association of Volksbanks.

Appropriation of net income

The recommendation is for the net profit for the year in the amount of euro 33,144,755.29 to be appropriated as follows: Pursuant to the terms of the participation capital issued, an amount of euro 110,874.28 will be distributed as a dividend to the holders of the participation certificates. The remaining amount of euro 33,033,881.01 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
until 31 December 2018

Rainer Borns
Member of the Managing Board

Thomas Uher
Member of the Managing Board

Supervisory Board:

Heribert Donnerbauer
Donnerbauer & Hübner Rechtsanwälte GmbH
Chairman

Member of the Managing Board
Martin Holzer
Volksbank Tirol AG
First Deputy Chairman until 24 April 2018

Franz Gartner
Municipality of Traiskirchen
1st Deputy Chairman as of 24 April 2018

Member of the Managing Board
Rainer Kuhnle
Volksbank Niederösterreich-AG
2nd Deputy Chairman until 24 April 2018

Robert Oelinger
Certified public accountant/tax consultant
2nd Deputy Chairman as of 24 April 2018

Susanne Althaler

Anton Fuchs
Member as of 24 April 2018

Helmut Hegen
HOSP, HEGEN partnership of lawyers
Member as of 24 April 2018

Eva Hieblinger-Schütz
Federal Ministry of Finance

Member of the Managing Board
Markus Hörmann
Volksbank Tirol AG
Member until 24 April 2018

Christian Lind
Member as of 24 April 2018

Harald Nograsek

Monika Wildner
Self-employed attorney-at-law

Member of the Managing Board Otto Zeller
Volksbank Salzburg eG
Member until 24 April 2018

Works Council delegates:

Manfred Worschischek
Chairman of the Works Council

Hans Lang
until 1 September 2018

Hermann Ehinger
Andrea Mayer as of 1 September 2018
Rainer Obermayer
Michaela Pokorny

State Commissioners:

Christian Friessnegg
State commissioner

Katharina Hafner
Deputy state commissioner

The Managing Board

Vienna, 27 February 2019

Gerald Fleischmann
Chairman of the Managing Board

Rainer Borns
Deputy Chairman of the Managing Board

Thomas Uher
Deputy Chairman of the Managing Board

Disclosure pursuant to Article 431 CRR is effected on the Internet on the website of VBW at www.volksbankwien.at

Movement in non-current assets 2018 (section 226 (1) Austrian Commercial Code (UGB) in conjunction with section 43 (1) Austrian Banking Act (BWG); all figures are in euro)

Non-current assets		ACQUISITION 1 January 2018	Additions	Additions through reorganisation	Disposals	Transfer	31 December 2018
Appreciation							
2.a)	Debt instruments issued by public bodies and similar securities	877,147,967.84	23,030,981.22	70,786,554.00	71,379,569.70	23,517,806.06	923,103,739.42
3.	Loans and advances to credit institutions (securities)	4,125,811.84	14,585,716.20	0.00	0.00	-9,953,631.99	8,757,896.05
4.	Loans and advances to customers (securities)	18,121,737.88	861,137.98	0.00	0.00	0.00	18,982,875.86
5.	Bonds and other fixed-income securities	464,378,206.58	289,601,244.02	21,260,756.60	24,824,353.25	-13,858,381.47	736,557,472.48
6.	Shares and other variable-yield securities	41,977,806.27	3,420.13	50,250.24	53,670.37	0.00	41,977,806.27
Total		**1,405,751,530.41**	**328,082,499.55**	**92,097,560.84**	**96,257,593.32**	**-294,207.40**	**1,729,379,790.08**
Participations							
7.	Participations	178,703,078.65	7,324,828.63	10,379,071.17	48,141.92	0.00	196,358,836.53
Total		**178,703,078.65**	**7,324,828.63**	**10,379,071.17**	**48,141.92**	**0.00**	**196,358,836.53**
Investments in affiliates							
8.	Investments in affiliates	148,728,173.39	681,348.65	86.89	0.00	0.00	149,409,608.93
Total		**148,728,173.39**	**681,348.65**	**86.89**	**0.00**	**0.00**	**149,409,608.93**
Intangible fixed assets							
9.	Intangible fixed assets	29,904,102.22	0.00	361,139.88	70,547.95	0.00	30,194,694.15
10.	Fixed assets	198,666,834.26	2,304,384.13	6,410,695.55	18,602,159.73	0.00	188,779,754.21
Total		**228,570,936.48**	**2,304,384.13**	**6,771,835.43**	**18,672,707.68**	**0.00**	**218,974,448.36**
Total		**1,961,753,718.93**	**338,393,060.96**	**109,248,554.33**	**114,978,442.92**	**-294,207.40**	**2,294,122,683.90**

DEPRECIATION							CARRYING AMOUNT	
Cumulated depreciation 1 January 2018	Depreciation in fiscal year	Additions through reorganisation	Appreciation	Disposals	Transfer	Cumulated depreciation 31 December 2018	31 December 2018	2017 thousand Euro
52,164.20	0.00	4,653,052.59	0.00	0.00	0.00	4,705,216.79	918,398,522.63	877,096
0.00	0.00	0.00	0.00	0.00	0.00	0.00	8,757,896.05	4,126
0.00	0.00	0.00	0.00	0.00	0.00	0.00	18,982,875.86	18,122
3,000.00	0.00	512,470.95	0.00	0.00	0.00	515,470.95	736,042,001.53	464,375
5,791,295.00	1,494,772.87	0.00	1,961,775.59	0.00	0.00	5,324,292.28	36,653,513.99	36,187
5,846,459.20	**1,494,772.87**	**5,165,523.54**	**1,961,775.59**	**0.00**	**0.00**	**10,544,980.02**	**1,718,834,810.06**	**1,399,905**
127,975,591.23	1,818,897.22	9,066,870.66	24,675.99	34,176.28	0.00	138,802,506.84	57,556,329.69	50,727
127,975,591.23	**1,818,897.22**	**9,066,870.66**	**24,675.99**	**34,176.28**	**0.00**	**138,802,506.84**	**57,556,329.69**	**50,727**
122,315,455.91	787,274.98	0.00	908,897.92	0.00	0.00	122,193,832.97	27,215,775.96	26,413
122,315,455.91	**787,274.98**	**0.00**	**908,897.92**	**0.00**	**0.00**	**122,193,832.97**	**27,215,775.96**	**26,413**
29,372,053.79	169,454.16	356,764.88	0.00	70,547.92	0.00	29,827,724.91	366,969.24	532
119,142,691.91	8,649,170.83	5,071,083.98	0.00	13,965,510.90	431,909.95	119,329,345.77	69,450,408.44	79,524
148,514,745.70	**8,818,624.99**	**5,427,848.86**	**0.00**	**14,036,058.82**	**431,909.95**	**149,157,070.68**	**69,817,377.68**	**80,056**
404,652,252.04	12,919,570.06	19,660,243.06	2,895,349.50	14,070,235.10	431,909.95	420,698,390.51	1,873,424,293.39	1,557,101

MANAGEMENT REPORT

MANAGEMENT REPORT

1 Report on the business development and economic situation

1.1 Business development

1.1.1 Business development

Already in the first half of 2018, the owners of VOLKSBANK WIEN AG (VBW) and of Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung (VB Horn) resolved in the general meetings of both companies to contribute the banking operation of VB Horn to VBW; said contribution was effected in June 2018 by entering the same in the Companies' Register. Hence, all intended mergers were successfully implemented in due time to create the target structure of the Association of Volksbanks.

In February 2018, the Fitch rating agency raised the rating of the Association of Volksbanks by one notch to BBB. This also applies to the individual Volksbanks. The rating outlook is considered stable by Fitch.

Moody's rating agency continues to rate VBW with Baa1 and a stable outlook. The Aaa rating for VBW's covered bonds remains equally unchanged.

In the 2nd half of 2018, in particular, within retail banking, very good growth was achieved in lending business.

1.1.2 Economic environment

According to an estimate by the Austrian Institute of Economic Research (WIFO) of December 2018, Austria's gross domestic product has grown by 2.7% year-on-year. This constitutes a slight increase in dynamics as compared to 2017, when growth had only amounted to 2.6% based on revised data. 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 1.9%. Growth in Austria was due both to industrial production and to booming construction as well as services sectors.

Against the background of this favourable economic setting, the Austrian unemployment rate decreased in the past year: it fell from 5.2% at the beginning of the year to 4.7% in November. The downward trend was even more pronounced in the euro zone: starting out from much higher values, the unemployment rate decreased from 8.6% at the beginning of the year to 7.9% in November. As in previous years, Austria was one of the countries with the highest inflation rates in the euro zone. According to the Harmonised Index of Consumer Prices, the inflation rate in Austria fluctuated between 1.9% and 2.4% in 2018, with around 2.1% for the full year. In the past year, the rates of price increases varied between 1.1% and 2.2% in the common currency zone, the most recent value, of December, being 1.6%.

Monetary policy in the euro zone remained 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%. After reducing the volume of monthly net securities purchases from euro 80 billion to euro 60 billion already in April 2017, the ECB further decreased net purchases to euro 30 billion in January 2018 and to euro 15 billion in October. In December 2018, net securities purchases were ceased completely. Discontinued securities will continue to be reinvested.

Money market interests remained more or less unchanged throughout the past year. The 3-month rate started the year at -0.33%, ending it at -0.31%. Capital market yields slackened somewhat in 2018. The yield of the ten-year government bond in Austria fell from 0.58% to 0.48% in 2018, with intermediate highs around 0.81%. In Germany, it fell from 0.46% to 0.24%, with a peak of 0.77% in February.

In 2018, the tightening of monetary policy continued in the USA; in four steps, the Fed raised the target range for the Fed Funds Rate by a total of 100 basis points, to 2.25% – 2.50%. In that year, the euro depreciated from 1.21 USD/EUR to 1.15 USD/EUR. The euro also weakened against the Swiss franc, from 1.17 CHF/EUR in January to 1.13 CHF/EUR in December, which was due to a certain extent to the role of the CHF as a "safe haven" in the middle of macroeconomic risks increasingly perceived over the course of the year. In connection with a heightened sense of risk amid slackening economic data, a correction took place on the European equity markets in the fourth quarter, and the ATX ended the year with a decrease of just under 20%.

Regional development and branches of industry

Measured against the increase in gross value added in the first half of 2018 compared to the first half of 2017, the regional economic development in Vienna, with an increase of 2.6% year-on-year, while being robust, was nevertheless below the Austrian average of 3.4% Y/Y. On the other hand, construction and the number of overnight stays in tourism outperformed the overall

Austrian average. The decline of sales in the retail industry was above-average, and also the increase in employed persons, as well as growth in material goods production were less pronounced by comparison with other federal Länder. In the first half of 2018, 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% Y/Y 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. High growth rates were also reported in the construction sector. The decline in the number of unemployed persons was more pronounced than in the other federal Länder.

At 2.5%, the growth in value added in Burgenland was similar to that in Vienna. Construction was remarkable here, in that it recorded a decrease in the first half of the year in Burgenland exclusively. Compared to the other federal Länder, material goods production remained below average, while tourism showed a slight increase. The number of unemployed persons decreased at an above-average rate.

In Styria, growth in gross value added outperformed the rest of Austria in the first two quarters of 2018 (plus 4.3%). Among the federal Länder, the situation on the labour market was above-average, with a below-average unemployment rate and the highest decrease in unemployment throughout Austria. The increase in the number of employed persons ranked in the top range as well. Styria also holds the record in material goods production. Tourism showed a strong performance, while sales in the retail industry were somewhat lower.

In the first half of 2018, Carinthia reported above-average growth in gross value added of 3.7%. This is due, among others, to above-average growth in material goods production, but also in tourism. The performance in the construction and retail industries was rather feeble by comparison with other federal Länder. Unemployment decreased markedly, the increase in the number of employed persons was particularly pronounced in the segment of business-related services.

After Styria, Upper Austria recorded the second best development of all federal Länder in the first half of 2018, with an increase of 3.8% in gross value added. The material goods production, which plays a very important role in Upper Austria, and construction sectors made an essential contribution in this respect. Tourism and the retail industry showed above-average performance as well. The decrease in the number of unemployed persons also exceeded the general Austrian trend.

In the first half of 2018, the economic development of the Land of Salzburg was more or less in line with the Austrian average. Gross value added was higher by 3.5% than in the comparative period of the previous year. Within Austria, Salzburg recorded the highest growth rate in construction, while underperforming in the retail industry and material goods production segment. Here, the decrease in unemployment was the least pronounced.

Tyrol showed an average performance in terms of gross value added, which was due to a very poor development in tourism and in the construction sector. The other sectors hardly deviated from the general Austrian trend. The decrease in unemployment was the second best within Austria. The number of employed persons increased, especially in the sphere of business-related services.

In the first half of 2018, Vorarlberg (together with Upper Austria) ranked second in terms of regional economic development. The main factors contributing to this were the strong development in construction, and also the above-average increase in employment in business-related services. Material goods production, on the other hand, performed weakly. Tourism equally reported the highest decrease by comparison with the rest of Austria. The increase in dependent employment was just average, while unemployment decreased at a below-average rate.

The favourable development of previous years continued in the Austrian residential real estate market in 2018. The price gap between Vienna and the other federal Länder decreased somewhat. In the second quarter of 2018, annual growth rates for the prices of freehold flats and single-family homes outside Vienna amounted to 6%. In Vienna, prices increased by 4.2% Y/Y. Affordability, based on the relationship between prices and disposable nominal income, had somewhat improved at the beginning of 2018 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 (97.4 points) than in the rest of Austria (121.1 points). The persistently high demand for residential real estate was also reflected in the credit market. At an average of 4.5% Y/Y, the growth rate of housing credits to private households was only slightly below that of 2017 in the third quarter of 2018.

Just like 2017, 2018 was another good year for the Austrian tourism sector. The 2017/2018 winter season recorded strong growth in overnight stays of 4.7%, with overnight stays by foreign tourists increasing even more (5.1%). Also from May to September 2018, the number of overnight stays increased by 2.2%, those of foreign guests even by 2.4%. In the 2018 summer season, the best result in terms of overnight stays ever since the summer of 1992 was achieved. Above-average growth rates were reported for commercial and private holiday apartments between May and October 2018. Overall, nominal sales in tourist travel increased by 7.3% during that period – the highest growth rate of all of Austria –, followed by Vienna and Tyrol with +5.4% and +4%, respectively. The lowest growth rates were recorded in Burgenland and Styria with +0.8% and +0.9%, respectively.

1.1.3 Explanatory notes regarding the income statement

Due to the retroactive contribution of the banking operation of VB Horn with effect on 1 January 2018, pursuant to section 92 Austrian Banking Act (BWG), 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 108.9 million (2017: euro 108.4 million). This item includes interest income from loans and receivables to customers in the amount of euro 107.4 million (2017: euro 100.5 million). Interest income from swaps in the amount of euro 8.0 million (2017: euro 7.7 million) primarily includes current interest payments from interest rate swaps and cross-currency swaps to hedge receivables and liabilities in euro and foreign currencies. Interest and similar expenses from customer transactions decreased from euro 8.8 million to euro 5.7 million; the decrease in interest expenses is mainly due to the generally declining interest rate level.

Income from equities, other share rights and variable-yield securities decreased from euro 0.8 million to euro 0.4 million, while the income from participations and shares in affiliates declined slightly by euro 3.9 million to euro 3.7 million compared to the previous year.

Fee and commission income amounts to euro 89.2 million (2017: euro 89.2 million). Of this amount, euro 28.3 million (2017: euro 31.2 million) are accounted for by securities business, euro 35.5 million (2017: euro 34.5 million) by payment transactions and euro 15.5 million (2017: euro 13.7 million) by lending business. Fee and commission expenses amount to euro 26.5 million (2017: euro 28.2 million), of this amount euro 8.0 million (2017: euro 9.0 million) are accounted for by securities business, euro 13.5 million (2017: euro 14.9 million) by lending business and euro 5.0 million (2017: euro 4.3 million) by payment transactions. Accordingly, net fee and commission income increased slightly from euro 61.1 million to euro 62.7 million.

The result from financial transactions was a positive balance of euro 1.6 million, but decreased by euro 1.5 million compared to the previous year, with net trading income and the valuation result from fixed-income securities decreasing by euro 1.6 million, and the result from interest-rate derivatives by euro 1.0 million. This compares to an improvement of the valuation result from foreign currencies in the amount of euro 1.1 million.

Other operating income increased by euro 29.8 million by comparison with the previous year. The CO costs included in this item, and charged out to the banks of the Association for the major part under the benefit agreement, increased due to an increase in (charged out) CO staff and administrative expenses by euro 18.4 million (see also below: explanations regarding administrative expenses). Additionally, the item includes income from a payment into the Gemeinschaftsfonds (common fund) of the Volksbanks (GemFonds) to VBW in the amount of euro 10 million. These earmarked funds subsequently had to be paid as shareholder contribution to VB Rückzahlungsgesellschaft mbH (RZG) (see below: impairment of participations).

The decrease in other operating expenses from euro 25.3 million by euro 3.3 million to euro 22.0 million is essentially due to the amount of charged out external expenses being lower by euro 4.2 million compared to the previous year.

In total, general administrative expenses amount to euro 219.4 million (2017: euro 211.4 million) and consist of staff expenses in the amount of euro 103.7 million (2017: euro 109.9 million) and administrative expenses in the amount of euro 115.7 million (2017: euro 101.5 million).

By comparison with the previous year, staff expenses decreased from euro 109.7 million by euro 6.2 million to euro 103.7 million. The release of a provision for reorganisation measures that was no longer required had a positive effect of euro 3.2 million on the current result.

The increase in administrative expenses results from the increase in the cost of current data processing, as well as for IT projects from euro 35.4 million by euro 6.4 million to euro 41.7 million, as well as from the increase in mainly project-related expenditure for legal advice, auditing and consultancy by comparison with the previous year from euro 20.3 million by euro 9.6 million to euro 29.9 million.

Impairments of the assets included in asset items 9 and 10 (tangible assets and intangible assets) increased substantially due to depreciation effected in the past business year in relation to land and buildings reported in tangible assets, in the amount of euro 3.2 million (2017: euro 0.2 million).

The above-stated effects have caused the operating result to improve substantially to euro 44.2 million (2017: euro 21.4 million).

The result from valuations and disposals shows a negative balance of euro -6.5 million (2017: euro 19.2 million) for the 2018 business year. This result contains the release of an impairment under section 57 (1) Austrian Banking Act in the amount of euro 11.7 million (2017: allocation of euro 3.2 million). Valuation losses on participations and shares in affiliates and/or risk provisions for future valuation losses on participations negatively affected the result in the amount of euro 22.6 million (2017: euro 12.3 million). This includes the allocation to provisions for future subsidies and corporate actions for RZG in the amount of euro 20.0 million (2017: euro 10.7 million). The effect from the impairment of further participations and shares in affiliates amounts to euro 2.6 million. The positive measurement balance from allocations and releases for impairments and provisions for the lending business and from securities serving as liquidity reserve amounts to euro 14.6 million (2017: euro 6.9 million).

The transition to the IFRS 9 impairment logic with effect from 1 January 2018 (IFRS 9 Initial measurement) did not have any significant effect on the result from impairments on receivables and allocations to provisions for contingent liabilities and for credit risks, as well as income from the release of impairments on receivables and from provisions for contingent liabilities and for credit risks.

The result from ordinary operations for 2018 amounts to euro 38.0 million, slightly below the previous year's value of euro 40.6 million.

The composition and development of income tax expenses and of expenses from other taxes are shown in the Notes in item "3. Explanatory notes concerning the income statement".

Extraordinary income in the amount of euro 3.6 million is explained in greater detail in the Notes in item "3. Explanatory notes concerning the income statement".

1.1.4 Explanatory notes on the balance sheet and own funds

Due to the retroactive contribution of the banking operating of VB Horn with effect on 1 January 2018, according to section 92 Austrian Banking Act, a comparison with the financial ratios as at 31 December 2017 is of limited significance.

Total assets increased by approx. euro 1.3 billion to euro 12.7 billion compared to the previous year.

Compared to the previous year, loans and receivables to credit institutions increased from euro 1.7 billion to euro 2.0 billion, primarily due to the higher refinancing volume of the banks of the Association.

Amounts owed to credit institutions increased from euro 2.7 billion to euro 3.1 billion, essentially due to higher deposits of the banks of the Association.

Loans and receivables to customers have increased, by comparison with the previous year, from euro 4.9 billion to euro 5.5 billion; for the major part, this increase is due to positive growth in lending business and also to the contribution of loans and receivables to customers of the VB Horn banking operation in the amount of euro 0.2 billion.

Debt instruments issued by public bodies remained constant year-on-year, at euro 1.0 billion (2017: euro 1.0 billion) and largely consist of domestic debt instruments denominated in euro.

Other assets, which have decreased from euro 374.0 million by euro 18.4 million to euro 355.6 million during the year, primarily contain positive market values and accrued interest of interest rate hedging transactions (interest rate swaps) in the amount of euro 307.2 million (31 December 2017: 330.3 million) in the trading book. A breakdown of other assets is shown in the Notes in item "2.1 Explanatory notes on assets".

Amounts owed to customers increased compared to the previous year by euro 0.6 billion and amount to euro 6.4 billion at the end of the year; this increase is essentially due to an increase in time deposits from institutional customers and to the contribution of the amounts owed to customers of the VB Horn banking operation in the amount of euro 0.3 billion. This includes euro amounts repayable on demand of euro 4.7 billion.

Other liabilities in the amount of euro 464.5 million primarily include negative market values and deferred interest from interest rate hedging transactions (interest rate swaps) in the trading book amounting to euro 320.2 million (31 December 2017: 339.5 million). A breakdown of other liabilities is shown in the Notes in item "2.2 Explanatory notes on liabilities".

In connection with the contribution effected in the business year, an ordinary capital increase was carried out. The subscribed capital increased from euro 132.9 million to euro 137.5 million; apart from that, the committed capital reserves increased from euro 222.9 million to euro 237.2 million due to the premium from the capital increase.

According to Art 92 CRR, VBW must meet the following capital requirements at all times:
a) a CET1 capital ratio of 4.5%,
b) a core capital ratio of 6% and
c) a total capital ratio of 8.0%.

The assessment basis for capital requirements is the aggregate risk amount, which is euro 4.1 billion at the end of the year (31 December 2017: euro 3.4 billion). The minimum requirements for VBW in absolute amounts are a CET1 capital of euro 183.6 million, a core capital of euro 244.8 million and a total capital of euro 326.3 million. The actual CET1 capital ratio amounts to 12.8%, meaning that the capital requirements were overaccomplished by euro 338.5 million at the reporting date. The core capital ratio corresponds to the CET1 capital ratio and was overaccomplished by euro 277.3 million. The total capital ratio amounts to 23.2%. Accordingly, at the reporting date, the statutory capital requirements were overaccomplished by euro 619.6 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 945.9 million as at 31 December 2018 (31 December 2017: euro 907.3 million). At the end of 2018, the risk-weighted assets amounted to euro 4.1 billion, having increased compared to the end of 2017 (euro 3.4 billion) primarily due to the contribution of the VB Horn banking operation, as well as to increased risk weighting for speculative real estate financing transactions, as described below.

Available own funds exceed the regulatory requirement by euro 619.6 million.
- The CET1 capital ratio as well as the core capital ratio, in relation to aggregate risk, amount to 12.8% in each case (31 December 2017: 13.8%).
- The total capital ratio is 23.2 % (31 December 2017: 26.7%).

Due to the amended classification of speculative real estate financing transactions, RWAs increased by euro 262 million as at 31 December 2018. Based on the preliminary figures available as well as on the updated budgets of the Association, however, the capital ratios continue to be complied with.

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 reporting year, the loan-to-deposit ratio I amounts to 252.0% (2017: 220.3%). The loan-to-deposit ratio I is calculated as the quotient between loans and receivables to customers and savings deposits.

In the reporting year, the loan-to-deposit ratio II amounts to 68.2% (2017: 68.3%). The loan-to-deposit ratio II is calculated as the quotient between loans and receivables to customers and the sum of amounts owed to customers and debts evidenced by certificates.

In the business year, the commission margin amounts to 0.50% (2017: 0.54%). 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% (2017: 2.33%). 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 1.98% (2017: 2.14%). The operating expenses margin is calculated as the quotient between operating expenses and total assets.

1.4 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 pursuant to the Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz; NaDiVeG) in a separate sustainability report.

1.5 Changes within the Managing Board

On 11 December 2018, Josef Preissl, Deputy Chairman of the Managing Board, resigned from office with effect from 31 December 2018.

2 Report on the Company's future development and risks

2.1 Expected development of the Company

2.1.1 Economic environment

Towards the end of 2018, the sentiment indicators in relation to the European economy and the data regarding industrial activity cooled down considerably, suggesting somewhat lower growth rates for the current year. According to the economic forecast of the Austrian Institute of Economic Research (WIFO) published in December, the Austrian economy is expected to grow by 2.0% in 2019. In December, the European Central Bank decreased its economic growth forecasts for the euro zone in 2019 to 1.7%. The OeNB forecast for Austria included in that figure is 2.0%. OeNB expects positive contributions to growth from all demand components, but a flattening development of investments and a slight downward trend in consumption. With an increasing savings rate of 7.1%, the OeNB expects real disposable household income to grow by 2.1%. According to the autumn forecast of the EU Commission, an increase in real household income may be expected in the most important countries of origin, which is likely to support tourism in Austria.

In Austria, the number of building permits has increased continuously in recent years. Additionally benefitting from demographic development, this provides the basis for a continuation of brisk construction activity. Increasing supply, high increases in the past, as well as the perspective of a tendency towards increasing interest rates may deflate the momentum of the dynamic price development, leading to some flattening. Even in case of any flattening of trends on the real estate markets, stable demand for credits is expected against the background of increasing household income. Economic activity, which is still expanding, even if its momentum was negatively affected at the beginning of the year, is expected to be associated with corresponding demand also for corporate loans.

OeNB expects that the Austrian inflation rate, which is still expected to be above 2% this year, will return to the ECB's target inflation rate of 1.9% by 2021. The forecast of the European Central Bank for the average inflation rate in the euro zone for 2019 amounts to a mean of 1.6%. Hence, 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 2019, but would achieve the same approximately at 1.8% in 2021. This in combination with the European Central Bank's monetary easing would suggest a continuation of the low-interest environment in 2019, although continuing monetary tightening in the USA should provide for a slight upward trend, and also in Europe, a gradual normalisation of monetary policy is expected.

The risks associated with this outlook are manifold. They include, in particular, the introduction of trade obstacles that may affect Austrian exporters and suppliers and subsequently burden other companies and the employment situation of private households, which would also be reflected in banking business. 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 increase in political uncertainty in the member states, e.g. after elections, constitute a risk for the course of economic development 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 cautious (by comparison with previous years), but 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 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 continue to be a management focus in the years to come. Among others, this includes achieving a cost-income ratio of 60%, a CET1 capital ratio of at least 12.25%, a total capital ratio of at least 16%, an NPE (non-performing exposure) ratio 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 CET1 capital ratio is intended to remain at more than 12%.

The low interest rate environment expected to continue in 2019 calls for a streamlining of the cost structure and an increase of productivity to be continued in future. For this purpose, additional cooperation models were evaluated within the Association of Volksbanks, among others, that are going to be implemented in the next years.

2.2 Significant risks and uncertainties

Assuming and professionally managing the risks associated with the business activities is a core function of every bank. In its capacity as central organisation (CO) of the association of credit institutions under section 30a Austrian Banking Act, consisting of VBW and the affiliated banks of the Volksbank-Sector, VOLKSBANK WIEN AG (VBW) performs this central task for the Association of Volksbanks, so that the latter 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) Austrian Banking Act). The implementation of control within the Association of Volksbanks is effected through General, and, if necessary, Individual Instructions and corresponding working practice guidelines in the affiliated banks.

The following risks are classified as material within the Association of Volksbanks in the course of the risk inventory:
- Credit risks
- Market risks
- Liquidity risks
- Operational risks
- Other significant risks (e.g. investment risk, strategic risk, reputational risk, equity risk, and business model risk)

2.2.1 Current developments

In 2018, the Association of Volksbanks was again subjected to the annual SREP (Supervisory Review and Evaluation Process) within the scope of the Single Supervisory Mechanism (SSM) of the ECB. This year's SREP also considered the ECB stress test performed in 2018.

By resolution of the ECB adopted in February 2019, the result of the SREP was forwarded to VBW as the central organisation of the Association of Volksbanks.

The CET1 demand amounting to 11.25%, as determined for the Association of Volksbanks, that applies as of 1 March 2019 consists of the following: Pillar 1 CET requirement of 4.5%, Pillar 2 requirement of 2.75%, capital conservation buffer of 2.5%, systemic risk buffer 0.5%, buffer for systemically important institutions 0.5% (new with effect from 1 January 2019), and Pillar 2 Guidance of 1.0%. However, due to the currently applicable regulation, the buffer for systemically important institutions has no effect on the CET1 demand or on the total capital requirement, since the higher of systemic risk buffer and buffer for systemically important institutions must be applied.

As of 1 March 2019, the total capital requirement amounts to 13.75% (Pillar 1 requirement of 8.0%, Pillar 2 requirement of 2.75%, capital conservation buffer of 2.5%, systemic risk buffer 0.5% or buffer for systemically important institutions 0.5%).

Until entry into force of the new resolution with effect from 1 March 2019, the provisions of the decision dated 19 December 2017 continue to apply, extended by the buffer requirements as increased under the transitional provisions: capital conservation buffer 2.5% as of 01 January 2019 (1.875% until 31 December 2018) and systemic risk buffer 0.5% as of 1 January 2019 (0.25% until 31 December 2018) or buffer for systemically important institutions 0.5% (new as of 1 January 2019). Regulatory capital requirements were again increased by the ECB and constitute a challenge for the Association of Volksbanks, since meeting them will require capital enhancement measures.

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 are managed under an overall perspective 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 credit 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 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 and basis of solid risk management, the Risk Appetite Framework (RAF) for the Association of Volksbanks is continuously being developed also within VBW, in order to define risk appetite and/or the level of risk tolerance (primarily by determining and verifying appropriate limits and controls) that VBW is prepared to accept to achieve its defined goals. The framework is regularly verified and adjusted to any regulatory changes, changes of the market environment or the business model. VBW aims to develop, by way of this framework, a disciplined and constructive control environment where all employees understand their role and responsibility.

Within the Association of Volksbanks, risks are controlled by three decision-making bodies in VBW: (i) Risk Committee (RICO), (ii) Asset Liability Committee (ALCO), (iii) Credit Committee (CC). The responsibilities of these committees include both subject areas of VBW as a single institution and matters concerning the entire Association of Volksbanks pursuant to section 30a Austrian Banking Act. Risk reporting in the affiliated banks takes place in the respective local bodies.

The RICO serves to control all material risks, with a focus at portfolio level, ensuring that risk policy decisions are in compliance with risk appetite. The aim is to provide the Managing Board of VBW with a comprehensive view of all risks (overall risk report) and with a summary of regulatory and other risk-relevant topics.

The ALCO is the central body for controlling interest rate, foreign currency and liquidity risks, as well as investment risks through positions in the banking book, with a view to optimising risk and return, and to securing refinancing in the long term.

The CC is the body responsible for credit decisions based on applicable definitions of responsibilities, for approving action plans for customers undergoing restructuring or debt enforcement, as well as for approving allocations to individual allowances for impairment, provisions and waivers.

2.2.4 Regulatory requirements

The regulations regarding equity base at VBW are implemented as follows:

Pillar 1: Minimum capital requirements
The implementation of Pillar 1 at VBW as CO 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, the Association of Volksbanks implements all measures required to ensure sufficient own funds 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 pursuant to Regulation (EU) no. 575 / 2013 (CRR) and Directive 2013/36/EU (CRD IV) on the bank's own website under Volksbanken-Verbund / Verbund-Offenlegung.

2.2.5 Risk and capital management throughout the Association

The risk controlling function of VBW as CO is responsible for risk governance, 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 affiliated banks. The GI ICAAP, GI ILAAP, GI Principles of Credit Risk Management (PCRM) and the downstream manuals of the Association govern the risk management function in a binding and uniform manner. The risk strategy and the NPL strategy for the Association of Volksbanks are also issued in the form of a GI. The aim 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 creation 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 affiliated banks 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, and approved by the latter.

Within the Association of Volksbanks, comprehensive communication about risks and a direct exchange of information is considered extremely important. In order to allow for professional exchange in a working context, an expert committee was set up for risk controlling. Each affiliated bank must dispose of its own Risk Control Function (RCF) that is responsible for independent monitoring and communication of risks within the respective affiliated bank. The risk controlling expert committee facilitates an exchange of information between the Risk Controlling function of VBW (as CO) and the RCF of the affiliated banks.

Risk governance as well as the methods and models are regularly refined and adjusted to currently prevailing basic conditions by the Risk Controlling function of VBW as CO. Apart from regular remodelling, recalibration and validation of the risk models, the methods in the ICAAP & ILAAP are being improved continuously, with new regulatory requirements being monitored and implemented in a timely fashion.

a) Internal Capital Adequacy Assessment Process
To ensure a sustainable, risk-adequate capital base, VBW, in its capacity as CO of the Association of Volksbanks, has set up an Internal Capital Adequacy Assessment Process (ICAAP) as a revolving control cycle, in line with international best practices, that both VBW and all affiliated banks are subject to. The ICAAP starts by identifying the material risks, followed by a risk quantification and aggregation process, determination of risk-bearing capacity, 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, and adjusted to the respective current general conditions if necessary; they are approved by the Managing Board of the CO.

Risk inventory
The risk inventory serves the purpose of determining the risk potential of newly accepted significant exposures and of measuring existing significant risks. The results of risk inventory are summarised and analysed for VBW. The results of the risk inventory 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 at all times. The risk strategy is prepared in parallel with business planning. Across the Association, the contents of the risk strategy and of business planning are linked up by incorporating the targets of the Risk Appetite Statement in GI Controlling – Planning and Reporting.

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 deepening 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 business model, the current risk profile, the risk capacity and the 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.

The RAS set of indicators is made up as follows:
- Capital ratios (e.g. CET1 ratio, T1 ratio, TC ratio, RBC)
- Credit risk ratios (e.g. NPL ratio, coverage ratio, loans and receivables to foreign customers, net allocation ratio / risk provisions)
- Interest rate risk ratios (e.g. OeNB interest rate risk coefficient, PVBP, IRRBB ratio)
- Liquidity risk ratios (e.g. LCR, survival period)
- Ratios relating to operational risk (e.g. OpRisk losses in proportion to CET1, ICS implementation rate)
- Other risk-relevant ratios (e.g. CIR, LDR, leverage ratio)

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 internal capital 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 internal capital. Compliance with 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 internal capital (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, all 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 result achieved in the current business year, the target profit/loss for the coming 12 months, as well as those own funds that exceed the CET1 capital ratio of 8.25% as defined in the 2018 risk strategy are essentially recognised as internal capital. 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 100% of the available internal capital in 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 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 losses/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 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 set at 85% of the available internal capital in the economic liquidation perspective.

Stress testing

For credit, market and liquidity risks, as well as for operational risk, risk-type-specific stress tests and/or risk analyses are performed regularly, with crisis scenarios being conceived in such a way that the occurrence of events that are highly unlikely, but not impossible, is simulated and estimated. By way of this approach, huge losses can be identified and analysed.

Apart from these risk-type-specific stress tests and sensitivity analyses, bank internal 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 internal capital 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.

At present, EU-wide stress tests across risk types are being carried out by the EBA/ECB every two years (most recently in 2018). The results of the stress tests are used to assess the capital requirement within the SREP. In the years between the EBA/ECB stress tests across risk types, the supervisory authority performs risk-specific stress tests. In that context, the ECB plans a liquidity stress test in 2019.

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 overall risk report serves as a core element of the reporting framework. The overall risk report provides a summary of the situation and development of the RAS indicators, the utilisation of the risk-bearing capacity, addressing all significant risks and containing comprehensive qualitative and quantitative information, among others. The overall 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 overall risk report, various risk-specific reports (e.g. analyses within credit risk regarding the development of individual sub-portfolios) are provided in addition to the reporting framework.

Recovery and resolution planning

As VBW belongs to the Association of Volksbanks, which was classified as a significant credit institution, VBW has worked out a recovery plan and submitted the same to the relevant regulatory authorities (e.g. ECB). This recovery 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.

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

Within VBW, the responsibilities associated with credit risk are taken care of by the Credit Risk Management function and certain subdivisions of the Risk Controlling function. The departments Credit Risk Management Retail Branches, Credit Risk Management Real Estate & Corporate Financing, Restructuring & Workout are responsible for operational credit risk management functions. The Risk Controlling function is responsible for risk assessment, risk measurement and risk control as well as for credit risk reporting at portfolio level.

Operational credit risk management

Lending principles

- Loan transactions are necessarily based on involving borrower-specific limits. The determination and monitoring of certain limits is subject to uniform regulations at the level of the Association.
- The rating obligation applies to all borrowers with exposures above the defined minimum amount. The rating process is based on the dual-control principle and is applicable across the Association.
- In selecting collaterals, attention is paid to the cost-benefit ratio, and accordingly recoverable collaterals that cause little administrative effort and are not very cost-intensive will preferably be resorted to, as well as actually realisable collaterals. For this reason, physical collaterals, such as real estate collaterals, and financial collaterals, such as cash collaterals or collaterals in the form of securities, are given priority. The recoverability and enforceability of collaterals must basically be assessed prior to any credit decision. Principles for the management of collaterals and uniform rules for the selection, provision, administration and valuation of collaterals apply at the level of the Association.
- Foreign currency and repayment vehicle loans are basically no longer offered or granted.
- The principal market for lending business is the Austrian market.
- Syndicated credits will basically be concluded together with the CO.

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; clear processes have been defined for this purpose. 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 collaterals

The processes for the review of exposures and collaterals are governed by uniform regulations across the Association and must be observed by all affiliated banks.

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 connected clients is used as the basis for limits in case of new lending and for current 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 the credit risk management function of the affiliated bank and is monitored by the credit risk management function of VBW in its role as CO, using centralised analyses.

In connection with portfolio limits, within the Association of Volksbanks, mainly limits for external financing transactions 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 of Volksbanks, 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 warning: During early warning, 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 warning of customers threatened by default is governed within a uniform early warning system throughout the Association.

Dunning procedure: The dunning procedure applied across the entire Association of Volksbanks and accordingly within VBW is uniform and automatised and based on corresponding predefined processes.

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 of Volksbanks.

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 without realising any collaterals. The Association of Volksbanks 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, customers are classified 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 debt enforcement (defaulted customers not eligible for restructuring)

and appropriately differentiated processing routines have been put in place consistently throughout the Association of Volksbanks.

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 warning 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 for a comparison of internal ratings with classifications by external rating agencies, but also a comparison of credit ratings across customer segments.

The rating classes in rating category 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 of Volksbanks has chosen a statistical simulation method. A refined Merton model, adjusted to internal requirements, is used for modelling the credit exposures in the loan portfolio in detail.

Concentrations
Quantification and valuation of the effects of concentrations takes place monthly, via the risk parameters identified, on the one hand, and in the course of preparing the risk report, on the other hand.

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.

Credit risk mitigation
The consideration of collaterals 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 collaterals 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 of Volksbanks uses credit risk mitigation methods such as netting and exchange of collaterals. 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.

Factors influencing the estimate of Expected Credit Losses (ECL) and impairments
Various influencing factors, assumptions and methods are used to measure any significant increase of credit risk.

Rating systems
Upon initial recognition, each exposure is allocated to a credit risk rating based on the information available about the borrower. The exposures are monitored continuously, and the risk management guidelines of the bank require credit risk renewal at least once a year. The established governance processes, including RAS limits (Risk Appetite Statement), ensure that valid credit assessments exist for more than 98% of exposures.

The bank disposes of a comprehensive set of rating systems to cover all relevant types of receivables. The most important elements of the rating systems for the major portfolios are shown in the following table:

Portfolio	Main influencing factors of the rating systems
SME and Corporate	– Information that was obtained during the regular review of annual financial statements and management accounts (economic circumstances of the owners) of the borrower – Actual and expected material changes of the regulatory, technological or economic environment of the borrower – Qualitative assessment of borrower management, the transparency of information provided by the borrower, the adequacy of the borrower's accounting processes and other soft facts – New and/or expected changes of the financial situation of the borrower not reflected in the most recent financial statements – Internally obtained information about the borrower's conduct, e.g. overdrawing of advances on current account and utilisation of credit facilities – To the extent available, ratings of the borrower or of the borrower's parent company by external rating agencies

Portfolio	Main influencing factors of the rating systems
Private customers	– Credit standing indicators as well as sociodemographic assessment of the request – Information obtained from credit agencies – For new lending business with existing customers and for current monitoring – internally collected data regarding the customers' account conduct, e.g. delays in payment and changes with respect to incoming or outgoing payments
Banks	– Information that was obtained during the regular review of annual financial statements, disclosures and reports of the borrower – Qualitative assessment of market position, asset quality and concentration risk of the counterparty's portfolio – Implicit support or explicit guarantees from states, governments or parent companies

All rating systems are regularly validated according to qualitative and quantitative criteria by an independent unit within Risk Controlling, including backtesting for actual rating migrations and defaults.

All rating systems apply the Volksbank master scale that consists of 20 rating classes plus 5 additional classes for defaulted customers. To any rating class, the master scale will allocate intervals of probabilities of default (PD) that do not overlap. The PDs of the rating system are modelled as long-term through-the-cycle (TTC) probabilities of default over a period of 12 months. Ratings by external rating agencies are also reproduced on the Volksbank master scale by way of statistical analyses of the historical default rates published by the rating agencies.

Lifetime Probability of Default

Ratings provide essential input for determining the lifetime PD for ECL calculation. For the purpose of analysing lifetime PD, the portfolio of Volksbank is divided into the following segments:

- SME and Corporate
- Private Customers
- Banks
- Countries
- Big Corporations (companies with ratings by external rating agencies)
- Other Exposures (mainly real estate and public infrastructure projects that are not dealt with using the usual rating systems for SME or Corporate)

For the Private Customers, SME and Corporate, and Other Exposures segments, the bank extracts long-term, representative samples of internal ratings and defaults that cover all material subsegments and rating classes. Statistical models are used to analyse the data collected and to prepare estimates regarding residual term PD and the way these are expected to change over the course of time.

For the Banks and Finance, Non-financial Companies and Countries segments, the bank uses long-term default studies of the external rating agencies to determine the lifetime PD by rating class.

Future-oriented information

The bank takes account of future-oriented information, both in assessing whether the credit risk of any instrument has increased significantly since its initial recognition, and in measuring ECL. Based on the analysis carried out by economists of the bank's research department and taking into account various market data, the bank will formulate:

- a base case scenario for the future development of the relevant economic variables. The base case scenario constitutes the most probable outcome and has been reconciled with the information used by the bank for other purposes, such as strategic planning and budgeting; and
- two further possible prognostic scenarios that constitute one more optimistic and one more pessimistic outcome of the relevant economic variables.

The prognostic process comprises both the forecast of the development of the relevant economic variables over the course of the next three years and the estimate of probability for each scenario. The bank performs regular (semi-annual) stress tests with shocks to quantify the effects of a massive deterioration of economic conditions and to analyse the necessity of re-calibration of the base case scenario and/or of the other prognostic scenarios.

Consideration of future-oriented information

The bank performs a thorough analysis in order to identify and calibrate the relationships between changing default rates and changes of the most important macroeconomic factors.

For private customers, the analysis is based on time series of average default rates estimated on the basis of the internally available data set. A regression model containing the explanatory variables – Austria's unemployment rate and average interest rate of 10-year Austrian government bonds – is used.

The analysis for SME and Corporate as well as for Banks and Finance is based on a simulation method. In the process, several simulations of the financial statements of the borrowers in the portfolio are performed and the rating migrations simulated are used for calibrating the regression model. Explanatory variables in the regression model for SME and companies are the total growth of GDP in Austria and the inflation rate (CPI). The gold price and the total growth of GDP of the European Union are used as explanatory variables in the model for banks and finance.

The SME and Corporate model is applied to incorporate future-oriented information in risk assessments in the portfolio of externally rated big corporations. This extrapolation is effected because the Volksbank portfolio in this segment is below 0.5% of total exposures. The model used for the Other Exposures segment is a weighted combination of the models for SME and Corporate (80%), Private Customers (14%) and Countries (6%).

Definition of default and degradation

Any financial asset is considered defaulted (Stage 3), if:
- it is unlikely that the borrower is going to meet its loan obligations in full without recourse to certain measures, such as the realisation of collateral (if available); or
- if the borrower has been in default with respect to any material loan obligation for more than 90 days.

The definition of default is fully in line with the default definition of the bank for capital adequacy purposes (CRR).

The process of assessing unlikeliness-to-pay (UTP) is supported by a comprehensive early warning system (EWS). The EWS uses various qualitative and quantitative indicators to identify potential significant increases in credit risk, including (but not limited to) rating downgrades, negative observations regarding account conduct or deteriorations of certain financial ratios of the borrower. Loans and receivables to borrowers, the repayment of which is considered unlikely will be allocated to Stage 3 for impairment purposes. Borrowers with any less substantial, but still significant increase in credit risk will be rated as Stage 2 for impairment purposes.

Further indicators for allocation to Stage 2 are:

- Borrowers with payments overdue for more than 30 days for material exposures
- Forbearance measures as qualitative indicator for a significant increase in credit risk
- All financial instruments where the bank is not able to assess the credit risk upon initial recognition or the credit risk at the balance sheet date.

The bank calibrates a bidirectional illustration of the changes of lifetime credit losses and the rating migration from initial recognition until the current balance sheet date, taking into account the respective current future-oriented information. Hence, the quantitative stage transfers are derived from significant downgrades of the customer's current rating compared to the credit risk upon initial recognition. Based on the Volksbank master scale with 20 (performing) rating classes, the number of rating class downgrades leading to Stage 2 is 1 to 5, depending on the original maturity and residual term of the respective financial instrument, on the initial rating, on the customer segment and on the current future-oriented information.

Measurement of Expected Credit Loss (ECL)

The bank determines ECL on the basis of the individual instrument, regardless of the materiality of the exposure.

Performing portfolio

For the performing portfolio (Stage 1 and Stage 2), measurement is based on model parameters derived from internally development statistical models and other historical data.

The most important model parameters for ECL measurement are
- Probability of Default (PD);
- Exposure at Default (EAD), subdivided into secured EAD and unsecured EAD; and
- Loss Given Default (LGD).

The PD parameters depend on the current rating and on the segment of the borrower and are reconciled with future-oriented information as described above.

The EAD parameter is measured as the forecast future exposure of the relevant financial instrument. The forecast is based on the cash flow plan of the instrument. For ECL calculation, the bank uses the cash flow plan from the Asset Liability Management (ALM) system. It is used to reconcile the ECL calculation and the strategic interest rate and liquidity risk management with each other. The cash flow plan is based on the contractual terms of the financial instrument, including amortisation, and is adjusted in line with the comprehensive ALM models of the bank, including (but not limited to) interest rate forecasts for variable-yield instruments. For off-balance-sheet financial instruments, such as credit facilities or guarantees, the bank uses Credit Conversion Factors (CCF) to determine the amount of the receivable in case of default (off-balance EAD). The CCF parameters are estimated using the account conduct information of previously defaulted customers over a period of 12 months prior to default. The bank uses the regulatory CCF benchmarks set down in the CRR for product types where only limited internal standard data is available.

The EAD is subdivided into secured EAD and unsecured EAD components that depend on the value of the collaterals pledged by the borrower. The starting point for secured EAD calculations are the lending values of the collaterals. These lending values are regularly verified and updated in line with the bank's risk management guidelines (e.g. real estate valuations are re-estimated at least once within 3 years and immediately after the occurrence of any material event within the customer relationship, such as credit loss, extension of credit facility or roll-over. The secured EAD is that part of the EAD that is covered by collaterals (limited to 100% of EAD). The unsecured EAD is considered as the rest of the EAD.

The LGD is the amount of probable loss upon default. The secured LGD and unsecured LGD parameters are determined separately. The secured LGD parameter reflects the residual risk that derives from the probability that a certain collateral cannot be liquidated at a sustainable price at the time of default. The unsecured LGD parameter reflects any defaulted borrower's readiness and ability to pay back the obligations beyond the lending value of available collaterals. Both LGD parameters combined measure the realisation risk, including the cost of liquidating collaterals, as well as the time value of money (based on the effective interest rate of the defaulted assets).

The bank determines the LGD parameters on the basis of the history of the rates of recovery of claims against defaulted customers. For certain portfolios, where the bank does not dispose of sufficient historical default event data, an expert estimate will be effected. The following table shows the most important segments:

Portfolio	Main influencing factors for LGD
– Corporate – SME – Private Customers	– Internal historical data of default events and recoveries, including date of default and date of conclusion / event status – Most important type of collateral (residential real estate, insurance policies, others) taken into account
Banks	– Expert estimates – Regulatory benchmarks set down in the CRR
Others	– Expert estimates and scenario analyses

Expected losses for financial instruments of Stage 1 are forecast over the shorter of a period of 12 months or the maturity of the instrument. For financial instruments of Stage 2, the expected losses are forecast for the entire term of the instrument. The maturity coincides with the contractual term. In case of financial instruments such as loan commitments and guarantees, the contractual maturity is determined based on the first day when the bank is entitled to request repayment or to terminate any loan commitment or guarantee. In cases where the contractual term could not be determined (e.g. if the borrower has an unlimited option for extension), the total maturity of the instrument is determined to be 50 years.

The ECL is calculated as the present value of the expected losses as forecast. Discounting is effected using the effective interest rate of the instrument.

Defaulted receivables

In case of defaulted customers (Stage 3), measurement depends on the significance of the receivable.
For defaulted customers with a total exposure of more than euro 750,000 and for a limited number of special cases, the ECL estimate will be performed without applying statistical model parameters. Instead, the bank will estimate the cash flows primarily on the basis of the individual instruments in two scenarios:

- Going concern: After restructuring and forbearance measures, the borrower is able to meet the obligations.
- Gone concern: The borrower is not able to cover the obligations, and the bank liquidates the collateral.

The recovery cash flows and the probabilities of both scenarios will be estimated at the level of the individual instrument, taking into account documented benchmarks and guidelines.

The ECL is calculated as the difference between carrying amount of the financial instruments and the probability-weighted average present value of the return flows in both scenarios. Discounting is effected using the effective interest rate of the instrument.

For defaulted borrowers not treated as described above, the statistical model approach is applied. The ECL is determined by multiplying the carrying amount of the financial instrument with LGD. The LGD parameter is estimated using the same historical random sample data that are used for LGD in the performing portfolio. The type of collateral (residential real estate, commercial real estate, insurance policies etc.) and the amount of the collateral, in particular, are taken into account by dividing the defaulted exposure into a secured and an unsecured component, and by applying the secured LGD and the unsecured LGD. The approach does not require any additional discounting, as the present value effect is incorporated in the LGD estimate anyway.

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 VBW, its major units and their key areas of business. The information is also included in the credit risk portions of the overall risk report.

The reports comprise a quantitative presentation of credit risk information relevant for risk control, which 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 industry sectors

c) 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 rate 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)

Interest rate risk in the banking book

Interest rate risks emerge primarily 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 structural 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 lending 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 retail business. In lending business, this is associated with a shift from index-linked positions towards fixed-interest positions, as increasingly fixed-interest loans are granted within new business. By controlling the growth of fixed-interest volumes, the gradual development of a rolling fixed-interest position is ensured. Other 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.

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 via the risk strategy. The ALCO is the central body for the management of interest rate risks. It is convened monthly at the CO 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 and the local ALCOs of the affiliated banks. The aim is to create a structural 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.

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 net interest income of the next 12 months are calculated for five potentially unfavourable scenarios. The results of the net interest income 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 (present value and periodic), 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. Modelling aims to describe the development of customer interest rates depending on market interest rates. This is done on the basis of historically observed correlations (minimising the volatility of the margin compared to a combination of reference interest rates). Due to the high proportion of positions with indefinite interest rates within the balance sheet, the modelling of the replicates has a significant impact on the measurement of interest rate risk. Since the key date of April 2018, revised interest rate replicates have been applied, which have lead to a prolongation of fixed interest rates of liabilities on average. This has caused a reduction of term transformation.

Concentration risk

No concentration risks exist within interest rate risk.

Credit spread risk

The credit spread is defined as additional premium 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 securities portfolio in the banking book, and not loans and receivables to customers. This essentially comprises bonds, funds as well as bonded loans. The securities portfolio in the banking book of the Association of Volksbanks is primarily held as a liquidity buffer, centrally at VBW. CDS positions would also have to be included, but currently do not exist either at VBW or within the Association. Within the scope of the ICAAP, credit spread risk is considered during calculation of the risk-bearing capacity and bank-wide internal stress test. Reporting takes place monthly within the ALCO and is part of the overall risk report.

Risk measurement is mainly effected via credit spread VaR and sensitivity to any increase in credit spreads by 100 bps. The calculation of the credit spread VaR is based on a historical simulation for a 99.9% confidence level and a holding period of one year. 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 department on a recurring basis.

In line with the investment strategy, the securities portfolio in the banking book 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. Within the securities portfolio, the biggest concentrations currently exist in the Republic of Austria risk cluster and in covered bonds. 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 trading book is kept centrally at the CO. The affiliated banks do not keep any trading book. 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 limit structure reflects the risk and treasury strategy. 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.

Within the scope of the ICAAP, market risk is considered within calculation of the risk-bearing capacity and bank-wide internal stress test. Reporting is effected daily to the Treasury and Risk Controlling functions and monthly within the ALCO. Additionally, it is incorporated in the overall risk report.

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 measure the current portfolio. 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 department on a recurring basis.

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

Since extreme situations are not covered by the VaR, comprehensive stress tests are carried out monthly or ad hoc across all portfolios in the trading book.

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.

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 affiliated banks. The affiliated banks cover their refinancing requirements via VBW and invest their excess liquidity.

The most important source of refinancing of VBW consists of customer deposits, which have proven to be a stable source of funding in the past. This is also the most important source of liquidity risk. The capital market offers additional opportunities for refinancing through securities issues, mainly covered bonds.

Both operational, short-term liquidity management and medium- to long-term liquidity management are performed in a centralised manner at VBW for the Association, in the Treasury division, through the Liquidity Management department. The monitoring and limitation of liquidity risk across the Association, 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 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 (rollover 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 case 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 within the Association.

At VBW, funding risk 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 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 for VBW.

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. Currently, five stress scenarios of varying degrees of severity are calculated. The scenario assumptions include a crisis of the Volksbank-Sector, a national banking crisis and pan-European stressed market conditions. The least favourable of the scenarios calculated is applied to the survival period.

The funding risk is measured by way of a scenario analysis that takes into account the effect on funding costs, considering general planning uncertainties and adverse idiosyncratic conditions. These calculations provide input to the ICAAP as well as stress testing activities across the Association.

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. Generally, they amount to less than 1% of total assets. There are only a few temporary exceptions with a few major accounts for implementing payment transactions or balancing liquidity peaks. These deposits are regularly monitored and reported on within the scope of liquidity risk management.

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 collaterals across the Association, the determination of the funding structure, the disposition of available liquid funds, and compliance with the refinancing strategy; it takes care of 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 collaterals 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 of Volksbanks, and the control system put into effect by VBW as CO with the approval under section 30a Austrian Banking Act, for the affiliated banks – a.o. liquidity reports, refinancing management, utilisation of collaterals, 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

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 using the standard approach. As of 1 January 2018, an internal method based on loss data and scenarios is used for the economic perspective.

Organisation

At VBW, line management is responsible for the management of operational risks (OpRisk Management). 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. Moreover, close cooperation with security, safety and insurance management allows for optimal, 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 at the level of the Association, 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 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.

Operational risk management and risk controlling function

The following principles, derived from the risk strategy of the Association of Volksbanks, apply in OpRisk Management at VBW:

- 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 Association. 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 in OpRisk Management are defined by the CO and must be complied with by the respective banks.
- 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. Measures for risk control comprise, for instance, awareness-building measures/training events, the monitoring of the OpRisk indicators, maintaining the confidentiality, availability and integrity of customer and corporate data, as well as business continuity planning, but also – in particular – the adequate separation of responsibilities, as well as observance of the dual-control principle. 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 ICS. 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 of Volksbanks.

In 2018, one focus was on revising the training concept and process-related adaptation of the ICS based on the qualitative risk analysis at VBW within the scope of its function as CO, which is then also carried out in the other banks.

f) Other risks
In terms of other risks, VBW is confronted with strategic, reputational, equity, direct real estate, as well as business 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).

VBW 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 internal capital if needed.

The direct real estate risk describes the risk of negative value changes in the real estate portfolio (real estate in the company's own balance sheet or in the balance sheet of any subsidiary).

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 2018, the volume of participations at acquisition values amounts to euro 345,8 million (2017: euro 327.4 million), of which euro 149.4 million (2017: euro 148.7 million) from affiliates and euro 196.4 million (2017: euro 178.7 million) from participations. 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 10.4 million within participations. As at 31 December 2018, cumulated impairments on shares in affiliates amount to euro 122.2 million (2017: euro 122.3 million) and to euro 138.8 million (2017: euro 128.0 million) on participations. Impairments on participations and affiliates were effected in the amount of euro 2.6 million (2017: euro 11.2 million) in 2018. In the business year, reversals of impairments were effected in the amount of euro 0.9 million (2017: euro 23.4 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.

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, among others, in the compliance 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 pursuant to section 237a Austrian Business Code, please refer to the Notes ("Additional disclosures") of the annual financial statements as at 31 December 2018. 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 of AFRAC statement "Derivatives and hedging instruments (Austrian Business Code)" 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 2018 business year were taken into account in the amount of the negative market values through allocation to provisions. Effectivity measurements are performed for valuation units on a current basis. Appropriate risk provisions are set up for negative fair values from ineffective valuation units 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 of the trading book 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, if 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 process.

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. Thus, 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 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 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.

In preparing the financial statements, estimates must regularly be made in areas where there is an inherent risk that actual future developments may diverge from the 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. In some cases, publicly available sources will be used or external experts will be consulted in order to minimise the risk of inaccurate 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. These control measures range from a review of the various results for the period by the management to reconciliation of specific accounts and items and analysis of ongoing accounting processes. A distinction is made between two types of control in the internal control system.

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 by 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 results of monitoring activities in relation to accounting processes are reported within 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, 27 February 2019

The Managing Board

Gerald Fleischmann
Chairman of the Managing Board

Rainer Borns
Deputy Chairman of the Managing Board

Thomas Uher
Deputy Chairman 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 2018, 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 2018 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 Regulation (EU) 537/2014 („AP 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 company law 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 receivables to customers represent a significant line item in the statement of financial position. As of 31 December 2018, the carrying amount of loans and receivables to customers amounts to EUR 5,482.6 million, accounting for 43 % of total assets of EUR 12,655.1 million. This includes loan loss provisions in the amount of EUR 53.4 million and a general provision according to section 57 (1) BWG (Austrian Banking Act) in the amount of EUR 17.9 million.

In section „Accounting and valuation principles" of the notes, the Managing Board of VOLKSBANK WIEN AG discloses that the measurement of loan risk provisions was changed in 2018 to comply with the impairment model of IFRS 9 and that the recommendations of the „Joint Position Paper of AFRAC and FMA – subsequent measurement for banks" were taken into consideration. The process of the stage model and calculation of loan loss provisions for expected credit losses – ECL, is described in section „Accounting and valuation principles – loans and receivables to credit institutions and customers" of the notes.

For loans and receivables to customers that have objective evidence of impairment (stage 3) and are individually significant, a specific loss loan provision based on szenario-weighted, expected cash flows is recognized. These take into account assessment of the financial position of the customer and valuation of collaterals.

Generally, loan loss provisions at an amount equal to 12-month expected credit losses (stage 1) are recognized for all loans and receivables to customers. In case the credit risk has increased significantly (stage 2) and for loans and receivables to customers not individually significant, for which there is objective evidence of impairment (stage 3), ECL is calculated based

AUDITOR'S REPORT

on lifetime expected credit loss. Determination of ECL requires extensive estimation and assumptions. These mainly comprise rating based default probabilities and loss given default, which take information about current conditions and forecasts of future economic conditions into account.

This results in the risk for the financial statements that the transfer between stages and the calculation of loan loss provisions are subject to significant estimations and assumptions, resulting in room for discretion as well as estimation uncertainty in respect of the amount of the loan loss provisions.

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

On a sample basis, we evaluated whether evidence of credit default exists. Sampling was performed risk-oriented, by particularly taking into account rating levels with higher default risk and based on random samples as well as statistical sampling methods. 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.

For all other loans and receivables to customers their loan loss provisions are calculated based on the ECL, we analysed the group's documentation of the applied method for consistency with the loan loss provisions of IFRS 9. Additionally, we evaluated the criteria for stage–transfer and, based on the group's internal validation, the models and parameters used therein as to whether they are suitable to determine loan loss provisions in adequate amounts. We assessed the appropriateness of the statistical models used and the mathematical functionalities to determine the probabilities of default and loss rates based on 12 months and lifetime. Furthermore, we analysed the selection and measurement of future estimates and szenarios by comparison with external forecasts and assessed their consideration in the allocation to the stages and in estimating the parameters. We assessed the accuracy of the loan loss provisions on a sample basis. For these procedures, we consulted our financial mathematicians as specialists.

Additionally, for the underlying IT-systems, we evaluated the effectiveness of selected automated controls.

Finally, we evaluated the adequacy of the disclosures on the determination of loan loss provisions for loans and receivables 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 controls as management determines are 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 AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements

AUDITOR'S REPORT

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 AP 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 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 Austrian company law, 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 company law 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.

AUDITOR'S REPORT

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.

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 AP Regulation
At the Annual General Meeting dated 18 May 2017, we were elected as auditors. We were appointed by the supervisory board on 1 June 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 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP 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, 27 February 2019

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, 27 February 2019

Gerald Fleischmann
Chairman of the Managing Board

Retail Branches, General Secretariat, Real Estate Financing, Front Office Service Center/Customer Service Center, Organisation & IT, HR Management, PR & Communication, Private Banking/Treasury, Transition „Adler“ & Strategy, Corporate Financing, Sales Management/Marketing

Rainer Borns
Deputy Chairman of the Managing Board

Control, Financial Data Steering, Finance, Capital and Stakeholder Management, Legal and Compliance, Audit, VB Services for Banks Facilitymanagement

Thomas Uher
Deputy Chairman of the Managing Board

Digitalisation, Credit risk management, Risk controlling, Transition Credit, VB Services for Banks Handling

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TERMINOLOGY

Association of Volksbanks
The Association of Volksbanks includes the primary banks as well as VBVM (Volksbank Vertriebs- und Marketing eG).

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
8 regional Volksbanks, 1 specialist bank (Österreichische Ärzte- und Apothekerbank AG)

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, auditing and the representation of interests are effected by Österreichischer Genossenschaftsverband (Schulze-Delitzsch) [Austrian Cooperative Association] – ÖGV in brief. Moreover, since the beginning of 2019, pursuant to the BWG, the ÖGV has been responsible for the early warning of risks regarding its members, together with Einlagensicherung Austria.

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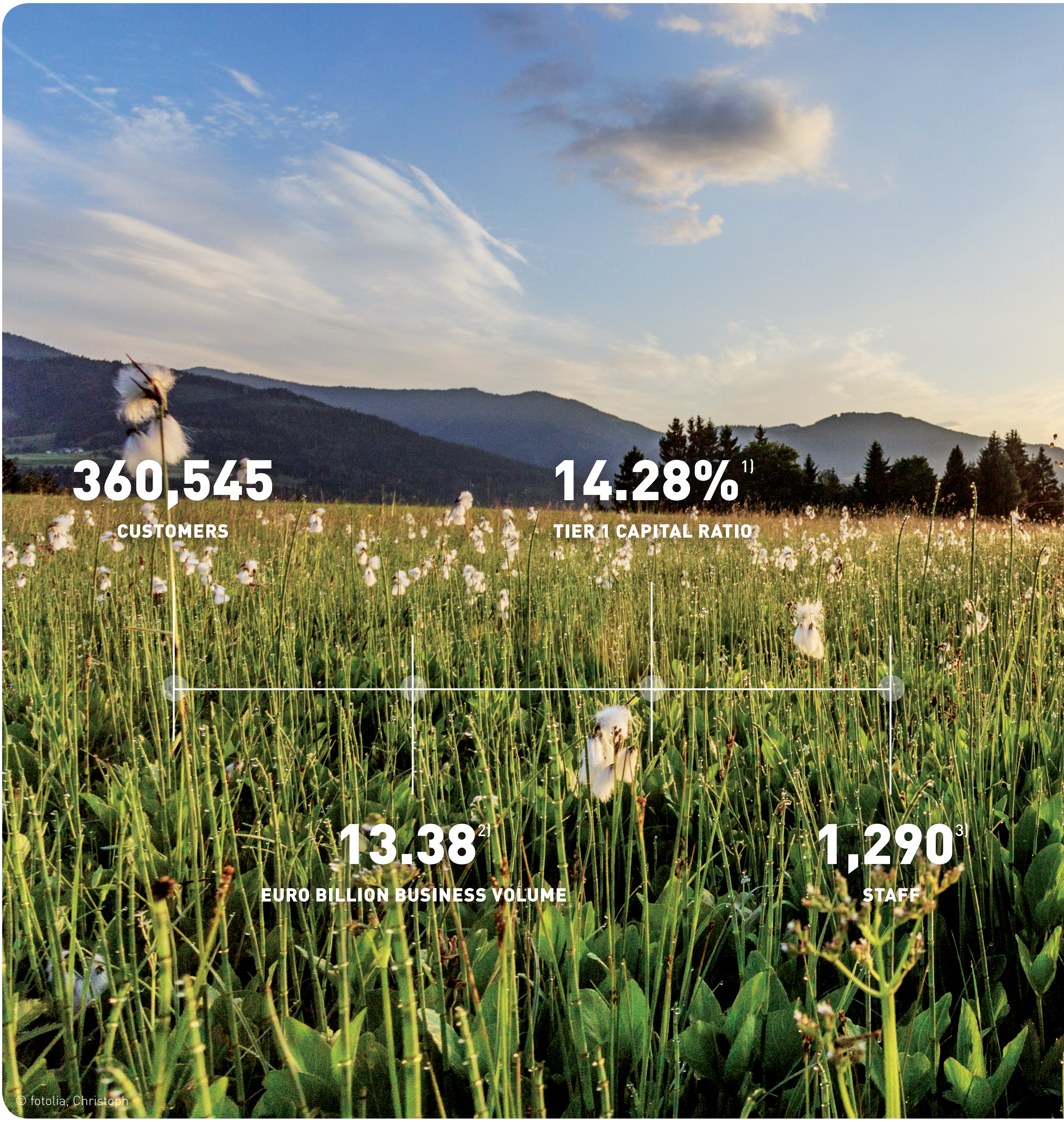

1) In relation to total risk 2) End-of-period figure Austrian Business Code/unconsolidated 3) Staff at end-of-period
As at 31 December 2018, VOLKSBANK WIEN AG including the function as central organisation