VOLKSBANK

ANNUAL REPORT

ASSOCIATION OF VOLKSBANKS

2017

KEY FIGURES OF THE ASSOCIATION OF VOLKSBANKS

Euro million	31 Dec 2017	31 Dec 2016	31 Dec 2015
Statement of financial position			
Total assets	**25,323**	**24,466**	**27,815**
Loans and advances to customers	**19,768**	**19,386**	**22,619**
Amounts owed to customers	**20,850**	**20,018**	**22,324**
Debts evidenced by certificates	**624**	**966**	**1,748**
Subordinated liabilities	**671**	**325**	**385**
Own funds according to Basel III for the association of Volksbanks			
Common equity tier 1 capital (CET1)	1,636	1,642	1,824
Additional tier 1 capital (AT1)	10	0	0
Tier 1 capital (T1)	**1,646**	**1,642**	**1,824**
Tier 2 capital (T2)	553	362	489
Own funds	**2,199**	**2,003**	**2,313**
Risk weighted exposure amount - credit risk	11,700	11,609	13,195
Total risk exposure amount settlement risk	0	0	0
Total risk exposure amount market risk	112	153	180
Total risk exposure amount operational risk	1,369	1,442	1,583
Total risk for credit valuation adjustment	60	61	93
Total risk exposure amount	**13,240**	**13,266**	**15,051**
Common equity tier 1 capital ratio[1)]	**12.36%**	**12.38%**	**12.12%**
Tier 1 capital ratio[1)]	**12.43%**	**12.38%**	**12.12%**
Equity ratio[1)]	**16.61%**	**15.10%**	**15.37%**
Income statement	**1-12/2017**	**1-12/2016**	**1-12/2015**
Net interest income	443.1	423.1	488.6
Risk provisions	-45.4	-92.0	-52.9
Net fee and commission income	236.9	239.8	229.0
Net trading income	14.4	8.9	13.5
General administrative expenses	-585.5	-615.2	-642.6
Restructuring result	1.3	3.1	-0.3
Other operating result	-2.8	-28.2	27.3
Income from financial investments	-14.1	-8.6	6.6
Income from companies measured at equity	-7.6	0.3	0.0
Income from discontinued operation	0.0	-15.6	-175.1
Result before taxes	**40.1**	**-84.4**	**-105.8**
Income taxes	21.0	5.0	38.6
Result after taxes	**61.2**	**-79.5**	**-67.2**
Non-controlling interest	0.0	0.0	-1.6
Consolidated net income	**61.1**	**-79.5**	**-68.8**
Key ratios[2)]			
Operating cost-income-ratio	**84.1 %**	**84.5 %**	**82.9 %**
ROE before taxes	**2.3 %**	**-3.9 %**	**3.2 %**
ROE after taxes	**3.5 %**	**-3.8 %**	**4.3 %**
ROE consolidated net income	**3.6 %**	**-3.8 %**	**4.4 %**
NPL ratio	**3.7 %**	**4.5 %**	**4.6 %**
Net interest margin	**1.7 %**	**1.7 %**	**1.8 %**
Leverage ratio	**6.2 %**	**6.5 %**	**6.2 %**
Net Stable Funding Ratio (NSFR)	**130.0 %**	**127.1 %**	**136.3 %**
Loan deposit ratio	**94.9 %**	**95.7 %**	**96.8 %**
Coverage ratio I	**37.4 %**	**31.9 %**	**30.6 %**
Coverage ratio III	**101.6 %**	**94.2 %**	**90.2 %**
Resources	**1-12/2017**	**1-12/2016**	**1-12/2015**
Staff average	**4,194**	**4,560**	**n.a.**
of which domestic	4,140	4,529	n.a.
of which abroad	54	31	n.a.
	31 Dec 2017	**31 Dec 2016**	**31 Dec 2015**
Staff at end of period	**4,121**	**4,347**	**4,994**
of which domestic	4,068	4,281	4,929
of which abroad	53	66	65
Number of sales outlets	**343**	**402**	**464**
of which domestic	340	399	462
of which abroad	3	3	2
Number of customers	**1,134,339**	**1,177,956**	**1,151,006**

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

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ASSOCIATION MANAGEMENT REPORT

MANAGEMENT REPORT OF THE ASSOCIATION OF VOLKSBANKS

Report on the business development and economic situation

Business development

After the pronounced merger activity in 2016, further mergers were carried out in 2017, with the planned mergers within the Association being completed for the major part at the end of the business year. Only the contribution of the banking operation of Waldviertler Volksbank Horn reg.Gen.m.b.H. to VBW is still outstanding. On 21 March 2018, the general meeting of VB Horn unanimously resolved upon the merger with VBW. Subject to approval by the competent bodies within VBW, the merger is meant to be effected already in the first half of 2018.

Due to amendments of the articles of association, 'Verwaltungsgenossenschaften' that were formerly consolidated for inclusion based on the prerequisites defined in section 30a BWG were deconsolidated in the 2017 business year.

The members of the Austrian Association of Volksbanks continue to position themselves as strong regional banks with a focus on Retail and Corporates in Austria. As CO, VBW assumes extensive management and steering functions and is also responsible, among others, for risk and liquidity management across the Association.

In the business year, apart from the focus on sales, another focus was on the implementation of cost-intensive projects due to regulatory requirements and on strategically important topics. The future requirements of IFRS 9, MiFID and the digitisation within sales are most important in this respect. Moreover, in 2017, the Association of Volksbanks paid special attention to the management of non-performing loans (NPL). The NPL ratio was reduced to 3.7% (31 December 2016: 4.5%) in the previous business year.

The Supervisory Review and Evaluation Process (SREP) was carried out with effect on 31 December 2016. By resolution dated 19 December 2017, the recommendation regarding capital was determined with respect to Pillar 2, which must be – and currently is – complied with at the level of the Association.

In February 2017, Moody's Investors Service awarded a rating of Baa2 for deposits of VBW for the first time. Equally for the first time in March 2017, the covered bond programme (covered bonds secured by mortgage) of VBW was awarded a rating by Moody's, and even the best possible one: Aaa.

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

Since the end of June 2017, confirmed case law has been available regarding the handling of negative interest rates. The members of the Association of Volksbanks were not involved as defendants in any proceedings. Potentially affected credit accounts were examined, and in the event of a claim being established, any excess interest charged was refunded to our customers in October 2017.

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

Economic environment

According to an estimate updated in February 2018 by the Austrian Institute of Economic Research (WIFO), Austria's gross domestic product has grown by 2.9% year on year. This constitutes a noticeable increase in dynamics compared to 2016, when growth had only amounted to 1.5% year on year. Accordingly, the growth rate of the Austrian economy was markedly higher in the past year than that of the euro zone, which – according to the macroeconomic forecast by the European Central Bank (March 2018) – has grown by 2.5% year on year. Growth in Austria was due both to an increase in domestic demand and to higher demand in exports.

Against the background of this accelerated growth, the Austrian unemployment rate decreased slightly in the past year: it fell from 5.7% at the beginning of the year to 5.3% in December. The downward trend was even more pronounced in the euro zone: starting out from much higher values, the employment rate decreased from 9.6% at the beginning of the year to 8.7% in December. According to the Harmonised Index of Consumer Prices, the inflation rate in Austria fluctuated between 2.0% and 2.5% in the previous year. As in previous years, this made Austria one of the countries with the highest inflation rates in the euro zone. In the past year, the rates of price increases varied between 1.3% and 2.0% in the common currency zone.

Monetary policy in the euro zone remained highly expansive also in the previous year. The European Central Bank (ECB) left the main refinancing rate at 0.00%, the interest rate for the prime refinancing facility at 0.25% and the deposit rate at -0.40%. In March 2017, however, the ECB decided to reduce its monthly securities purchases from euro 80 billion to euro 60 billion. In October, it announced that it would continue the net purchases at a reduced level of euro 30 billion monthly as of January 2018 at least until September 2018.

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

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

Regional development and branches of industry

The increasing economic upturn has resulted in the West-East divide of previous years being attenuated significantly. Measured against the increase in gross value added in the first half of 2017 compared to the first half of 2016, the regional economic development in Vienna, with an increase of 2.9% year on year, – while being robust – was nevertheless below average. The only sectors managing to keep up with the overall Austrian average were construction and the number of overnight stays in tourism. In the third quarter, tourism improved, while the construction and retail sectors declined within regional comparison. After a feeble development in the first half of the year, material goods production showed strong signs of recovery in the third quarter. In the first nine months of 2017, the number of unemployed persons decreased, but this decrease remained below-average compared to individual federal provinces (Länder).

In Lower Austria, the development of regional value added compared to other federal Länder was inconspicuous. At a growth rate of 3.6% year on year of gross value added in the first half of the year, the material goods production sector, which is very important for this federal Land, was very strong. In spite of certain increases, the construction sector initially lagged behind the Austrian average, but made up some leeway in the third quarter. Also tourism was quite strong in the third quarter. The decline in the number of unemployed persons was less pronounced in the other federal Länder in the first half of the year, but clearly gained some momentum in the third quarter.

The development of Burgenland was also quite similar to that of the whole of Austria. Construction was remarkable here, in that it recorded the highest growth rates of all federal Länder by far in the first three quarters in 2017. Compared to the other federal Länder, tourism showed the weakest growth rate of all. However, this sector had experienced unusually strong growth in the previous year. The number of unemployed persons decreased at an above-average rate.

In Styria, too, economic development hardly deviated from the overall Austrian trend in the first two quarters of 2017. Compared to other federal Länder, the situation was above average in the service sector, especially in business-related services. In the third quarter, material goods production – a very important sector for this federal province – recorded high growth rates. The situation in the labour market has clearly improved, the decrease in the number of unemployed persons was higher than the Austrian average and was only exceeded in Tyrol.

In the first half of 2017, Carinthia was the federal Land with the strongest growth in gross value added, owing among others to very high growth in the material goods production and construction sectors, which however somewhat slowed down in the third quarter. Not a single economic sector showed below-average performance compared to the other federal Länder. Accordingly, also the number of unemployed persons decreased markedly in Carinthia. In the third quarter, the growth of employment was weaker than in the other federal Länder. However, the unemployment rate declined at an above-average rate, as simultaneously the supply of labour only grew slightly.

After Carinthia, Upper Austria recorded the second best development of all federal Länder in the first half of 2017, with an increase of 4.2% year on year in gross value added. The sectors of material goods production, which plays a very important role in Upper Austria, and construction made an essential contribution in this respect. In the third quarter, the development in this federal Land was in line with the Austrian average, with the tourism and retail sectors standing out positively in that quarter. The decrease in the number of unemployed persons corresponded to the general Austrian trend.

In the first half of 2017, Salzburg ranked last among the federal Länder in terms of economic development, and also the third quarter was characterised by comparatively low growth rates. Gross value added was only 2.0% higher in the first half of the year than in the comparative period of the previous year. Retail, which had still been above-average in the first half of the year, recorded a slight decline in real-term sales in the third quarter. Nevertheless, the number of unemployed persons decreased in Salzburg.

Overall, the very good development in tourism in the second quarter provided Tyrol with an average increase in gross valued added in the first half of the year, after disappointing results for the first quarter. The other sectors hardly deviated from the general Austrian trend, the same is true for the number of unemployed persons. In the third quarter, the dynamics of economic development were primarily driven by the construction sector, and retail sales increased more strongly than in any other federal Land. In spite of an increasing supply of labour, Tyrol was the only federal province to record a two-digit decrease of the unemployment rate in the third quarter.

In the first half of 2017, Vorarlberg ranked second to last (in front of Salzburg) in terms of regional economic development and also lagged behind the general Austrian trend in the third quarter. This was mainly due to the feeble development in material goods production, which even declined in the first half of the year compared to the relevant period of the previous year, recording the second weakest growth rate (after Carinthia) in the third quarter. Also, tourism lagged behind the Austrian average. While the construction sector showed strong signs of recovery in the third quarter, unemployment increased slightly – as opposed to all other federal Länder.

The favourable development of previous years continued in the Austrian residential property market in 2017. The price gap between Vienna and the other federal Länder decreased somewhat. In the fourth quarter of 2017, annual growth rates for the prices of freehold flats and single-family homes outside Vienna amounted to approx. 7%. In Vienna, the prices of freehold flats only increased by 0.6% year on year, with those of single-family homes even declining. A marked increase was recorded by the prices of building plots for residential properties at 11.5% year on year in Vienna and 12.5% year on year outside Vienna (each Q2/2017). Affordability, based on the relationship between prices and disposable nominal income, had somewhat improved in mid-2017 compared to the previous year, both in Vienna and throughout Austria, with the relevant index of Oesterreichische Nationalbank (OeNB) being much less favourable in Vienna (98.4 points) than in the rest of Austria (123.6 points). The persistently high demand for residential properties was also reflected in the credit market. At 4.7% year on year, the growth rate of housing credits to private households ultimately even exceeded that of 2016 slightly (4.4%).

Just like 2016, 2017 was another good year for the Austrian tourism sector. In spite of snow being scarce, the 2016/2017 winter season brought a new record high of overnight stays, even if only marginal, with overnight stays of foreign guests decreasing slightly. In the 2017 summer season, the best result in terms of overnight stays ever since the summer of 1992 was achieved. Above-average growth rates were achieved by commercial operations and holiday apartments in both seasons. Also the 2017/2018 winter season got off to a promising start. For the entire year, Statistics Austria expects 144.44 million overnight stays in Austrian accommodation facilities, corresponding to an increase by 2.5% compared to the previous year (Austrian guests +1.3%, foreign guests +3.0%). The number of arrivals also reached a new peak. All federal Länder, except for Vorarlberg, recorded an increase in overnight stays. Most overnight stays were reported by Tyrol, followed by Salzburg, Vienna, Styria, Carinthia, Upper Austria, Lower Austria, Vorarlberg and Burgenland. The highest growth rate was recorded by Lower Austria at 7.6%, the lowest one by Vorarlberg at -0.2%.

Result of the Association

The result of the Association before taxes amounts to euro 40 million (2016: euro -84 million). The result of the Association after taxes and minority shares amounts to euro 61 million (2016: euro -80 million).

The net interest income for the 2017 business year amounts to euro 443 million, thus exceeding the income for the comparative period (2016: euro 423 million) by euro 20 million. The increase essentially originates from the initial recognition of effective interest from loans and advances to customers in the banks of the Association. In this context, an amount of euro 24 million from the release of accruals/deferrals from previous years was recognised in interest income. The lower interest result (due to the interest environment and the passing on of negative interest) from current operations in the amount of euro -4.5 million has an opposite effect.

At euro -45 million, the risk provision item shows lower provisions for the 2017 business year, by euro 47 million, than in the comparative period (2016: euro -92 million). The decrease is due to reversals and/or a lower provision requirement for individual impairments and portfolio based allowances, especially for the banks in Vienna, Carinthia and Vorarlberg.

The net fee and commission income in the reporting period amounts to euro 237 million, a slight decrease by euro 3 million compared to the previous period (2016: euro 240 million). The increase in lending operations (euro 6.0 million) and payment transactions (euro 10.1 million) as well as in securities business (euro 7.9 million) is set against decreases in foreign exchange business (euro -4.4 million) and custody business (euro -1.3 million). Moreover, fee and commission income in the amount of euro 23.7 million was cancelled due to the initial application of the distribution of credit commissions over the lifetime of loans and advances to customers.

The net trading income in the 2017 business year amounts to euro 14 million, an increase by euro 5 million compared to the previous period (euro 9 million). The increase essentially results from currency-related transactions, from Volksbank Vorarlberg in particular.

General administrative expenses of euro 586 million (2016: euro 615 million) constitute a decrease of euro 30 million compared to the previous year. Compared to the end of 2016, the headcount decreased by 226 from 4,347 and now amounts to 4,121 employees. This decrease coincided with a reduction of staff costs by euro 18 million from euro 361 million (previous year) to euro 344 million in 2017. In the sphere of administrative expenses, reductions in advertising, office and communication expenses, as well as expenses for business premises are offset by one-time expenses for legal, auditing and consultancy services, accordingly remaining on the same level as in 2016. Depreciation of fixed assets decreased compared to the previous comparative period (euro 46 million) by euro 11 million and amount to euro 34 million for 2017.

The other operating result for the 2017 business year amounts to euro -3 million (2016: euro -28 million). In the 2017 business year, a result from the acquisition of a company in the amount of euro 8 million was recognised from the acquisition of Volksbank Almtal. This is offset by reimbursements of negative interest charged in previous years in the amount of euro -11 million. From the valuation of assets held for sale, an amount of euro -5 million was recognised, which is primarily attributable to Volksbank Styria. The valuation of the VB Switzerland disposal group is reflected in the other operating result in the amount of euro -3 million. The previous year was burdened in particular by the non-recurring payment of the stability levy in the amount of euro -28 million, as well as a payment within the scope of the restructuring agreement to the federal government in the amount of euro -19 million, which was effected in the course of selling start:gruppe.

The result from financial investments for the reporting period amounts to euro -14 million, thus undercutting the comparative period (2016: euro -9 million) by euro 6 million. Negative derivative valuations in the amount of euro -6 million, write-downs of participations in the amount of euro -6 million, as well as valuations of investment property amounting to euro -3 million are the essential components of the result in the current year.

In the reporting year, the result of companies measured at equity amounted to euro -8 million (2016: euro 0.3 million). A result of euro -7 million was recognised from the initial valuation of VB Wien Beteiligung eG.

In the previous year, the result from start:gruppe (current result euro -5 million, deconsolidation result euro -11 million) was recognised in the result of a discontinued operation.

Due to the tax planning of the next four years, it was possible, in the 2017 business year, to recognise deferred tax assets for part of the tax loss carried forward. For tax loss carried forward in the amount of euro 359 million (2016: euro 499 million), no deferred tax assets are recognised. 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 2017, total assets amount to euro 25.3 billion, decreasing by euro 0.9 billion compared to the end of 2016 (euro 24.5 billion), essentially due to the increase of investments with ECB and/or OeNB following higher customer deposits.

Compared to the end of the previous period (euro 0.6 billion), loans and advances to credit institutions have slightly decreased to euro 0.5 billion.

As at 31 December 2017, loans and advances to customers amount to euro 19.8 billion, thus increasing by euro 0.4 billion compared to the end of the previous year (euro 19.4 billion), with the Volksbanks in Lower and Upper Austria contributing the major part of this moderate increase.

Financial investments of euro 2.3 billion have decreased slightly by comparison with the previous year (euro 2.4 billion).

Apart from the assets of the VB Switzerland disposal group, primarily vacant branches as well as investment property assets the sale of which was already contractually agreed or is highly likely as at 31 December 2017 are shown in the assets held for sale.

Amounts owed to credit institutions have almost remained the same as compared to the end of 2016 (euro 0.4 billion).

Amounts owed to customers in the amount of euro 20.8 billion have increased by euro 0.8 billion compared to the end of 2016 (euro 20.0 billion). The increase mainly originates from the Volksbanks in Vienna, Lower Austria and Tyrol.

As at 31 December 2017, debts evidenced by certificates amount to euro 0.6 billion and have decreased compared to 31 December 2016 (euro 1.0 billion), mainly due to redemptions.

Liabilities held for sale include the liabilities of the VB Switzerland disposal group, which was sold late in February 2018.

The subordinated bond issued by VBW in October 2017 resulted in an increase in subordinated liabilities, which amount to euro 0.7 billion as at 31 December 2017.

In the reporting year, the equity positions (including company shares and non-controlling shares) increased from euro 1.7 billion to euro 1.8 billion as at the end of 2017. Apart from the annual result of the Association, the 'available for sale' reserve primarily increased due to the write-up of participations by euro 79 million after deduction of deferred taxes. In the 2017 business year, a distribution of VB Rückzahlungsgesellschaft mbH to the federal government in the amount of euro 13 million was effected. The initial retroactive recognition of accruals/deferrals for the distribution of credit commissions over the lifetime of loans and advances to customers was effected (without any effect on profit or loss) in equity in the line Movement due to transfer to non-controlling shares, capital increase and deconsolidation in the amount of euro -87 million less deferred tax assets of euro 22 million.

Report on branch establishments

The Association does not have any branch establishments.

Financial performance indicators

As at 31 December 2017, the regulatory own funds of the VBW KI Group amount to euro 2.2 billion (2016: euro 2.0 billion). The aggregate risk amount was euro 13.2 billion (2016: euro 13.3 billion) as at 31 December 2017. The Tier I capital ratio in relation to total risk amounts to 12.4% (2016: 12.4%), the equity ratio in relation to total risk is 16.6% (2016: 15.1%). 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 (especially Chapter 36).

Performance indicators	2017	2016	2015
Return on Equity before taxes	2.3%	-3.9%	3.2%
Return on Equity after taxes	3.5%	-3.8%	4.3%
Cost-income ratio	84.1%	84.5%	82.9%

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

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

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

Non-financial performance indicators

Human Resources

In 2017, Human Resources was dealing with the follow-up of the previous years' mergers and the implementation of additional mergers. The focus here was primarily on the ongoing optimisation and unification of processes and workflows. Key HR development tools were jointly revised within the Association and prepared for implementation in 2018. By way of example, the new appraisal interview and the unified definition of job descriptions across the Association may be mentioned here. They will be completed and rolled out in 2018. The job descriptions form the basis for a number of measures in the sphere of personnel development. As for project work, technical, organisational and legal aspects were included. At the same time, a competence model was worked out for the respective job description. In the future, the job descriptions will enable career and development paths to be implemented throughout the Association. Apart from ongoing knowledge and competence development, this project will also enable the Volksbank to even better position itself as an attractive employer.

In collaboration between Volksbank Akademie and the banks of the Association, the training programme for our employees was further expanded. In addition to the methodological and content-related extensions of the programme, the range offered was enhanced in the sphere of digital learning in particular. Another focus was on the implementation of a common SAP HCM system landscape across the Association. In that context, a number of individual projects was successfully implemented. The overall project will be completed by the end of 2018. The aim is the standardised handling of all HR-relevant IT matters in SAP across the Association.

Essential organisational and IT projects

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

Sales & Digitisation Cluster

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

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

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

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

Efficiency Cluster

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

Regulatory Matters Cluster

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

The IFRS 9 project, which was started in 2015 already, entered its final phase in 2017, in time for implementation as of 1 January 2018. In doing so, processes and systems were changed according to IFRS 9 throughout the Association, the focus in terms of content being classification and measurement, new regulations regarding impairments, and also hedge accounting.

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

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

Infrastructure Cluster

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

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

Report on the future development and risks of the Association
Future development of the Association

Economic environment

According to the economic forecast of the Austrian Institute of Economic Research (WIFO) published in March 2018, the Austrian economy is expected to grow by 3.2% in 2018. In March, the European Central Bank increased its economic growth forecasts for the euro zone in 2018 to 2.4%. The WIFO expects positive contributions to growth from all demand components and a persistently good (if flattening) development of investments. As in 2016 and 2017, strong growth is expected especially from investments in equipment, while growth in building investments (1.6% year on year) is rather expected to be moderate. The unemployment rate is expected to decrease to 5.2% (Eurostat method). The semi-annual forecast of Oesterreichische Nationalbank in December was somewhat more cautious, expecting GDP to grow by 2.8% in 2018. The OeNB estimated the savings rate for this year to be 7.2%, the increase in real disposable household income 1.6% year on year. This would provide for a sound basis both for the credit rating of private borrowers and for investment business. Due to the favourable economic situation, a growing demand for loans is expected across all branches of industry. A persistently favourable development of the residential real estate market and of the corresponding demand for loans can also be derived from demographic trends. The increase in housing construction recorded in the first half of the previous year, as well as the outlook in terms of interest, suggest a positive, yet flattening price development in Vienna and other conurbations, while prices may also decline in regions affected by emigration.

The forecast of the European Central Bank for the average inflation rate in the euro zone for 2018 amounts to a mean of 1.4%. Accordingly, the rate of price increases would not quite reach the target inflation rate of the European Central Bank of a little under 2% again in 2018. This in combination with the European Central Bank's monetary easing would suggest a continuation of the low-interest environment, although continuing monetary tightening in the USA should provide for a slight upward trend and also in Europe, monetary easing is expected to be gradually discontinued. The very high interest differential in favour of the US dollar is likely to work against a further appreciation of the euro.

The risks associated with this outlook are manifold. They include, for instance, the potential foreign restrictions imposed by the USA, which may affect Austrian exporting companies and suppliers. Initial measures of this kind were already taken in March 2018, in the form of resolutions to impose import duties on steel and aluminium. A modification of growth rates in Austria's neighbouring countries might also affect tourism to a certain extent. Tensions within the European Union in connection with the exit negotiations with Great Britain or any decline in pro-European sentiment in the major member states, e.g. after elections, constitute a risk for the continuation of economic recovery within the region. A rapid rise in interest rates would also have to be classified as a risk for economic activity and the real estate markets. Additionally, geopolitical conflicts may also potentially harm the basically positive economic outlook.

Future development of the Association

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

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

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

Currently, the plan is for the banking operation of Waldviertler Volksbank Horn reg.Gen.m.b.H. to be contributed to VBW. On 21 March 2018, the general meeting of VB Horn unanimously resolved upon the merger with VBW. In case of consent by the responsible bodies at VBW, the contribution is meant to be completed in the first half of 2018.

Significant risks and uncertainties

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

Report on research and development

The Association 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 Association within the scope of financial reporting. On the part of the CO, a General Instruction Accounting was issued within the scope of IFRS financial reporting. The Managing Board of the CO is responsible for the establishment and organisation of a corresponding internal control and risk management system with respect to the accounting process and has defined a framework for implementation applicable to the entire Association in the ICS group policy. Within the Association, responsibility for implementation lies with the OPRISK and Risk Governance groups within VBW.

In all companies included in the financial statements of the Association, the responsibility to define and introduce an appropriate ICS for the respective company and to ensure compliance with Association-wide policies and regulations lies with the respective managing board or with the management. In order to guarantee that the data supplied by the members of the Association are transferred correctly, all data provided are initially checked for plausibility. Subsequently, the data are processed further in the Tagetik consolidation software. The controls are based on the dual control principle and one additional check by the head of the department.

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.

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

Information and communication

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

The 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, group accounting staff will pass on the information so acquired to employees of the members of the Association.

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 a documentation of the number of checks carried out in relation to those specified.

FINANCIAL STATEMENTS

Statement of comprehensive income

Income Statement	Note	1-12/2017 Euro thousand	1-12/2016 Euro thousand	Changes Euro thousand	%
Interest receivable and similar income		544,820	507,820	37,000	7.29 %
Interest payable and similar expense		-101,724	-84,725	-17,000	20.06 %
Net interest income	4	443,095	423,095	20,000	4.73 %
Risk provisions	5	-45,413	-91,983	46,570	-50.63 %
Fee and commission income		267,932	274,845	-6,913	-2.52 %
Fee and commission expenses		-31,033	-35,011	3,978	-11.36 %
Net fee and commission income	6	236,899	239,833	-2,934	-1.22 %
Net trading income	7	14,362	8,866	5,496	61.98 %
General administrative expenses	8	-585,542	-615,191	29,649	-4.82 %
Restructuring result		1,276	3,060	-1,784	-58.31 %
Other operating result	9	-2,850	-28,211	25,362	-89.90 %
Income from financial investments	10	-14,076	-8,558	-5,518	64.47 %
Income from companies measured at equity		-7,621	275	-7,896	< -200.00 %
Income from the discontinued operations	2	0	-15,632	15,632	-100.00 %
Result before taxes		40,131	-84,445	124,576	-147.52 %
Income taxes	11	21,027	2,807	18,219	> 200.00 %
Income taxes of the discontinued operations	11	0	2,145	-2,145	-100.00 %
Result after taxes		61,157	-79,493	140,650	-176.93 %
Result attributable to shareholders of the parent company (Consolidated net result)		61,147	-79,521	140,668	-176.89 %
thereof from the continued operation		61,147	-66,034	127,181	-192.60 %
thereof from the discontinued operation		0	-13,487	13,487	-100.00 %
Result attributable to non-controlling interest		11	28	-18	-62.54 %
thereof from the continued operation		11	28	-18	-62.54 %
thereof from the discontinued operation		0	0	0	0.00 %

Other comprehensive income

	1-12/2017 Euro thousand	1-12/2016 Euro thousand	Changes Euro thousand	%
Result after taxes	**61,157**	**-79,493**	**140,650**	**-176.93 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation obligation of defined benefit plans (IAS 19)	3,256	-11,898	15,154	-127.37 %
Deferred taxes of revaluation IAS 19	-792	2,982	-3,774	-126.56 %
Total items that will not be reclassified to profit or loss	2,464	-8,916	11,380	-127.64 %
Items that may be reclassified to result				
Currency reserve	-6,431	1,023	-7,454	< -200.00 %
Available for sale reserve (including deferred taxes)				
Change in fair value	78,866	3,193	75,673	> 200.00 %
Net amount transferred to profit or loss	-153	3,876	-4,029	-103.95 %
Change in deferred taxes arising from untaxed reserve	10	4,587	-4,576	-99.78 %
Change from companies measured at equity	2,517	0	2,517	100.00 %
Total items that may be reclassified to profit or loss	**74,810**	**12,678**	**62,131**	**> 200.00 %**
Other comprehensive income total	**77,274**	**3,763**	**73,511**	**> 200.00 %**
Comprehensive income	**138,431**	**-75,730**	**214,161**	**< -200.00 %**
Comprehensive income attributable to shareholders of the parent company	138,419	-75,755	214,174	< -200.00 %
thereof from the continued operation	138,419	-62,091	200,510	< -200.00 %
thereof from the discontinued operation	0	-13,664	13,664	-100.00 %
Comprehensive income attributable to non-controlling interest	12	25	-13	-51.60 %
thereof from the continued operation	12	25	-13	-51.60 %
thereof from the discontinued operation	0	0	0	0.00 %

Statement of financial position as at 31 December 2017

	Note	December 2017 Euro thousand	December 2016 Euro thousand	Changes Euro thousand	%
Assets					
Liquid funds	12	2,001,338	1,435,495	565,842	39.42 %
Loans and advances to credit institutions (gross)	13	494,889	642,866	-147,978	-23.02 %
Loans and advances to customers (gross)	14	19,768,453	19,385,588	382,865	1.97 %
Risk provisions (-)	15	-361,954	-397,752	35,798	-9.00 %
Trading assets	16	63,587	142,417	-78,830	-55.35 %
Financial investments	17	2,292,273	2,393,345	-101,072	-4.22 %
Investment property	18	52,180	72,755	-20,575	-28.28 %
Companies measured at equity	19	70,456	58,009	12,448	21.46 %
Participations	20	117,602	25,241	92,361	> 200.00 %
Intangible assets	21	1,591	2,057	-466	-22.65 %
Tangible fixed assets	22	413,672	467,354	-53,683	-11.49 %
Tax assets	23	92,602	65,566	27,037	41.24 %
Current taxes		2,413	1,954	459	23.49 %
Deferred taxes		90,190	63,612	26,578	41.78 %
Other assets	24	190,476	172,880	17,596	10.18 %
Assets held for sale	25	126,105	0	126,105	100.00 %
Total Assets		**25,323,270**	**24,465,822**	**857,448**	**3.50 %**
Liabilities and Equity					
Amounts owed to credit institutions	26	448,740	421,995	26,746	6.34 %
Amounts owed to customers	27	20,849,571	20,017,714	831,857	4.16 %
Debts evidenced by certificates	28	623,633	966,345	-342,712	-35.46 %
Trading liabilities	29	77,459	417,873	-340,415	-81.46 %
Provisions	30, 31	264,261	282,999	-18,737	-6.62 %
Tax liabilities	23	23,158	19,712	3,446	17.48 %
Current taxes		9,995	9,938	57	0.57 %
Deferred taxes		13,163	9,773	3,390	34.68 %
Other liabilities	32	508,866	321,731	187,134	58.16 %
Liabilities held for sale	33	103,684	0	103,684	100.00 %
Subordinated liabilities	34	671,159	324,906	346,253	106.57 %
Total nominal value cooperative capital shares	35	4,010	17,389	-13,379	-76.94 %
Subscribed capital	35	288,640	194,890	93,750	48.10 %
Reserves	35	1,457,918	1,480,118	-22,200	-1.50 %
Non-controlling interest	35	2,171	151	2,021	> 200.00 %
Total Liabilities and Equity		**25,323,270**	**24,465,822**	**857,448**	**3.50 %**

Changes in equity and cooperative capital shares

Euro thousand	Subscribed capital [1]	Reserves	Shareholders' equity	Non-controlling interest	Equity	Cooperative capital [3] shares	Equity and cooperative capital shares
As at 1 January 2016	**205,385**	**1,588,857**	**1,794,242**	**144**	**1,794,386**	**23,664**	**1,818,050**
Consolidated net income		-79,521	-79,521	28	-79,493		-79,493
Change in deferred taxes arising from untaxed reserve		4,587	4,587	0	4,587		4,587
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)		-8,912	-8,912	-3	-8,916		-8,916
Currency reserve		1,023	1,023	0	1,023		1,023
Available for sale reserve (including deferred taxes)		7,069	7,069	0	7,069		7,069
Comprehensive income	0	-75,755	-75,755	25	-75,730	0	-75,730
Dividends paid		-1,242	-1,242	-19	-1,261		-1,261
Changes in base amount regulation	-1,623	0	-1,623		-1,623	1,623	0
Changes scope of consolidation	-7,429	-33,969	-41,398	0	-41,398	-2,652	-44,049
Change in cooperative capital and participation capital	-1,968	2,129	161		161	-5,299	-5,139
Change in treasury stocks	524	0	524		524	53	577
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	0	99	99	0	99		99
As at 31 Dec 2016	**194,890**	**1,480,118**	**1,675,007**	**151**	**1,675,158**	**17,389**	**1,692,547**
Consolidated net income		61,147	61,147	11	61,157		61,157
Change in deferred taxes arising from untaxed reserve		10	10	0	10		10
Revaluation obligation of defined benefit plans (IAS 19 including deferred taxes)		2,463	2,463	1	2,464		2,464
Currency reserve		-6,431	-6,431	0	-6,431		-6,431
Available for sale reserve (including deferred taxes)		78,713	78,713	0	78,713		78,713
Change from companies measured at equity		2,517	2,517		2,517		2,517
Comprehensive income	0	138,419	138,419	12	138,431	0	138,431
Dividends paid		-13,919	-13,919	-16	-13,935		-13,935
Changes in base amount regulation	60	0	60		60	-60	0
Changes scope of consolidation	93,533	-81,383	12,150	0	12,150	-11,474	676
Change in cooperative capital and participation capital	0	0	0		0	-1,475	-1,476
Change in treasury stocks	157	-157	0		0	0	0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation [2]	0	-65,159	-65,159	2,025	-63,134	-369	-63,504
As at 31 Dec 2017	**288,640**	**1,457,918**	**1,746,558**	**2,171**	**1,748,729**	**4,010**	**1,752,739**

thereof obtained in reserves:

Euro thousand	31/12/2017	31/12/2016
Currency reserve	16,610	23,040
thereof through profit or loss	-106	-64
Available for sale reserve	86,611	5,748
thereof deferred taxes	-28,903	-1,941
Hedging reserve	0	0
thereof deferred taxes	0	0

1) Subscribed capital incl. participation capital and cooperative capital shares, pursuant to IFRIC 2 eligible as equity.
2) Details are shown in note 35) Equity.
3) Cooperative capital shares, pursuant to IFRIC 2 not eligible as equity.

Details are shown in note 2) an 35).

Cash flow statement

In euro thousand	Notes	1-12/2017	1-12/2016
Annual result (before non-controlling interest)		**61,157**	**-79,493**
Non-cash positions in annual result			
Net interest income	4	-426,937	-455,664
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	8, 10	60,014	54,794
Allocation to and release of provisions, including risk provisions	5, 8	57,199	66,154
Gains from the sale of financial investments and fixed assets	9, 10	-2,330	5,328
Result from contribution of assets and liabilities	2	-8,213	0
Non-cash changes in taxes	11	-21,027	-4,953
Changes in assets and liabilities from operating activities			
Loans and advances to credit institutions	13	121,234	-663,127
Loans and advances to customers	14	-527,936	261,374
Trading assets	16	15,841	-23,551
Financial investments	17	235,926	172,781
Investment property	18	11,671	865
Other assets from operating activities	24	8,748	-16,547
Amounts owed to credit institutions	26	33,474	450,128
Amounts owed to customers	27	833,270	121,183
Debts evidenced by certificates	28	-323,202	-246,582
Derivatives	16, 24, 29, 32	-76,307	19,739
Other liabilities	32	-76,263	12,125
Interest received		491,675	605,010
Interest paid		-91,536	-161,164
Dividends received		3,539	9,176
Income taxes paid		-10,427	-3,235
Cash flow from operating activities		**369,571**	**124,341**
Proceeds from the sale or redemption of			
Securities held to maturity	17	0	0
Participations	20	1,206	16,831
Fixed assets	21, 22	16,361	19,405
Disposal of subsidiaries (net of cash disposed)	2	0	-16,340
Payments for the acquisition of			
Securities held to maturity	17	-112,286	-182,768
Participations	20	-1,512	-14,706
Fixed assets	21, 22	-19,124	-39,960
Acquisition of subsidiaries - liquid funds	2	808	0
Cash flow from investing activities		**-114,547**	**-217,538**
Change in cooperative capital and participation capital	35	-1,476	-4,712
Dividends paid	35	-13,935	-1,261
Changes in subordinated liabilities	34	351,559	-22,766
Cash flow from financing activities		**336,149**	**-28,738**
Cash and cash equivalents at the end of previous period (= liquid funds)	12	**1,401,998**	**1,521,925**
Cash flow from operating activities		369,571	124,341
Cash flow from investing activities		-114,547	-217,538
Cash flow from financing activities		336,149	-28,738
Effect of currency translation		-2,823	2,008
Cash and cash equivalents at the end of period (= liquid funds)	12	**1,990,348**	**1,401,998**

Details of the calculation method of cash flow statement are shown in note 3) hh).
As at 31 December 2017, an amount of euro 9,338 thousand from the disposal group VB Suisse is included in the amount of cash and cash equivalents.
Details to cash in- and outflow of subordinated liabilities are shown in note 34).

NOTES

1) General information

VOLKSBANK WIEN AG (VBW), which has its registered office at Kolingasse 14-16, 1090 Vienna, Austria, is the central organisation (CO) of the Austrian Volksbank sector. VBW has concluded a banking association agreement with the primary banks (Volksbanks, VB) in accordance with section 30a of the Austrian Banking Act (Bankwesengesetz, BWG). The purpose of this banking association agreement is to create a joint liability scheme between the primary sector institutions and to monitor and ensure compliance with the standards of the applicable regulatory provisions at association level. Section 30a (10) of the Austrian Banking Act requires an association's central organisation to have the right to issue instructions to the member credit institutions.

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 of the Austria Banking Act, on the basis of the consolidated financial position (section 30a (7) of the Austrian Banking Act). By letter dated 29 June 2016, the ECB granted unlimited approval of the Association of Volksbanks.

Under section 30a (7) of the Austrian Banking Act, the CO is required to prepare consolidated financial statements pursuant to sections 59 and 59a of the Austrian Banking Act for the Association of Volksbanks. The Association's financial statements are prepared according to IFRS rules. For full consolidation purposes, section 30a (8) of the Austrian Banking Act specifies that the CO is to be regarded as a higher-level institution, while each associated institution and, under certain conditions, each transferring legal entity, is to be treated as a subordinate institution.

In accordance with IFRS, a full consolidation only can take place if a company has full authority over decisions of the associated company, in other words, it has the ability to influence returns on equity by its power of disposition (IFRS 10.6). The Association’s CO has the right to issue instructions, but doesn’t receive returns from the member credit institutions; therefore the CO has no control as defined by IFRS 10. The lack of an ultimate controlling parent company means that despite the CO's extensive powers to issue instructions, the consolidated accounts can only be drawn up by treating the Association of Volksbanks as a group of companies which are legally separate entities under unified control without a parent company. It was therefore necessary to define a set of rules for preparing the Association's financial statements.

The accounts have been prepared using the going concern assumption. The Association of Volksbanks consolidated financial statements are reported in euros, as this is the Association’s functional currency. All figures are indicated in thousand of euro unless specified otherwise. The following tables may contain rounding differences. Any role descriptions in this annual report that are used only in the masculine form apply analogously to the feminine form.

The present consolidated financial statements were signed by the Managing Board of VBW on 11 April 2018 and then subsequently submitted to the Supervisory Board for notice.

a) Accounting principles for the Association

The financial statements for the Association are prepared in accordance with all the latest valid versions of the IFRS/IAS as at the reporting date, as published by the International Accounting Standards Board (IASB). The financial statements also comply with all interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and Standing Interpretations Committee (SIC), provided these have also been adopted by the European Union in its endorsement process and additional requirements pursuant to section 245a of the Austria Commercial Code (Unternehmensgesetzbuch, UGB) and section 59a of the Austrian Banking Act.

The following exceptions to the application of individual IFRS apply to the 2017 Association financial statements:

Exceptions affecting the overall scope of consolidation

IFRS 3 Business Combinations: Due to the CO's lack of control within the meaning of IFRS 10, the equity components of the CO, the associated credit institutions and the higher-level holding companies are combined. When aggregating the included companies' investments in Volksbanks and VBW, the aggregated carrying amounts of the investments are deducted from the aggregated equity components. Aggregation as a group of companies which are legally separate entities, but under unified control without a parent company means that the capital consolidation does not result in any minority interests. The general principles of IFRS/IAS are applied to the consolidation of companies subject to control by another company included in the financial statements.

IFRS 8 Operating Segments: IFRS 8 is not applied. The reporting structure for the Association is described in the notes section on segment reporting.

IAS 1 Presentation of Financial Statements – Comparative information: No comparative figures are provided for items in the notes that were not included in the previous year.

IAS 1 Presentation of Financial Statements – disclosures regarding shares: As this information cannot reasonably be provided in a group of companies with legally separate entities, but under unified control without a parent company (Gleichordnungskonzern), it is not included in the presentation.

IAS 1 Presentation of Financial Statements – amount of the dividend or dividend amount per share: As this information cannot reasonably be provided in a group of companies with legally separate entities, but under unified control without a parent company, it is not included in the presentation.

IAS 24 Related Party Disclosure: As this standard is also based on the concept of control, the following shall apply here:

The key management personnel are:

1. Members of the VBW Supervisory Board
2. Members of the VBW Managing Board
3. The Managing Board members and managing directors of the included Volksbanks

Information on significant agreements, outstanding loans, liabilities assumed, compensation to board members and expenditure for severance payments and pensions in relation to these key management personnel is contained in the notes. If a member of the key management personnel occupies several board positions, he/she is recorded only once and at the highest applicable level of the hierarchy listed above.

Balances and transactions with companies that are controlled by one of the companies included in the financial statements, but not included in the statements themselves, are also reported.

The Republic of Austria exercises significant influence over the CO. Only limited information on related parties is provided for securities issued by the Republic of Austria that are held by companies included in the statements.

IFRS 7 Financial Instruments Disclosure: Due to a lack of data, undiscounted maturity analyses in accordance with IFRS 7.39a and 7.39b are not provided.

Exceptions affecting the member institutions

IAS 18 Revenue: As at 1 January 2017, the effective interest method (which has not been taken into account in previous years) was retroactively recognised in equity without any effect on profit or loss.

2) Presentaion and changes in the scope of consolidation

On 18 August 2016, VB Oberösterreich AG (VB OÖ) concluded a business purchase agreement with Volksbank Almtal e. Gen. (Almtal) about the takeover of the banking operation, retaining two real properties as well as the participation in Volksbank Schärding Wels Holding eGen. The closing took place on 3 July 2017. The purchase price amounted to euro 8,6 million.

The purchase price and the fair values of the assets and liabilities acquired, which were determined based on the allocation of the purchase price, are shown in the following table:

Euro thousand	Almtal
Liquid funds	808
Loans and advances to credit institutions	47,128
Loans and advances to customers	33,142
Risk provisions (-)	-394
Financial investments	33,672
Participations	6
Intangible assets	0
Tangible fixed assets	103
Tax assets	0
Other assets	52
Amounts owed to credit institutions	-1,127
Amounts owed to customers	-92,719
Debts evidenced by certificates	0
Provisions	-394
Tax liabilities	-2,293
Other liabilities	-1,171
Subordinated liabilities	0
Net assets acquired	**16,813**
Purchase price = capital increase	8,600
Gain from bargain purchases	**8,213**

The profit from the corporate acquisition essentially arises from the fact that Almtal was no longer able to continue its banking operation as an independent bank, which is why the banking operation was taken over by VB OÖ against payment of the above-mentioned purchase price.

The purchase price was transferred to Almtal, resulting in an outflow of funds from the Association in the same amount. The inflow of fund consisted of the cash reserve assumed. Impaired receivables were presented gross in the table above and in the entire financial statements. That means, the risk provisions assumed in the course of the corporate acquisition were reported separately to ensure data consistency in relation to the risk management systems and regulatory reports. Any adjustments to the fair value were recognised in the item Loans and advances to credit institutions or loans and advances to customers.

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

Euro thousand	Almtal
Fair value of purchased receivables	33,142
Gross sum of receivables	33,940
Estimated unrecoverable receivables	-394

The fair values of contingencies and loan commitments existing on the effective acquisition date were determined to be euro 13 thousand and recognised as a provision. The majority of maturities are approx. one year. During that period, an outflow of funds of some euro 13 thousand is expected.

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

In the fourth quarter of 2017, holding companies previously consolidated for inclusion according to the prerequisites defined in Section 30a BWG were deconsolidated, as the joint management by the CO was cancelled in the respective articles of association.

As the aforementioned companies are no subordinated companies and since there is no controlling relationship within the Association, no disposal result is recorded in the income statement. The disposal of equity is presented without any effect on profit or loss in the line Changes to scope of consolidation.

In the 2017 business year, the amalgamation of the Volksbanks to achieve the planned target structure was continued. These mergers and contributions did not have any effect on the financial statements of the Association.

Due to the amendment of the articles of association of VB Wien Beteiligung eG (VBW Bet), the latter no longer meets the criteria acc. to Section 30a BWG for inclusion in the Association's consolidation, and accordingly ceased to be part of the Association. Since Volksbank Niederösterreich AG (VB NÖ) exerts a controlling influence on VBW Bet, VBW Bet is included in the financial statements of the Association at equity as of 1 October 2017. As VBW Bet was no subordinated company and was not subject to any controlling relationship within the Association, no disposal result is recorded in the income statement. The disposal of equity resulting from the company dropping out of full consolidation within the Association of Volksbanks is reported without any effect on profit or loss in the line Changes to scope of consolidation. According to IAS 28.32, upon first-time accounting at equity, any amount by which the pro rata fair value of the net assets of the participation exceeds the cost of acquisition is included as income for determining the company's share in the profit or loss of the company measured at equity in the period when accounting at equity must be commenced. As due to the group of companies with legally separate entities, but under unified control without a parent company, the disposal of the net assets of VBW Bet is presented in equity without any effect on profit or loss, first-time accounting at equity of VBW Bet is equally effected with no effect on profit or loss, netting and recognising the relevant amount together with the disposal in the line Changes to scope of consolidation. Accordingly, upon termination of full consolidation, the pro rata net assets of VBW Bet held within the Association are reclassified to the carrying amount in VBW Bet, and the net assets not held within the Association are excluded from the financial statements of the Association with no effect on profit or loss.

In the previous year, all shares in start:bausparkasse AG (start:ag) and in IMMO-Bank Aktiengesellschaft (ImmoBank) (collectively: start:gruppe) held within the Association were sold to the BAWAG P.S.K. Group. According to IFRS 5, start:gruppe is a discontinued operation, since start:gruppe is presented as a separate division in the reporting on operations. The valuations carried out until the sale under IFRS 5 in the amount of euro -9,267 thousand and the deconsolidation result in the amount of euro -1,823 thousand are equally presented in the result of a discontinued operation.

Income statement of the discontinued operation start:group (including deconsolidation result)

Euro thousand	2016
Net interest income	49,785
Risk provisions	-690
Net fee and commission income	-1,611
Net trading income	-5
General administrative expenses	-26,247
Other operating result	-27,978
Income from financial investments	-8,887
Result before taxes	**-15,632**
Income taxes	2,145
Result after taxes	**-13,487**
Result attributable to shareholders	**-13,487**
Comprehensive income attributable to non-controlling interest	0

Number of consolidated companies

	31 Dec 2017			31 Dec 2016		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	10	2	12	15	2	17
Financial institutions	4	1	5	5	1	6
Other enterprises	16	0	16	43	0	43
Total	**30**	**3**	**33**	**63**	**3**	**66**
Companies measured at equity						
Credit institutions	0	0	0	0	0	0
Other enterprises	2	0	2	1	0	1
Total	**2**	**0**	**2**	**1**	**0**	**1**

Number of unconsolidated companies

	31 Dec 2017			31 Dec 2016		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	41	1	42	48	1	49
Associated companies	9	0	9	20	1	21
Companies total	**50**	**1**	**51**	**68**	**2**	**70**

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 Association. Beside quantitative criteria like total assets and result after taxes also the effect of consolidation on specific positions as well as on the true and fair view of the consolidated financial statements for the Association is taking 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 Association's consolidated financial statements for 2017.

The complete list of companies included in the Association's consolidated financial statements, companies measured at equity, as well as the unconsolidated companies including detailed information, is shown at the end of the notes (see note 51), 52), 53)).

3) Accounting principles

The accounting principles described below and in note 1) have been consistently applied to all reporting periods covered by these financial statements and have been followed by all Association members without exception.

The consolidated financial statements for the Association have been prepared on the basis of (amortised) costs excluding the following items:

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

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

	Binding application	Endorsement
Amendments to IAS 7 – Disclosure initiative	as of BY 2017	EU Regulation dated 6 Nov 2017
Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses	as of BY 2017	EU Regulation dated 6 Nov 2017
Amendments to IFRS 4 – Applying IFRS 9 with IFRS 4	as of BY 2018	EU Regulation dated 3 Nov 2017
Clarification regarding IFRS 15 Revenue from contracts with customers	as of BY 2018	EU Regulation dated 31 Oct 2017
IFRS 16 Leases	as of BY 2019	EU Regulation dated 31 Oct 2017
Annual improvements of the IFRS (cycle 2014-2016)	as of BY 2017 or 2018	planned for Q4 2017
Amendments to IAS 40 – Transfer of real estate held as financial investments	as of BY 2018	EU Regulation dated 14 Mar 2018
Amendments to IFRS 2 – Classification and measurement of share-based payment transactions	as of BY 2018	planned for Q1 2018
IFRIC 22 Foreign currency transactions and advance consideration	as of BY 2018	planned for Q1 2018
IFRIC 23 Uncertainties over income tax treatments	as of BY 2019	planned for 2018
Amendments to IFRS 9 – Prepayment features with negative compensation	as of BY 2019	planned for 2018
Amendments to IAS 28 – Long-term interests in associates and joint ventures	as of BY 2019	planned for 2018
IFRS 17 Insurance contracts	as of BY 2021	to be determined

a) New and amended accounting standards

New and amended accounting regulations adopted by the EU

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

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

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

Annual improvements of the IFRS (cycle 2014-2016)

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

Accounting regulations not applicable yet, but adopted by the EU

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

Classification and recognition of financial instruments

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

The business model determines the way in which a company generates cash flows: by receiving contractually agreed cash flows, by selling financial instruments, or both. A business model aims, or is meant, to control financial assets in a certain manner. The evaluation of business models was effected 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 are created within the 'Hold', 'Hold and Sell' and 'Other' business models.

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

Changes of classification and measurement

Based on the list of criteria for determination of the business models and the SPPI criterion, portfolios were defined for the Association within the credit and securities division and allocated to the business models. The business model assessment in the credit division has shown that the objective is basically portfolio maintenance and growth in the Retail/SME, model, commercial, project and real estate financing spheres. No performance-based, variable compensation or selling transactions are intended. Risks included in the credit portfolio are minimised using, among others, interest rate derivatives or sub-participations. Accordingly, all portfolios in the credit sphere are allocated to the 'Hold' business model, unless there is an intention to sell loans or companies holding such loans. If the SPPI criterion is met, measurement is effected at amortised cost. Those portfolios or individual financial assets that are meant to be sold, as well as those within companies up for sale are designated as "for sale" and measured at fair value through profit or loss. On 5 December 2017 the purchase agreement for all shares of VB Switzerland was signed. Therefore, all financial assets of this company are designated to the business model "Others". As at 31 December 2017 all assets were already regonised at fair value within the scope of IFRS 5 – hence there is no transition effect. Accordingly, as per 1 January 2018, all credits are allocated to the 'Hold' business model within the Association. The minor positive effect (increase of equity) due to the fair value measurement of credits that fail to meet the SPPI criterion is expected to amount to approx. euro 0.3 million (before deferred tax) and relates to a volume of approx. euro 670 million. The transition effect is still being validated, meaning change is still possible. The analysis regarding business model allocation of securities portfolios was completed within Association already in 2016. The identification of the business models indicated that no distinction is made in the banking book between performance measurement and compensation. No performance-based, variable compensation has been provided for. Within the positions in the banking book, no differentiation in terms of management and risk strategies is effected either. All banking book investments are made within the scope of the group-wide investment strategy and basically show a low credit risk profile. Accordingly, identification of the business models essentially takes place on the basis of 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 Association defines as compliant any sales of positions that do no longer fit the investment strategy due to a significant increase in default risk, that take place shortly before maturity and the sales proceeds of which approximately correspond to the remaining contractual payments, which are effected, among others, due to frustration, and which take place within the scope of a strategic reorientation in connection with regulatory or risk-related considerations. The different portfolios within the Association result from the different objectives for banking book investments. On the one hand, a volume of approx. euro 1,667 million will be allocated to the 'Hold' portfolio, as the intention here is to hold these instruments until maturity. This also includes positions held for compliance with LCR requirements. A volume of approx. euro 512 million was allocated to the 'Hold and Sell' portfolio, which is basically intended to hold positions until maturity. If, however, due to positive market conditions, an opportunity for optimised returns arises through premature sales, they may be utilised accordingly. The aim of the Association is to minimise volatility within the income statement based on the fair value measurement; therefore, the volume of SPPI-non-compliant securities is minimised to the greatest possible extent. These instruments are accordingly available for sale at any time. Within the Association, this volume amounts to approx. euro 128 million. As for purchases on or after 1 January 2018, Treasury will allocate the instrument to a business model. Within the securities portfolio of the Association, therefore, all valuation methods under IFRS 9 (valuation at cost, fair value measurement through profit or loss, as well as fair value measurement through OCI) are applied. The negative effect on equity due to revaluations of securities in consideration of hedge accounting will be approx. euro -8,3 million (before deferred tax).

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

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

Accounting of impairments of financial assets

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

Scope of application

The impairment is

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

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

3-stage model

The new impairment model distinguishes three possible impairment stages:

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

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

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

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

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

Possible exceptions (options):

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

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

Information regarding the calculation logic

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

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

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

Effects of the impairment regulations

The Associoation estimates that the application of the impairment regulations of IFRS 9 as at 1 January 2018 will cause an increase in impairments reported by euro 27.2 million (before deferred tax).

Accounting of hedging relationships

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

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

Effect on own funds

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

Euro thousand	31 Dec 2017
Common equity tier 1 capital - CET1	**1,648,701**
Additional tier 1 capital - AT1	**9,846**
Tier 1 capital (CET1 + AT1)	**1,658,547**
Tier 2 capital - T2	**553,344**
Own funds	**2,211,891**

Common equity tier 1 capital ratio (tier I)	12.43 %
Tier 1 capital ratio	12.50 %
Equity ratio	16.67 %
each in relation to total risk exposure amount	

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

Euro thousand	31 Dec 2017
Common equity tier 1 capital - CET1	**1,640,151**
Additional tier 1 capital - AT1	**14,153**
Tier 1 capital (CET1 + AT1)	**1,654,304**
Tier 2 capital - T2	**506,163**
Own funds	**2,160,467**

Common equity tier 1 capital ratio (tier I)	12.39 %
Tier 1 capital ratio	12.49 %
Equity ratio	16.32 %
each in relation to total risk exposure amount	

The estimated effects will have positive effect on equity, amounting euro 15 million as at 1 January 2018. The described effects represent gross amounts (before deferred tax). Transition to the new standard is mostly complete and transition effects in detail are currently being analysed. The actual impacts can in particular cases differ from the stated information since the transitional and migrational works in the process and system landscape have not yet been finalized.

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

The project was started at the Association of Volksbanks in mid-2017 and completed in the fourth quarter of the year. Interest income and dividends from ordinary operations previously governed by IAS 18 are only covered by IFRS 15 to a limited extent. The provisions under IAS 39 and IFRS 9 are applicable to the remuneration for financial services, provided they constitute an integral part of the effective interest rate. In terms of content, this will not have any effect on the previous way of procedure. For this reason, the distinction of revenue from income from financial instruments under IFRS

15 that falls under IFRS 9, as well as from income from leases under IFRS 16 and/or IAS 17 is of importance to the Association. Other commission fees and charges were equally analysed. An application analysis of IFRS 15 for the areas or items identified did not result in any material effect for the Association.

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

New and amended accounting regulations not yet adopted by the EU

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

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

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

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

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

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

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

Annual improvements of IFRS (cycle 2015-2017)

The amendments relate to wording in need of improvement and clarifications. IFRS 3, IFRS 11, IAS 12 and IAS 23 are concerned. Application of the amendments to the standards is mandatory for reporting periods that commence on or after 1 January 2019. The amendments will not have any material effects on the Association.

b) Application of estimates and assumptions

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

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 balance sheet date may lead to considerable adjustments of assets and liabilities in the next business year.

- Alternative investment measurement methods are used to assess the recoverability of financial instruments with no active market available. Some parameters taken as a basis when determining a fair value are based on assumptions concerning the future.
- The assessment of the recoverability of intangible assets, goodwill, investment properties and property, plant and equipment is based on assumptions concerning the future.
- The recoverability of financial instruments measured at amortised cost or assigned to the available for sale category is based on future assumptions.
- The recognition of deferred tax assets is based on the assumption that sufficient tax income will be generated in future in order to realise existing tax loss carryforwards; where required no deferred tax assets were recognized.
- Assumptions regarding the interest rate, retirement age, life expectancy and future salary increases are applied when measuring existing long-term employee provisions.
- Provisions are measured on the basis of cost estimates from contractual partners, past experience and actuarial 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.

c) Consolidation principles / Principles of aggregation

These Association financial statements are based on consolidated financial statements prepared in accordance with IFRS and single-institution financial statements of the included entities prepared in accordance with the regulations. The figures reported in the individual financial statements of associated companies measured at equity have been adjusted to group accounting principles where the effects on the consolidated financial statements were significant.

The financial statements of the fully consolidated companies and the companies consolidated using the equity method were prepared on the basis of the reporting date of 31 December 2017.

Owing to the lack of an ultimate controlling parent company, the equity components reported in the financial statements, converted in accordance with the relevant principles of the credit institutions, included, as stated in the list of companies in section 52), are aggregated. When aggregating the included companies' investments in Volksbanks and VBW, the aggregated carrying amounts of the investments are deducted from the aggregated equity components. Consolidation as a group of companies which are legally separate entities, but under unified control without a parent company means that the capital consolidation does not result in any minority interests. Cooperative shares of the member credit institutions are reported under total nominal value of members' shares.

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 of the Association, are recognised directly in equity with no impact on profit or loss.

Subsidiaries under the direct or indirect control of the Association 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 Association. Companies in which the Association 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 Association.

Loans and advances, provisions and liabilities as well as contingent assets and liabilities from intragroup transactions as well as respective deferred items are eliminated as part of debt consolidation. Intragroup income and expenses and the interim result are eliminated as part of consolidation measures.

d) Currency translation

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

The individual financial statements of foreign subsidiaries 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 this translation 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.

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

e) Net interest income

Interest income and interest expenses are recognised on an accrual basis in the income statement. Current or non-recurring income or expenses similar to interest, such as commitment fees, overdraft commissions or handling fees, are reported in net interest income in accordance with the effective interest method providing that there are no exceptions in the accounting policy. Premiums and discounts are allocated over the term of the financial instrument using the effective interest method and reported in net interest income.

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

Net interest income consists of:

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

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

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

f) Risk provisions

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

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

g) Net fee and commission income

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

h) Net trading income

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

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

i) General administrative expenses

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

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

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

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

j) Other operating result

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

k) Income from financial investments

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

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

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

I) Financial assets and liabilities

Recognition

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

Derecognition

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

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

Offsetting

Financial assets and liabilities are set off and the net amount is presented in the balance sheet when, and only when, the Association 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 Association's trading activities.

Amortised cost

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

Fair value measurement

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

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

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

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

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

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

Impairment

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

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

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

All customers with an internal rating of 4C to 4E (watch list loans) and all other customers for which other indications show a risk of default, i.e. the contractual redemption is at risk, are examined more intensively in accordance with the Association's credit risk manual, respectively in accordance with the General Instructions on Risk Management. 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.

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

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

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

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

Financial instruments designated at fair value through profit or loss

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

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

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

In note 36) Financial assets and liabilities, the amounts allocated to the at fair value through profit or loss category are indicated for each class of financial asset and liability. The reasons for the designation are described in the notes on the individual financial assets and liabilities.

Derivatives

Derivatives are recognised in income at their fair value in principle.

For calculation of fair value the credit value adjustments (CVA) and debt value adjustments (DVA) are taken into account. Counterparty risk for positive market values arising from unsecured derivatives is taken into account by means of

CVA or DVA – a way of approximating potential future loss in relation to counterparty risk. The expected future exposure (EFE) is calculated using a Monte Carlo simulation. As no observable credit spreads are available for these counterparties on the market, the default probabilities for the counterparties are based on the Association's internal ratings.

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

In the case of cash flow hedges, the change in the fair value of the derivative is recognised in the cash flow hedge reserve in the other comprehensive income, taking into account deferred taxes. The ineffective part of the hedge is recognised in income statement. The valuation of the underlying transaction depends on the classification of the underlying transaction to the different categories. The Association currently does not use cash flow hedges.

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

Own equity and debt instruments

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

m) Loans and advances to credit institutions and customers

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

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

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

Finance lease

The Association concludes finance lease contracts for real estate and for movable goods. In these contracts it acts as a lessor in a leasing transaction in which significantly all the risks and rewards are transferred to the lessee, who hence becomes the owner of the leased asset, this transaction is reported in receivables. In this case, instead of the leased asset, the present value of future payments is recognised, taking into account any residual value.

Real estate leasing contracts basically have a maturity of 10 to 20 years, movable goods leasing for the retail section have a basically maturity of 3 to 6 years. The interest rate of the customer for the lease agreement is fixed for the whole maturity at the point in time when the contract is closed. The effective interest rate can be adapted to changes on capital markets through an interest adjustment clause.

n) Risk provisions

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

o) Trading assets and liabilities

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

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

p) Financial investments

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

Available for sale

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

Loans & receivables

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

Held to maturity

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

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

q) Investment property

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

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

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

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

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

r) Participations

Subsidiaries are established and participations are acquired for strategic reasons and as financial investments. Strategic participations relate to companies operating in the group's lines of business or companies supporting the group's business activities.

Companies on which significant influence is exercised are measured using the equity method. All other participations are recognised at their respective fair values. As these participations are not listed at a stock exchange and no market prices are available on an active market, the participations are measured by means of valuation methods and input factors (some of which are not observable). Valuations are effected according to the discounted cash flow method and the peer group approach. Various calculation models are applied. The income approach is applied if the Association is in control or exercises any management function, and budgets are available accordingly. If the company is not controlled, the fair value calculation takes place on the basis of the dividend paid as well as the annual results of the last five years. In case of companies whose object does not permit any regular income or the result 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 is possible at any time. If valuation reports are prepared by external valuators, they are used for current valuation.

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

In case of impairments, appropriate depreciations are effected. If the reason for impairment ceases to exit, the write-up 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 reported 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 market value corresponds to net assets, this is taken into account at +/-10 % for information regarding sensitivity. For market values derived from valuation reports, a lower and an upper range for sensitivity are recognised, respectively. If the market value corresponds to the share capital, no sensitivity will be calculated.

s) Intangible and tangible fixed assets

Intangible assets are carried at cost less straight-line amortisation and impairment. This item primarily comprises acquired goodwill 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. If the realisable value is less than the carrying amount, the difference is recognised as an impairment loss. Impairment of goodwill may not be reversed in the subsequent period.

Tangible fixed assets are carried at cost and depreciated on a straight-line basis over their estimated useful life in the case of depreciable assets.

Write-downs are recognised for permanent impairment. If 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 by the Group 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
Strongrooms and safes	up to 20 years
Buildings, reconstructed buildings	up to 50 years
Rental rights	up to the period of lease

t) Tax assets and liabilities

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

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

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

u) Other assets

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

v) Assets and liabilities held for sale

A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject to terms that are customary and usual for sale of such assets (or disposal groups) and its sale must be highly probable.

These criteria are fulfilled if the necessary decisions by management bodies have been made, the assets can be sold without significant modification or restructuring, marketing of the assets has begun and there is either a binding offer or a signed contract on the balance sheet date with closing expected within the next 12 months. Loans repaid early by the borrower do not meet the definition of a sales transaction, even if a company within the Association initiates the early repayment by reducing the loan amount.

A disposal group comprises non-current assets held for sale, other assets and liabilities that are sold together in a single transaction. It therefore does not include liabilities that are repaid using the proceeds from sale of the disposal group but which are not transferred.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are reportable segments at the Association. A major line of business or geographical area of operations that is reported to the Managing Board and has a significant impact on the Association´s financial situation is presented as a discontinued operation if all the requirements are met. If the Association discontinues business activities in a particular country, this only constitutes a discontinued operation if certain size-related criteria are exceeded. If the

Association discontinues business activities in an entire region, this always constitutes a discontinued operation regardless of the above-mentioned size criteria. A region is any area presented separately in the annual report in the regional allocation of total receivables to the strategic business fields.

After being classified as held for sale, non-current assets or groups of assets are reported at the lower of the carrying amount and fair value less cost to sell. Impairment expenses are recognised in profit or loss in other operating expenses.

Non-current assets or disposal groups and associated liabilities classified as held for sale are reported separately from other assets and liabilities in the statement of financial position.

In case of a discontinued operation, the result after taxes of the discontinued operation and the result after taxes recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation are reported in the statement of comprehensive income.

The previous year's income statement is to be adjusted accordingly.

w) Liabilities

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 costs. 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.

x) Employee benefits

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

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

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

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

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

Moreover, committed assets are invested in the Malbun collective foundation (Sammelstiftung). The foundation is structured according to the full insurance model. Within its own sphere, the collective foundation meets the prerequisites of the Eidgenössische Finanzmarktaufsicht (FINMA; Swiss financial market authority) and regularly reports to the board of the foundation. The foundation has concluded a group life insurance contract with Züricher Lebensversicherungs-Gesellschaft AG for the insurance risks age, death and invalidity as well as for investment risks. Therefore, the pension fund is neither exposed to any underwriting risk nor to any investment risk. The pension fund warrants that it can meet its obligations. Whether all underwriting risks are assumed under the group life insurance contract by Züricher Lebensversicherungs-Gesellschaft AG is verified each year. The group life insurance contract ensures that the cover ratio always amounts to 100 %.

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

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

Principal actuarial assumptions for calculation of employee benefit obligations

	2017	2016	2015	2014
Expected return on provisions for pensions	1.10 %	1.10 %	1.50 %	1.60 %
Expected return on provisions for severance payments	1.10 %	1.10 %	2.00 %	2.00 %
Expected return on anniversary pensions	1.10 %	1.10 %	2.00 %	1.80 %
Expected return on plan assets	1.10 %	1.10 %	1.50 %	1.60 %
Future salary increase	3.00 %	3.00 %	3.00 %	3.00 % - 3.50 %
Future pension increase	2.00 %	2.00 %	2.00 %	2.00 %
Fluctuation rate	none	none	none	none

The fundamental biometric actuarial assumptions of the latest Austrian scheme by Pagler&Pagler for calculating pension insurance for salaried employees are applied as the basis of calculation (AVÖ 2008-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler&Pagler, Angestelltenbestand). As the defined benefit obligations for staff not employed in Austria are immaterial, the principal actuarial assumptions were not adjusted to reflect the circumstances in the countries where the respective subsidiaries are domiciled.

The current retirement age limits are generally taken into account in these calculations. It is assumed that employees will quit their active service upon reaching the regular retirement age. For men it is 65 years, for women between 60 and 65. Any transitional arrangements are disregarded. For staff not employed in Austria, the standard retirement age stipulated in the respective country is applied.

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.

y) 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 claim, taking into account cost estimates of contractual partners, experienced data and actuarial 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 expense, while income and expenses from all other provisions are mainly recognised under other operating result.

z) Other liabilities

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

aa) 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 once more if the proven losses are covered by profits.

bb) Equity

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

Capital management is done on the basis of the supervisory capital. For further details see chapter dd) Own funds and chapter 50) a) Internal capital adequacy process – ICAAP and stress testing.

There is no ultimate parent company in the Association as the CO does not exercise control as defined by IFRS 10. The Association´s financial statements are therefore prepared on the basis of a group of companies which are legally independant entities, but under unified control without a parent company. The equity components of the non-controlled companies included are aggregated and the aggregated carrying amounts of the investments in these member companies are then subtracted. The remaining equity components are reported as equity under the relevant items. This type of consolidation does not result in any minority interests.

The Volksbanks' cooperative capital is reported separately under cooperative capital shares. According to IAS 32, cooperative capital is not eligible for inclusion as equity since it is "puttable" – the holder may request redemption at any time, subject to a notice period. If, however, the redemption of shares is fully or partially prohibited, IFRIC 2 permits these shares to be classified as equity. Therefore, shares subject to this prohibition are recognised in subscribed capital. Shares that are redeemable at any time are reported as a separate item alongside equity, because these are included as tier I capital in eligible own funds and capital management takes place on the basis of regulatory capital.

cc) Reserves

The reserves item includes capital reserves, retained earnings and valuation 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 costs 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.

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 and all other undistributed profits are reported in retained earnings.

Currency reserves for currency conversions relating to foreign subsidiaries, the available for sale reserve and the hedging reserve are reported as valuation reserves. Any deferred taxes are deducted from the reserves.

dd) Own funds

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

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

Furthermore, T2 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 Association complied with these relevant supervisory requirements throughout the entire reporting period and its own funds exceeded the minimum requirements.

As of 2019, banks must also build up a capital conservation buffer to reach 2.5 % consisting only of CET1 capital. In 2018 the required capital conservation buffer is 1.875 % (2017: 1.25 %).

With effect from January 1, 2018 the Association of Volksbanks is required by the FMA to build up a systemic risk buffer consisting also of CET1 capital. The systemic risk buffer for 2018 is 0.25 % and will be raised to 1 % till 2020.

Alongside the systemic risk buffer, also the countercyclical capital buffer is regulated by the FMA. This buffer is intended to counteract any credit bubbles that emerge. Calculation of the individual countercyclical capital buffer follows the requirements of the Capital Buffer Regulation; the rate is currently set at 0.0 % for claims in Austria.

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

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

ee) Trustee transaction

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

ff) Repurchase transactions

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

gg) Contingent liabilities

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

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

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

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

hh) Cash flow statement

The cash flow statement is calculated in accordance with the indirect method. Calculation of the net cash flow from operating activities is based on the annual result after taxes and before non-controlling interest, whereby in the first instance non-cash expenses and income during the business year are included and deducted respectively. 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. Interest, dividend and tax payments, which are stated separately, relate solely to operating activities.

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

4) Net interest income

Euro thousand	2017	2016
Interest and similar income	544,820	507,820
Interest and similar income from	533,531	493,902
liquid funds	0	25
credit and money market transactions with credit institutions	4,602	4,222
credit and money market transactions with customers	461,192	464,016
debt securities	53,213	9,599
derivatives in the investment book	14,523	16,040
Current income from	6,004	8,506
equities and other variable-yield securities	2,414	5,266
other affiliates	901	1,024
investments in other companies	2,689	2,215
Income from operating lease and investment property	5,285	5,411
rental income investment property	5,285	5,411
Interest and similar expenses of	-101,724	-84,725
deposits from credit institutions (including central banks)	-10,282	-9,350
deposits from customers	-35,849	-56,413
debts evidenced by certificates	-19,914	-5,388
subordinated liabilities	-10,354	-12,490
derivatives in the investment book	-25,325	-1,084
Net interest income	**443,095**	**423,095**

Net interest income according to IAS 39 categories

Euro thousand	2017	2016
Interest and similar income	544,820	507,820
Interest and similar income from	533,531	493,902
financial investments at fair value through profit or loss	0	0
derivatives in the investment book	14,523	16,040
financial investments not at fair value through profit or loss	519,007	477,863
financial investments available for sale	49,398	6,536
financial investments at amortised cost	465,794	468,266
of which financial lease	3,563	3,922
of which unwinding of risk provisions	6,897	3,479
financial investments held to maturity	3,814	3,061
Current income from	6,004	8,506
financial investments available for sale	6,004	8,506
Income from operating lease and investment property	5,285	5,411
Interest and similar expenses of	-101,724	-84,725
derivatives in the investment book	-25,325	-1,084
financial investments at amortised cost	-76,399	-83,641
Net interest income	**443,095**	**423,095**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 1,618 thousand (2016: euro 207 thousand) and interest expenses of euro -7,436 thousand (2016: euro -5,507 thousand) were realised in the 2017 business year. Negative interest income is reported in interest expenses and negative interest expenses are reported in interest income, so that all results from negative interest rates are shown gross.

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

5) Risk provisions

Euro thousand	2017	2016
Allocation to risk provisions	-129,197	-164,861
Release of risk provisions	95,613	99,756
Allocation to provisions for risks	-5,642	-10,322
Release of provisions for risks	6,159	17,108
Direct write-offs of loans and advances	-21,979	-42,496
Income from loans and receivables previously written off	9,634	8,832
Risk provisions	**-45,413**	**-91,983**

6) Net fee and commission income

Euro thousand	2017	2016
Fee and commission income from	267,932	274,845
lending operations	24,520	41,031
securities businesses	89,743	88,082
payment transactions	113,671	103,528
from foreign exchange, foreign notes and coins and precious metals transactions	2,687	7,203
other banking services	37,311	35,001
Fee and commission expenses from	-31,033	-35,011
lending operations	-4,595	-3,372
securities businesses	-14,117	-19,017
payment transactions	-10,852	-10,819
from foreign exchange, foreign notes and coins and precious metals transactions	-416	-532
other banking services	-1,053	-1,271
Net fee and commission income	**236,899**	**239,833**

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

Management fees for trust agreements were recognised in fee and commission income in the amount of euro 57 thousand (2016: euro 53 thousand).

7) Net trading income

Euro thousand	2017	2016
Equity related transactions	18	-30
Exchange rate related transactions	14,520	8,075
Interest rate related transactions	-176	822
Net trading income	**14,362**	**8,866**

8) General administrative expenses

Euro thousand	2017	2016
Staff expenses	-343,577	-361,219
Wages and salaries	-247,015	-263,492
Expenses for statutory social security	-66,485	-69,289
Fringe benefits	-4,773	-4,647
Expenses for retirement benefits	-6,784	-6,733
Allocation to provision for severance payments and pensions	-18,520	-17,058
Other administrative expenses	-207,930	-208,452
Depreciation of fixed tangible and intangible assets	-34,034	-45,520
Scheduled depreciation (-)	-28,584	-36,106
Impairment (-)	-5,451	-9,415
General administrative expenses	**-585,542**	**-615,191**

Staff expenses include payments for defined contribution plans totalling euro 7,729 thousand (2016: euro 8,314 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 847 thousand (2016: euro 805 thousand).

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 2,261 thousand (2016: euro 2,009 thousand). Thereof euro 1,755 thousand (2016: euro 1,804 thousand) fall upon the audit of the consolidated financial statements including financial statements of fully consolidated companies and joint enterprises, euro 404 thousand (2016: euro 83 thousand) upon advisory services, euro 7 thousand (2016: euro 0 thousand) upon tax advisory services and euro 95 thousand (2016: euro 121 thousand) upon other audit services.

Information on compensation to board members

Euro thousand	2017	2016
Total compensation		
Supervisory board VBW	1,267	1,419
Managing board VBW	1,942	1,949
Member of the managing board / Managing directors Volksbanks	4,931	7,045
Expenses for severance payments and pensions		
Supervisory board VBW	143	132
Managing board VBW	552	840
Member of the managing board / Managing directors Volksbanks	690	1,021

The definition of key management personnel can be found in note 1) a).

Number of staff employed during the business year

	Average number of staff		Number of staff at end of period	
	2017	2016	31 Dec 2017	31 Dec 2016
Domestic	4,140	4,529	4,068	4,281
Abroad	54	31	53	66
Total number of staff	**4,194**	**4,560**	**4,121**	**4,347**

	Average number of staff		Number of staff at end of period	
	2017	2016	31 Dec 2017	31 Dec 2016
Employees	4,098	n.a.	4,035	n.a.
Workers	96	n.a.	86	n.a.
Total number of staff	**4,194**	**n.a.**	**4,121**	**n.a.**

9) Other operating result

Euro thousand	2017	2016
Other operating income	45,683	79,911
Other operating expenses	-44,089	-67,455
Other taxes	-4,386	-40,609
Impairment of goodwill	-58	-58
Other operating result	**-2,850**	**-28,211**

In the 2017 business year, other operating income includes income from cost allocations in the amount of euro 10,857 thousand (2016: euro 32,601 thousand). This position includes income from company acquisition in the amount of euro 8,213 thousand. Moreover, other operating income includes income from the sale of fixed assets in the amount of euro 8,747 thousand (2016: euro 14,912 thousand) as well as leasing income in the amount of euro 5,141 thousand (2016: euro 6,042 thousand). An amount of euro 3,087 thousand was generated from buyback of issues. In the previous year, due to an amendment agreement, income in the amount of euro 12,550 thousand was received from the sale of the VB Invest group. Additonally income in the amount of euro 3,650 thousand from the use of guarantees regarding Volksbank Marchfeld e.Gen. and Volksbanken Holding eGen (VB Holding) was recognised in other operating income.

Other operating expenses include costs of external companies that are passed on, in the amount of euro -7,429 thousand (2016: euro -21,988 thousand). From valuation of assets held for sale and disposal groups an amount of euro 8,002 thousand was recognised in other operating expense. The position also includes euro -10,908 thousand for the repayment of overcharged interest from previous years.

Furthermore, expenses from the disposal of fixed assets in the amount of euro -6,410 thousand (2016: euro -5,484 thousand) and expenses for leased objects in the amount of euro -1,663 thousand (2016: euro -2,699 thousand) are included. Due to start:group dropping out of the Association, a compensation to the federal government in the amount of euro -19,006 thousand was recognized in other operating expenses in the previous year. Furthermore, the allocation to a reserve for potential repayment of the guarantee regarding VB Holding and for pending litigation in the amount of euro -3,981 thousand were also included in the previous year.

Other taxes include the bank levy in the amount of euro -2,494 thousand (2016: euro -38,439 thousand, including the non-recurring special payment of euro -28,362 thousand).

Other operating expenses include expenses for vacancy of investment property assets to an insignificant extent.

10) Income from financial investments

Euro thousand	2017	2016
Result from fair value hedges	**-676**	**-1,367**
Result from revaluation of underlying instruments	-39,716	16,168
Loans and advances to credit institutions and customers	-1,262	-2,737
Debt securities	-52,435	18,268
Amounts owed to credit institutions and customers	87	66
Debts evidenced by certificates	13,406	-375
Subordinated liabilities	488	947
Result from revaluation of derivatives	39,040	-17,535
Result from valuation of other derivatives in the investment book	**-4,853**	**7,410**
Exchange rate related transactions	86	4,397
Interest rate related transactions	-6,004	4,471
Credit related transactions	155	-128
Other transactions	911	-1,330
Result from available for sale financial investments (including participations)	**-6,058**	**-12,479**
Realised gains / losses	146	-4,017
Income from revaluation	666	1,540
Impairments	-6,871	-10,002
Result from loans & receivables financial investments	**0**	**1**
Realised gains / losses	0	1
Result from assets for operating lease and investment property assets as well as other financial investments	**-2,490**	**-2,124**
Realised gains / losses	57	2,442
Change in value investment property	-2,547	-4,566
Income from financial investments	**-14,076**	**-8,558**

In 2017, an amount of euro 153 thousand (2016: euro -3,876 thousand) previously recognised in the available for sale reserve was reclassified and shown in the income statement. The result affects the position financial investments.

Euro thousand	2017	2016
Result from financial investments, which are measured at fair value through profit or loss	**-8,075**	**1,478**
Fair value hedges	-676	-1,367
Other derivatives in the investment book	-4,853	7,410
Investment property assets	-2,547	-4,566
Result from financial investments, which are not measured at fair value and result from financial investments, which are not measured at fair value through profit and loss	**-6,001**	**-10,036**
Realised gains / losses	203	-1,574
Available for sale financial investments	146	-4,017
Loans & receivables financial investments	0	1
Operating lease assets and other financial investments	57	2,442
Income from revaluation	666	1,540
Available for sale financial investments	666	1,540
Impairments	-6,871	-10,002
Available for sale financial investments	-6,871	-10,002
Income from financial investments	**-14,076**	**-8,558**

11) Income taxes

Euro thousand	2017	2016
Current income taxes	-10,208	-20,616
Deferred income taxes	30,139	19,576
Income taxes discountinued operation	0	2,145
Current income taxes	0	-4,807
Deferred income taxes	0	6,952
Income taxes for the current fiscal year	**19,931**	**1,104**
Income taxes from previous periods continued operation	1,095	3,848
Income taxes from previous periods	1,095	3,848
Income taxes	**21,027**	**4,953**

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

Euro thousand	2017	2016
Annual result before taxes - continued operation	40,131	-68,813
Annual result before taxes - discontinued operation	0	-15,632
Annual result before taxes - total	**40,131**	**-84,445**
Imputed income tax 25 %	10,033	-21,111
Tax relief resulting from		
tax-exempt investment income	-479	-996
investment allowances	-4	-86
other tax-exempt earnings	-990	-307
release of untaxed reserve	11	4,975
measurement of participation	-3,824	10,811
non-taxable valuation results	-1,409	0
adjustment of deferred tax assets	7,446	1,135
non-inclusion of deferred tax assets	0	1,636
re-inclusion of deferred tax assets	-33,683	-445
changes in tax rates	-18	0
different foreign tax rates	-689	-469
other differences	3,675	3,753
Reported income taxes	**-19,931**	**-1,104**
Effective tax rate - continued operations	**-50**	**2**
Effective tax rate - including discontinued operations	-49.67 %	1.31 %

Due to tax relief resulting from valuation of participations and re-recognition of deferred tax assets, particularly on tax loss carryforwards, the effective tax rates in 2017 and 2016 differ significantly from the statutory tax rate applicable in Austria.

The changes in tax rate mainly result from changes in Slovenia.

Euro thousand	2017 Result before tax	2017 Income taxes	2017 Result after tax	2016 Result before tax	2016 Income taxes	2016 Result after tax
Revaluation obligation of defined benefit plans (IAS 19)	3,256	-792	2,464	-11,898	2,982	-8,916
Currency reserve	-6,431	0	-6,431	1,023	0	1,023
Available for sale reserve	104,958	-26,245	78,713	9,458	-2,390	7,069
Change in deferred taxes of untaxed reserve	0	10	10	0	4,587	4,587
Change from companies measured at equity	3,356	-839	2,517	0	0	0
Other comprehensive income total	**105,140**	**-27,866**	**77,274**	**-1,416**	**5,179**	**3,763**

Notes to the consolidated statement of financial positions

12) Liquid funds

Euro thousand	31 Dec 2017	31 Dec 2016
Cash in hand	217,457	409,031
Balances with central banks	1,783,881	1,026,464
Liquid funds	**2,001,338**	**1,435,495**

Transition from liquid funds to cash and cash equivalents

Euro thousand	31 Dec 2017	31 Dec 2016
Liquid funds	2,001,338	1,435,495
Restricted cash and cash equivalents	-20,328	-33,498
Cash and cash equivalents	**1,981,010**	**1,401,998**

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 business 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 in trust. The amount reported shows the balance of the trust fund in the particular reporting period.

13) Loans and advances to credit institutions

Loans and advances to credit institutions amounting to euro 494,889 thousand (2016: euro 642,866 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
on demand	23,734	109,827
up to 3 months	366,080	442,204
up to 1 year	38,556	7,673
up to 5 years	7,659	8,817
more than 5 years	58,860	74,346
Loans and advances to credit institutions	**494,889**	**642,866**

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

14) Loans and advances to customers

Loans and advances to customers amounting to euro 19,768,453 thousand (2016: euro 19,385,588 thousand) are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
on demand	837,611	903,061
up to 3 months	549,768	690,710
up to 1 year	1,672,513	1,642,001
up to 5 years	5,165,074	5,160,020
more than 5 years	11,543,487	10,989,796
Loans and advances to customers	**19,768,453**	**19,385,588**

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

Finance lease disclosures

Euro thousand	until 1 year	until 5 years	more than 5 years	Total
2017				
Total gross investment	11,345	71,817	5,035	88,197
Less paid non-interest-bearing deposits	0	-1,713	0	-1,713
Less unearned financial income	-1,097	-1,999	-721	-3,817
Present value of minimum lease payments	**10,248**	**68,104**	**4,314**	**82,667**
Total unguaranteed residual value				**6,049**
2016				
Total gross investment	13,847	62,340	8,358	84,545
Less paid non-interest-bearing deposits	0	-1,466	0	-1,466
Less unearned financial income	-1,567	-2,371	-628	-4,566
Present value of minimum lease payments	**12,281**	**58,503**	**7,729**	**78,513**
Total unguaranteed residual value				**5,043**

The net present value of minimum lease payments is measured at amortised cost and reported in loans and advances to credit institutions and customers.

The net present value of minimum lease payments corresponds to the fair value of financial leasing transactions; as such contracts are based on variable interest rates.

15) Risk provisions

Euro thousand	Individual impairment customers	Portfolio based allowance	Total
As at 1 Jan 2016	**370,517**	**68,996**	**439,513**
Changes in the scope of consolidation	-10,766	-1,685	-12,452
Currency translation	359	38	397
Reclassification	18	5	23
Unwinding	-7,451	0	-7,451
Utilisation	-88,359	0	-88,359
Release	-94,497	-7,094	-101,590
Addition	148,505	19,164	167,669
As at 31 Dec 2016	**318,327**	**79,424**	**397,752**
Changes in the scope of consolidation	44	351	395
Currency translation	-1,980	-273	-2,253
Reclassification	-11,159	-665	-11,824
Unwinding	-6,897	0	-6,897
Utilisation	-48,803	0	-48,803
Release	-87,293	-8,320	-95,613
Addition	120,208	8,989	129,197
As at 31 Dec 2017	**282,447**	**79,506**	**361,954**

Loans and advances to customers include non-interest-bearing receivables amounting to euro 228,587 thousand (2016: euro 292,472 thousand). The additions include an amount of euro 472 thousand (2016: euro 305 thousand), which is caused by allocation due to interest past-due. The line reclassification includes reclassifications from provisions. Portfolio based allowances related nearly entirely to loans and advances to customers.

16) Trading assets

Euro thousand	31 Dec 2017	31 Dec 2016
Debt securities	8,320	24,162
Positive fair value from derivatives	55,267	118,256
exchange rate related transactions	33	8,418
interest rate related transactions	55,234	107,022
others	0	2,816
Trading assets	**63,587**	**142,417**

Breakdown by residual term

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

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

17) Financial investments

Euro thousand	31 Dec 2017	31 Dec 2016
Financial investments available for sale	1,933,134	2,139,082
Debt securities	1,825,129	1,957,912
Equity and other variable-yield securities	108,005	181,170
Financial investments held to maturity	359,140	254,263
Financial investments	**2,292,273**	**2,393,345**

Financial investments held to maturity also include deferred interest of euro 2,986 thousand (2016: euro 2,169 thousand).

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
up to 3 months	86,360	31,231
up to 1 year	47,877	135,332
up to 5 years	686,459	735,076
more than 5 years	1,363,573	1,310,536
Debt securities	**2,184,269**	**2,212,175**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2017	31 Dec 2016
Listed securities	2,166,217	2,196,105
Debt securities	2,165,636	2,185,215
Equity and other variable-yield securities	581	10,889
Securities allocated to fixed assets	2,091,430	2,166,290
Securities eligible for rediscounting	2,051,346	2,067,992

The breakdown of debt securities in accordance with the Austrian Banking Act includes asstes held for sale.

18) Investment property

Euro thousand	Investment properties
Cost as at 1 Jan 2016	100,717
Changes in the scope of consolidation	-1,435
Additions, including transfers	24,809
Disposals, including transfers	-37,111
Cost as at 31 Dec 2016	86,980
Changes in the scope of consolidation	-1,738
Additions, including transfers	1,960
Disposals, including transfers	-30,073
Cost as at 31 Dec 2017	**57,130**

Euro thousand	Investment properties
2016	
Cost as at 31 Dec 2016	86,980
Cumulative write-downs and write-ups	-14,225
Carrying amount as at 31 Dec 2016	**72,755**
Impairments of fiscal year	-7,116
Revaluations of fiscal year	2,653
Carrying amount as at 1 Jan 2016	90,557
2017	
Cost as at 31 Dec 2017	57,130
Cumulative write-downs and write-ups	-4,950
Carrying amount as at 31 Dec 2017	**52,180**
Impairments of fiscal year	-4,804
Revaluations of fiscal year	2,257

The valuations shown in the table above are included in the item income from financial investments. These valuations include holdings of investment property assets to the amount of euro 315 thousand (2016: euro -498 thousand) at the reporting date.

In 2017, a carrying amount of investment property assets to the amount of euro 12,956 thousand (2016: euro 31,451 thousand) was disposed of.

Investment properties contain 64 completed properties (2016: 83) with a carrying amount of euro 36,124 thousand (2016: euro 55,974 thousand), as well as undeveloped land with a carrying amount of euro 16,056 thousand (2016: euro 16,781 thousand). These properties are located in Austria. In 2017, as in the previous year, there was no property under construction. At reporting date, the investment properties are measured at fair value.

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

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

The sensivity analysis is calculated on all investment property assets irrespective wether they are shown as investment property assets or as asstes held for sale.

Completed properties

	2017			2016		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	0	4,030	616	0	5,975	674
Rentable space in sqm	8	5,100	1,540	8	5,100	1,660
Occupancy rate	0.00 %	100.00 %	83.57 %	0.00 %	100.00 %	86.94 %
Discount rate	2.00 %	8.00 %	4.17 %	2.00 %	8.00 %	4.98 %

Sensitivity analysis

Euro thousand	Changes in the carrying amount if assumption is increased	if assumption is decreased
31 Dec 2017		
Discount rate (0.25 % change)	-2,439	2,750
Discount rate (0.50 % change)	-4,616	5,874
31 Dec 2016		
Discount rate (0.25 % change)	-2,678	2,961
Discount rate (0.50 % change)	-5,111	6,253

Undeveloped land

	2017			2016		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	24	2,930	803	24	2,930	839
Plot size in sqm	540	48,263	12,272	540	1,009,860	117,624
Value per sqm	5	750	195	2	626	146

Sensitivity analysis

Euro thousand	Changes in the carrying amount if assumption is increased	if assumption is decreased
31 Dec 2017		
Land value (10 % change)	1,606	-1,606
Land value (5 % change)	803	-803
31 Dec 2016		
Land value (10 % change)	1,678	-1,678
Land value (5 % change)	839	-839

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

19) Companies measured at equity

Euro thousand	Associates
Carrying amount as at 1 Jan 2016	0
Changes in the scope of consolidation	57,733
Comprehensive income proportional	275
Impairment	0
Carrying amount as at 31 Dec 2016	58,009
Changes in the scope of consolidation	17,551
Comprehensive income proportional	1,619
Impairment	-6,723
Carrying amount as at 31 Dec 2017	**70,456**

Associates

Upon VB Wien Beteiligung eG (VBW Bet) dropping out of the Association on 1 October 2017, VBW Bet will be included in the financial statements of the Association at equity. The Association holds 48.5 % of the shares. The company is domiciled in Vienna and holds participations in companies within the financial sector.

In addition, the Association holds 58.3 % (2016: 59.2 %) of shares in Verbund Beteiligung eG (VB Verb). The company is domiciled in Vienna and holds participations in companies within the financial sector.

None of these companies is listed.

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 the Association's reporting.

Additional information regarding associates

	Other companies	
Euro thousand	**2017**	**2016**
Assets		
Liquid funds	0	0
Loans and advances to credit institutions (gross)	458	0
Loans and advances to customers (gross)	0	0
Risk provisions	0	0
Financial investments	1	1
Other assets	188,731	142,291
Total assets	**189,190**	**142,292**
of which current assets	189,189	142,291
Liabilities and Equity		
Amounts owed to credit institutions	48,521	37,662
Amounts owed to customers	0	0
Debts evidenced by certificates	0	0
Subordinated liabilities	0	0
Other liabilities	1,819	6,709
Equity	138,850	97,921
Total liabilities and equity	**189,190**	**142,292**
of which current liabilities	1,819	6,709
Statement of comprehensive income		
Interest and similar income	1,313	0
Interest and similar expense	-1,425	-28
Net interest income	-112	-28
Risk provisions	0	0
Result before taxes	-484	469
Income taxes	-221	-4
Result after taxes	-704	465
Other comprehensive income	4,470	0
Comprehensive income	**3,765**	**465**

Not recognised proportional loss

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

Reconciliation

Euro thousand	**2017**	**2016**
Equity	138,850	97,921
Equity interest	n.a.	59.24 %
Equity proportional	77,179	58,009
Cumulative impairment and reversals	-6,723	0
Not recognised proportional loss	0	0
Valuation previous years	0	0
Transfer carrying amount	0	0
Carrying amount as at 31 Dec 2017	70,456	58,009

In the reconciliation, the proportionate equity is reconciled with the carrying amount. As the other companies are aggregated starting 2017, it is not possible to state the equity interest.

20) Participations

Euro thousand	31 Dec 2017	31 Dec 2016
Investments in unconsolidated affiliates	16,104	10,081
Participating interests	7,126	1,113
Investments in other companies	94,372	14,047
Participations	**117,602**	**25,241**

A list of unconsolidated affiliates can be found in note 53). Participations with a carrying amount of euro 1,213 thousand (2016: euro 6,229 thousand) were disposed of during the business year. Profit from these sales amounted to euro 9 thousand (2016: euro 111 thousand) and is shown under income from financial investments.

Participations in companies whose fair value cannot be reliably determined are carried at cost net of any impairment. Participations with a carrying amount of euro 116,214 thousand (2016: euro 4,514 thousand) were measured at market value.

Sensitivity analysis

Participations valued by dcf method

Proportional market value		Interest rate		
31 Dec 2017		-0.50 %	actual	0.50 %
Income component	-10.00 %	20,355	19,269	18,332
Income component	**actual**	22,420	**21,158**	20,059
Income component	10.00 %	24,487	23,102	21,877

Participations valued by net assets

	Proportional market value		
Euro thousand 31 Dec 2017	if assumption is decreased	actual	if assumption is increased
Net asset (10 % change)	15,192	**16,920**	18,643

Participations valued by external appraisers

Euro thousand 31 Dec 2017	Lower band	actual	Upper band
Proportional market value	62,773	**69,727**	76,687

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

21) Intangible assets

Euro thousand	Software	Goodwill	Other	Total
Cost as at 1 Jan 2016	44,583	866	2,750	48,198
Changes in the scope of consolidation	-2,578	0	-1,320	-3,898
Currency translation	17	0	0	17
Additions, including transfers	2,142	0	0	2,142
Disposals, including transfers	-397	0	-755	-1,152
Cost as at 31 Dec 2016	43,767	866	675	45,307
Changes in the scope of consolidation	0	0	0	0
Currency translation	-181	0	0	-181
Additions, including transfers	1,011	0	16	1,027
Disposals, including transfers	-2,010	0	-41	-2,051
Cost as at 31 Dec 2017	**42,587**	**866**	**650**	**44,102**

Euro thousand	Software	Goodwill	Other	Total
2016				
Cost as at 31 Dec 2016	43,767	866	675	45,307
Cumulative write-downs and write-ups	-42,180	-750	-320	-43,250
Carrying amount as at 31 Dec 2016	**1,587**	**115**	**354**	**2,057**
of which unlimited useful life	0	115	0	115
of which limited useful life	1,587	0	354	1,941
Amortisation in fiscal year	-5,237	0	-13	-5,251
Impairments in fiscal year	0	-58	0	-58
Carrying amount as at 1 Jan 2016	6,055	173	702	6,930
2017				
Cost as at 31 Dec 2017	42,587	866	650	44,102
Cumulative write-downs and write-ups	-41,411	-808	-292	-42,511
Carrying amount as at 31 Dec 2017	**1,175**	**58**	**358**	**1,591**
of which unlimited useful life	0	58	0	58
of which limited useful life	1,175	0	358	1,533
Amortisation in fiscal year	-711	0	-12	-723
Impairments in fiscal year	-680	-58	0	-738

22) Tangible fixed assets

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other	Total
Cost as at 1 Jan 2016	674,457	39,626	238,605	27,251	979,939
Changes in the scope of consolidation	-9,422	-1,487	-11,237	-789	-22,935
Currency translation	169	8	24	2	203
Additions, including transfers	57,637	1,902	6,255	240	66,035
Disposals, including transfers	-23,496	-4,004	-11,157	-13,235	-51,892
Cost as at 31 Dec 2016	699,344	36,045	222,490	13,470	971,349
Changes in the scope of consolidation	-17,255	0	-183	0	-17,439
Currency translation	-1,566	-85	-243	-61	-1,955
Additions, including transfers	8,817	1,437	7,360	483	18,097
Disposals, including transfers	-46,551	-3,869	-17,988	-9,801	-78,209
Cost as at 31 Dec 2017	**642,789**	**33,528**	**211,436**	**4,091**	**891,844**

Euro thousand	Land and buildings	EDP-equipment	Office furniture and equipment	Other	Total
2016					
Cost as at 31 Dec 2016	699,344	36,045	222,490	13,470	971,349
Cumulative write-downs and write-ups	-285,576	-32,446	-180,039	-5,934	-503,995
Carrying amount as at 31 Dec 2016	**413,768**	**3,599**	**42,451**	**7,536**	**467,354**
Depreciation of fiscal year	-15,993	-2,776	-11,388	-1,180	-31,337
Extraordinary revaluation of fiscal year	61	0	0	0	61
Extraordinary depreciation of fiscal year	-6,226	0	-3,152	-98	-9,476
Carrrying amount as at 1 Jan 2016	403,230	5,781	53,494	17,210	479,716
2017					
Cost as at 31 Dec 2017	642,789	33,528	211,436	4,091	891,844
Cumulative write-downs and write-ups	-269,503	-30,941	-174,831	-2,898	-478,172
Carrying amount as at 31 Dec 2017	**373,286**	**2,587**	**36,605**	**1,193**	**413,672**
Depreciation of fiscal year	-15,768	-2,086	-9,479	-528	-27,861
Extraordinary revaluation of fiscal year	0	0	160	0	160
Extraordinary depreciation of fiscal year	-3,374	0	-1,557	0	-4,931

Neither 2017 nor 2016 there are future minimum lease payments under non-cancellable operating lease contracts.

23) Tax assets and liabilities

	31 Dec 2017		31 Dec 2016	
Euro thousand	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Current tax	2,413	9,995	1,954	9,938
Deferred tax	90,190	13,163	63,612	9,773
Tax total	**92,602**	**23,158**	**65,566**	**19,712**

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

	31 Dec 2017		31 Dec 2016		Net deviation 2017		
Euro thousand	Tax assets	Tax liabilities	Tax assets	Tax liabilities	Total	In income statement	In other comprehensive income
Loans and advances to credit institutions	0	0	0	0	0	0	0
Loans and advances to customers, including risk provisions	42,867	28,231	15,642	25,330	24,323	2,071	0
Trading assets	124	0	165	996	955	957	0
Financial investments	256	72,440	96	82,276	9,995	14,610	-2,900
Investment property	412	5,026	560	3,366	-1,807	-1,861	0
Participations	4,389	7,395	14,509	6,232	-11,282	12,961	-23,345
Intangible and tangible fixed assets	33,238	5,067	30,319	1,749	-399	-175	0
Amounts owed to credit institutions	0	0	80	0	-80	-80	0
Amounts owed to customers	4,977	0	0	0	4,977	4,977	0
Debts evidenced by certificates and subordinated liabilities	17,880	230	27,952	287	-10,015	-10,015	0
Trading liabilities	0	9	1,028	12	-1,025	-1,025	0
Provisions for pensions, severance payments and other provisions	35,609	13,350	36,817	16,325	1,767	3,165	-792
Other assets and liabilities	79,642	28,969	100,989	36,758	-13,558	-13,935	0
Other balance sheet items	0	38,687	0	38,780	92	-147	10
Tax loss carryforwards	56,355	0	37,791	0	18,564	18,635	0
Deferred taxes before netting	275,748	199,402	265,949	212,111	22,507	30,139	-27,027
Offset between deferred tax assets and deferred tax liabilities	-185,558	-185,558	-202,337	-202,337	0	0	0
Reported deferred taxes	**90,190**	**13,844**	**63,612**	**9,773**	**22,507**	**30,139**	**-27,027**
Thereof in assets or liabilities		681	0	0			

Tax assets as at 1 January 2017 increase by euro 21.647 thousand due to the retroactive adjustment of the effective interest method. These were recognised in equity without any effect on profit or loss. The remainder of the net deviation in the annual comparison that is not reflected in either the income statement or other comprehensive income is primarily attributable to changes in the scope of consolidation and currency differences.

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

In accordance with IAS 12 deferred tax liabilities for temporary differences regarding partcipations in subsidiaries in the amount of euro 53,464 thousand (2016: euro 32,441 thousand) as well as deferred tax assets in the amount of euro -5,733 thousand (2016: euro -7,970 thousand) were not recognised since a reversal is not expected soon.

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

For tax loss carryforwards in the amount of euro 358,772 thousand (2016: euro 498,512 thousand) no deferred taxes were recognised. Deferred tax assets for tax loss carryforwards and other deferred tax assets in the amount of euro 29,784 thousand (tax base) (2016: euro 4,539 thousand) 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 taxable loss carryforwards euro 358,772 thousand (2016: euro 498,512 thousand) are without limitation, and are mainly attributable to VBW.

24) Other assets

Euro thousand	31 Dec 2017	31 Dec 2016
Deferred items	2,408	5,805
Other receivables and assets	83,872	78,037
Positive fair value from derivatives in the investment book	104,195	89,038
Other assets	**190,476**	**172,880**

Other receivables and assets essentially consist of deferrals of euro 18,063 thousand, auxiliary accounts of the banking business and other allocations amounting to euro 16,928 thousand, receivables from property sales in the amount of euro 10,591 thousand and security properties in the amount of euro 5,418 thousand.

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

Euro thousand	31 Dec 2017 Fair value hedge	31 Dec 2016 Fair value hedge
Interest rate related transactions	71,202	65,892
Positive fair value from derivatives	**71,202**	**65,892**

25) Assets held for sale

This item summarises assets that are intended for sale in accordance with IFRS 5. The displayed amount is composed as follows.

Euro thousand	31 Dec 2017	31 Dec 2016
Liquid funds	9,338	0
Loans and advances to credit institutions (gross)	35,084	0
Loans and advances to customers (gross)	64,271	0
Risk provisions (-)	-11,847	0
Financial investments	9,864	0
Investment property	6,959	0
Participations	15	0
Intangible assets	18	0
Tangible fixed assets	11,892	0
Other assets	511	0
Assets held for sale	**126,105**	**0**

26) Amounts owed to credit institutions

Euro thousand	31 Dec 2017	31 Dec 2016
Central banks	169,541	139,855
Other credit institutions	279,199	282,140
Amounts owed to credit institutions	**448,740**	**421,995**

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
on demand	229,943	155,699
up to 3 months	43,253	40,257
up to 1 year	48,818	43,072
up to 5 years	25,029	28,743
more than 5 years	101,698	154,224
Amounts owed to credit institutions	**448,740**	**421,995**

27) Amounts owed to customers

Euro thousand	31 Dec 2017	31 Dec 2016
Measured at amortised cost	20,849,571	20,017,714
Saving deposits	9,217,464	9,542,930
Other deposits	11,632,107	10,474,785
Amounts owed to customers	**20,849,571**	**20,017,714**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
on demand	13,915,580	12,325,090
up to 3 months	1,337,221	1,158,018
up to 1 year	2,799,294	3,353,731
up to 5 years	1,773,122	2,319,775
more than 5 years	1,024,355	861,099
Amounts owed to customers	**20,849,571**	**20,017,714**

28) Debts evidenced by certificates

Euro thousand	31 Dec 2017	31 Dec 2016
Bonds	503,695	782,648
Medium-term notes	119,937	183,697
Debts evidenced by certificates	**623,633**	**966,345**

Debts evidenced by certificates are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
up to 3 months	35,956	18,326
up to 1 year	65,563	82,666
up to 5 years	204,151	351,705
more than 5 years	317,962	513,648
Debts evidenced by certificates	**623,633**	**966,345**

29) Trading liabilities

Euro thousand	31 Dec 2017	31 Dec 2016
Negative fair values from derivatives		
exchange rate related transactions	0	23,083
interest rate related transactions	77,459	391,975
others	0	2,815
Trading liabilities	**77,459**	**417,873**

30) Provisions

Euro thousand	Provisions for risk	Other provisions	Total
As at 1 Jan 2016	31,505	32,644	64,150
Changes in the scope of consolidation	-263	-111	-375
Currency translation	-33	0	-33
Reclassification	-527	2,621	2,094
Unwinding	-22	0	-22
Utilisation	-2,156	-5,973	-8,129
Release	-17,206	-15,043	-32,249
Addition	10,387	16,175	26,562
As at 31 Dec 2016	21,685	30,313	51,998
Changes in the scope of consolidation	13	3,889	3,902
Currency translation	-136	-167	-303
Reclassification	-2,648	1,577	-1,071
Unwinding	-21	0	-21
Utilisation	-538	-24,224	-24,761
Release	-6,159	-9,572	-15,731
Addition	5,642	29,333	34,975
As at 31 Dec 2017	**17,839**	**31,150**	**48,988**

Provisions for risk include provisions for off-balance transactions particularly for commitments and guarantees. These provisions are mainly long-term provisions.

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 totals euro 7,012 thousand (2016: euro 7,841 thousand) as at the reporting date. As most restructuring measures are to be implemented by the end of 2018 the provision is mainly classified as short-term provision. Other provisions were recognised for pending litigation amounting to euro 13,394 thousand (2016: euro 11,650 thousand) and for possible repayments from drawdowns of guarantees amounting to euro 0 thousand (2016: euro 2,850 thousand).

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

31) Long-term employee provisions

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
Net present value as at 1 Jan 2016	72,743	147,455	21,690	241,888
Currency translation	0	0	0	0
Changes in the scope of consolidation	-2,030	-8,883	-1,307	-12,220
Current service costs	1,090	6,873	1,446	9,409
Interest costs	1,023	3,044	457	4,524
Payments	-4,741	-9,462	-959	-15,162
Actuarial gains or losses	794	11,209	-341	11,662
Net present value as at 31 Dec 2016	68,880	150,236	20,985	240,101
Currency translation	-895	0	0	-895
Changes in the scope of consolidation	15	281	83	379
Current service costs	1,324	6,979	1,489	9,793
Interest costs	687	1,729	248	2,664
Payments	-7,766	-11,873	-1,052	-20,691
Actuarial gains or losses	-2,616	-2,966	-608	-6,190
Net present value as at 31 Dec 2017	**59,630**	**144,386**	**21,145**	**225,161**

Net present value of plan assets

Euro thousand	Provisions for pensions
Net present value of plan assets as at 1 Jan 2016	8,655
Currency translation	0
Return on plan assets	613
Contributions to plan assets	86
Payments	-338
Actuarial gains or losses	85
Net present value of plan assets as at 31 Dec 2016	9,101
Currency translation	-685
Return on plan assets	1,034
Contributions to plan assets	133
Payments	-978
Actuarial gains or losses	0
Net present value of plan assets as at 31 Dec 2017	**8,605**

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

Contribution payments to plan assets are expected in the amount of euro -4 thousand in 2018 (2017: euro -4 thousand).

Euro thousand	Provisions for pensions	Provisions for severance payments	Provisions for anniversary bonuses	Total
31 Dec 2016				
Long-term employee provisions	68,880	150,236	20,985	240,101
Net present value of plan assets	-9,101	0	0	-9,101
Net liability recognised in balance sheet	**59,779**	**150,236**	**20,985**	**231,000**
31 Dec 2017				
Long-term employee provisions	59,630	144,386	21,145	225,161
Net present value of plan assets	-8,605	0	0	-8,605
Net liability recognised in balance sheet	**51,025**	**144,386**	**21,145**	**216,556**

Historical information

Euro thousand	2017	2016	2015	2014	2013
Net present value of obligation	225,161	240,101	241,888	364,091	333,409
Net present value of plan assets	8,605	9,101	8,655	44,940	41,980

Composition of plan assets

	31 Dec 2017			31 Dec 2016		
Euro thousand	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total
Bond issues regional administration bodies	301	0	301	289	0	289
Bond issues credit institutions	39	0	39	81	0	81
Other bond issues	3,958	44	4,002	3,869	10	3,880
Shares European countries	95	0	95	105	0	105
Shares USA and Japan	56	0	56	96	0	96
Other shares	1,150	134	1,285	1,354	152	1,506
Derivatives	658	692	1,350	589	795	1,384
Real estate	402	798	1,200	398	926	1,324
Fixed deposit	0	0	0	0	0	0
Cash in hand	262	15	277	407	30	437
Total	**6,922**	**1,684**	**8,605**	**7,188**	**1,913**	**9,101**

The column Plan assets - quoted shows all plan assets which have a market price 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 2016		
Discount rate (0.75 % modification)	-18,047	20,671
Future wage and salary increases (0.50 % modification)	10,674	-9,868
Future pension increase (0.25 % modification)	1,813	-1,655
Future mortality (1 year modification)	3,473	-3,361
31 Dec 2017		
Discount rate (0.75 % modification)	-17,498	20,189
Future wage and salary increases (0.50 % modification)	10,821	-9,946
Future pension increase (0.25 % modification)	1,590	-1,709
Future mortality (1 year modification)	3,022	-2,920

As of 31 December 2017, the weighted average term of defined-benefit obligations for pensions was 12.2 years (2016: 13,9 years) and for severance payments 12.5 years (2016: 12.3 years).

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

32) Other liabilities

Euro thousand	31 Dec 2017	31 Dec 2016
Deferred items	2,745	1,724
Other liabilities	120,008	150,170
Negative fair values from derivatives in the investment book	386,113	169,837
Other liabilities	**508,866**	**321,731**

Other liabilities essentially consist of deferrals and trade payables in the amount of euro 32,266 thousand, taxes and fiscal liabilities in the amount of euro 23,867 thousand, auxiliary accounts of the banking business in the amount of euro 18,614 thousand, as well as liabilities to employees in the amount of euro 16,526 thousand.

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

Euro thousand	31 Dec 2017 Fair value hedge	31 Dec 2016 Fair value hedge
Exchange rate related transactions	20,273	29,478
Interest rate related transactions	280,419	26,930
Negative fair value from derivatives	**300,693**	**56,409**

33) Liabilities held for sale

This position consists of liabilities that are intended for sale according to IFRS 5. The displayed amount is composed as follows:

Euro thousand	31 Dec 2017	31 Dec 2016
Amounts owed to credit institutions	5	0
Amounts owed to customers	91,900	0
Debt evidenced by certificates	1,820	0
Provisions	5,125	0
Tax liabilities	681	0
Other liabilities	4,152	0
Liabilities held for sale	**103,684**	**0**

34) Subordinated liabilities

Euro thousand	31 Dec 2017	31 Dec 2016
Subordinated liabilities	525,905	136,838
Supplementary capital	145,254	188,068
Subordinated liabilities	**671,159**	**324,906**

Subordinated liabilities are measured at amortised cost. In October VBW issued a subordinated bond in the amount of euro 399 million.

Breakdown by residual term

Euro thousand	31 Dec 2017	31 Dec 2016
up to 3 months	4,865	6,695
up to 1 year	27,678	52,351
up to 5 years	97,596	103,619
more than 5 years	541,021	162,241
Subordinated liabilities	**671,159**	**324,906**

Cash inflow and cash outflow of subordinated liabilities

Euro thousand	Subordinated liabilities
As at 1 Jan 2017	**324,906**
Cash inflow	412,837
Cash outflow	-61,278
Non-cash changes	
Changes in the scope of consolidation	-6,805
Others	1,499
Total non-cash changes	-5,306
As at 31 Dec 2017	**671,159**

The issued open amount of every subordinated emission is less than 10 % of the total volume of the subordinated liabilities. In the subordinated liabilities with a residual term of more than five years a volume of euro 25,731 thousand (2016: euro 31,455 thousand) is included without a determined residual term. The participation capital subscribed by VB Regio likewise has no specific term. Since the intention is to repay this capital in 2019, it is reported in the term category of up to 5 years. Every subordinated emission has the possibility of termination or repayment soonest after five years with the prior consent of the FMA in accordance with article 77 CRR.

35) Equity

Due to the requirements imposed by the CRR, the Volksbanks began in the 2013 business year to amend the cooperatives' articles of association and to introduce a base amount for cooperative capital. This prevents redemption of a cooperative share if such redemption would cause the total nominal value of members' shares to fall below a certain percentage of the maximum total nominal value reported on a balance sheet date (base amount). This percentage has been set at 95 % for the Volksbanks. Under IFRIC 2 – Members' Shares in Cooperative Entities and Similar Instruments – cooperative capital may only be reported as equity if there is an unconditional prohibition on redemption of members' shares. An unconditional prohibition may also be partial. Beginning in the 2013 business year, members' shares within the base amount in cooperatives that have already legally implemented the base amount rule were therefore reclassified as subscribed capital. Shares held in the Association reduce the members' shares within the base amount. The reclassification is shown on a separate line in the statement of changes in equity. All shares have been fully paid up.

Until 1 January 2017 the member institutions had not allocated fees and commissions for granting loans over the term following the effective interest method according to IAS 18, but immediately recognized those fees and commissions as revenue. The retroactive initial recognition of the deferral, amounting to euro -86,587 thousand less deferred tax in the amount of euro 21,647 thousand, is shown in equity without any effect on profit or loss in the line change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation.

Return on total assets

The return on total assets for the business year 2017 was 0.24 % (2016: -0.26 %) 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	**2017**	**2016**	**Assignment**
3V-Immobilien Errichtungs-GmbH; Wien	<0,001 %	<0,001 %	Other companies
Gärtnerbank Immobilien GmbH; Wien	<0,001 %	<0,001 %	Other companies
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	<0,001 %	<0,001 %	Other companies
VB Services für Banken Ges.m.b.H.; Wien	1.110 %	1.110 %	Other companies
VB Verbund-Beteiligung Region Wien eG; Wien	9.580 %	0.000 %	Other companies
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	1.000 %	1.000 %	Other companies
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	0.005 %	0.005 %	Other companies

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

Additional information non-controlling interest

Euro thousand	Other companies 2017	2016
Assets		
Loans and advances to credit institutions (gross)	42,914	22,424
Loans and advances to customers (gross)	230	155
Financial investments	674	682
Other assets	76,280	77,258
Total assets	**120,099**	**100,519**
Liabilities and equity		
Amounts owed to credit institutions	54,564	56,239
Amounts owed to customers	11	3
Other liabilities	14,353	14,852
Equity	51,171	29,425
Total liabilities and equity	**120,099**	**100,519**
Statement of comprehensive income		
Interest and similar income	105	109
Interest and similar expense	-1,941	-2,016
Income from investment property and operating leases	3,898	4,077
Net interest income	2,063	2,170
Risk provisions	0	-7
Result before taxes	2,037	3,102
Income taxes	-90	-117
Result after taxes	1,947	2,985
Other comprehensive income	130	-307
Comprehensive income	**2,077**	**2,678**

As these companies keep no liquid funds and the business activity can be assigned to operational business activity a cash flow statement in regards to IAS 1.31. is not presented.

36) Own funds

The own funds of the Association of Volksbanks, calculated pursuant to CRR, can be broken down as follows:

Euro thousand	31 Dec 2017	31 Dec 2016
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	744,999	351,240
Retained earnings	504,751	919,137
Accumulated other comprehensive income (and other reserves)	471,734	335,004
Amount of capital instruments subject to phase out from CET1	11,529	34,501
Non-controlling interest	434	61
Common tier I capital before regulatory adjustments	1,733,447	1,639,942
Common tier I capital: regulatory adjustments		
Goodwill (net of related tax liability)	-58	-115
Intangible assets (net of related tax liability)	-1,551	-1,941
Value adjustments due to the requirement for prudent valuation	-2,676	-3,056
Regulatory adjustments - transitional provisions	-14,948	25,898
Unrealised gains (20 %; 2016: 40 %)	-19,255	-6,258
Loss of the current financial year (20 %; 2016: 40 %)	3,985	31,333
Intangible assets (20 %; 2016: 40 %)	322	823
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	-15,153
Additional CET1 deductions pursuant to article 3 CRR	-78,241	-3,884
Total regulatory adjustments	-97,475	1,747
Common equity tier I capital - CET1	**1,635,972**	**1,641,690**
Additional tier I capital: instruments		
Capital instruments including share premium accounts, allowable as additional tier I capital	14,153	17,003
Additional tier I capital before regulatory adjustments	14,153	17,003
Additional tier I capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	-4,307	-32,156
Loss of the current financial year (20 %; 2016: 40 %)	-3,985	-31,333
Intangible assets (20 %; 2016: 40 %)	-322	-823
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	15,153
Total regulatory adjustments	-4,307	-17,003
Additional tier I capital - AT1	**9,846**	**0**
Tier I capital (CET1 + AT1)	**1,645,818**	**1,641,690**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts, allowable as additional tier I capital	499,078	128,350
Capital instruments subject to phase out from tier II	54,266	233,364
Tier II capital before regulatory adjustments	553,344	361,714
Tier II capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	0	0
Total regulatory adjustments	0	0
Tier II capital - T2	**553,344**	**361,714**
Total own funds – TC (T1 + T2)	**2,199,162**	**2,003,404**

Common equity tier I capital ratio (tier I)	12.36 %	12.38 %
Tier I capital ratio	12.43 %	12.38 %
Equity ratio	16.61 %	15.10 %
each in relation to total risk exposure amount		

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

Euro thousand	31 Dec 2017	31 Dec 2016
Risk weighted exposure amount - credit risk	11,699,539	11,608,970
Total risk exposure amount - settlement risk	77	0
Total risk exposure amount for position, foreign exchange and commodities risks	111,792	153,424
Total risk exposure amount for operational risk	1,368,575	1,442,301
Total risk exposure amount for credit valuation adjustment (cva)	59,658	61,112
Total risk exposure amount	**13,239,641**	**13,265,807**

The following table shows the own funds of the Association of Volksbanks pursuant to CRR - fully loaded:

Euro thousand	31 Dec 2017	31 Dec 2016
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	744,999	351,240
Retained earnings	504,751	919,137
Accumulated other comprehensive income (and other reserves)	471,734	335,004
Common tier I capital before regulatory adjustments	1,721,483	1,605,381
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Goodwill (net of related tax liability)	-58	-115
Intangible assets (net of related tax liability)	-1,551	-1,941
Value adjustments due to the requirement for prudent valuation	-2,676	-3,056
Additional CET 1 deductions pursuant to article 3 CRR	-88,579	-3,884
Total regulatory adjustments	-92,864	-8,997
Common equity tier I capital - CET1	**1,628,620**	**1,596,383**
Additional tier I capital: instruments		
Capital instruments including share premium accounts, allowable as additional tier I capital	14,153	17,003
Additional tier I capital before regulatory adjustments	14,153	17,003
Additional tier I capital: regulatory adjustments		
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**14,153**	**17,003**
Tier I capital (CET1 + AT1)	**1,642,773**	**1,613,386**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts, allowable as additional tier II capital	506,163	146,288
Tier II capital before regulatory adjustments	506,163	146,288
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**506,163**	**146,288**
Total own funds – TC (T1 + T2)	**2,148,936**	**1,759,674**
Common equity tier I capital ratio (tier I)	12.33 %	12.03 %
Tier I capital ratio	12.43 %	12.16 %
Equity ratio	16.26 %	13.26 %
each in relation to total risk exposure amount		

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

Euro thousand	31 Dec 2017	31 Dec 2016
Risk weighted exposure amount - credit risk	11,673,697	11,608,970
Total risk exposure amount - settlement risk	77	0
Total risk exposure amount for position, foreign exchange and commodities risks	111,792	153,424
Total risk exposure amount for operational risk	1,368,575	1,442,301
Total risk exposure amount for credit valuation adjustment (cva)	59,658	61,112
Total risk exposure amount	**13,213,798**	**13,265,807**

VBW has concluded a banking association agreement with the Volksbanks in accordance with section 30a of the Austrian Banking Act. The purpose of this banking association agreement is to create a joint liability scheme between the primary sector institutions and to monitor and ensure compliance with the standards of the Austrian Banking Act at association level. According to article 10 CRR in conjunction with article 11 (4) CRR the CO must comply with the CRR´s own funds requirements based on the consolidated overall position of the CO and its affiliated institutions. The own funds of the Association of Volksbanks are calculated by aggregating VBW's own funds and those of the member institutions. When aggregating the included companies' investments in Volksbanks and VBW, the aggregated carrying amounts of the investments are deducted from the aggregated equity components. Superior financial holding companies and holding companies, provided they fulfil the requirements of 30a of the Austrian Banking Act, are also added and participations in these deducted. The aggregation as a group of companies which are legally separate entities, but under unified control without a parent company, means that the capital consolidation does not result in any minority interests. Subordinated companies are included in accordance with the method described below.

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 are fully consolidated. The carrying amount of institutions, financial institutions and subsidiaries providing bankingrelated auxiliary services that are controlled by the parent but not significant for the presentation of the group of credit institutions according to section 19 (1) of CRR is deducted from own funds. Subsidiaries which are managed jointly with non-Group companies are proportionately consolidated. Investments in companies in the financial sector with a share of between 10 % and 50 % that are not jointly managed are also deducted from own funds unless they are voluntarily consolidated on a pro rata basis. Investments in companies in the financial sector of less than 10 % are deducted from own funds considering the eligibility according to section 46 CRR. All other participating interests are included in the assessment base at their carrying amounts.

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

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

Due to the changes in the article of association in 2017 “Verwaltungsgenossenschaften”, which previously consolidated as required by 30a of the Austrian Banking Act, were deconsolidated.

37) Financial assets and liabilities

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

Euro thousand	Held for trading	At fair value through profit or loss	Held to maturity	Available for sale	Amortised cost	Carrying amount - total	Fair value
31 Dec 2017							
Liquid funds	0	0	0	0	2,001,338	2,001,338	2,001,338
Loans and advances to credit institutions	0	0	0	0	494,889	494,889	0
Loans to credit institutions less individual impairments	0	0	0	0	494,889	494,889	501,713
Loans and advances to customers	0	0	0	0	19,768,453	19,768,453	0
Individual impairments to customers	0	0	0	0	-282,447	-282,447	0
Loans to customers less individual impairments	0	0	0	0	19,486,005	19,486,005	19,209,673
Trading assets	63,587	0	0	0	0	63,587	63,587
Financial investments	0	0	359,140	1,933,134	0	2,292,273	2,296,914
Participations	0	0	0	117,602	0	117,602	116,214
Derivatives - investment book	104,195	0	0	0	0	104,195	104,195
Assets disposal group	0	0	0	1,918	104,806	106,725	107,493
Financial assets total	**167,783**	**0**	**359,140**	**2,052,654**	**22,087,038**	**24,666,615**	**24,401,128**
Amounts owed to credit institutions	0	0	0	0	448,740	448,740	439,015
Amounts owed to customers	0	0	0	0	20,849,571	20,849,571	20,780,530
Debts evidenced by certificates	0	0	0	0	623,633	623,633	644,477
Trading liabilities	77,459	0	0	0	0	77,459	77,459
Derivatives - investment book	386,113	0	0	0	0	386,113	386,113
Subordinated liabilities	0	0	0	0	671,159	671,159	677,437
Liabilities disposal group	0	0	0	0	93,725	93,725	93,725
Financial liabilities total	**463,571**	**0**	**0**	**0**	**22,686,829**	**23,150,400**	**23,098,756**

Euro thousand	Held for trading	At fair value through profit or loss	Held to maturity	Available for sale	Amortised cost	Carrying amount - total	Fair value
31 Dec 2016							
Liquid funds	0	0	0	0	1,435,495	1,435,495	1,435,495
Loans and advances to credit institutions	0	0	0	0	642,866	642,866	0
Loans to credit institutions less individual impairments	0	0	0	0	642,866	642,866	635,860
Loans and advances to customers	0	0	0	0	19,385,588	19,385,588	0
Individual impairments to customers	0	0	0	0	-318,327	-318,327	0
Loans to customers less individual impairments	0	0	0	0	19,067,260	19,067,260	17,931,714
Trading assets	142,417	0	0	0	0	142,417	142,417
Financial investments	0	0	254,263	2,139,082	0	2,393,345	2,399,242
Participations	0	0	0	25,241	0	25,241	25,241
Derivatives - investment book	89,038	0	0	0	0	89,038	89,038
Assets disposal group	0	0	0	0	0	0	0
Financial assets total	**231,455**	**0**	**254,263**	**2,164,323**	**21,145,622**	**23,795,664**	**22,659,008**
Amounts owed to credit institutions	0	0	0	0	421,995	421,995	404,731
Amounts owed to customers	0	0	0	0	20,017,714	20,017,714	20,004,717
Debts evidenced by certificates	0	0	0	0	966,345	966,345	964,834
Trading liabilities	417,873	0	0	0	0	417,873	417,873
Derivatives - investment book	169,837	0	0	0	0	169,837	169,837
Subordinated liabilities	0	0	0	0	324,906	324,906	334,575
Liabilities disposal group	0	0	0	0	0	0	0
Financial liabilities total	**587,710**	**0**	**0**	**0**	**21,730,960**	**22,318,670**	**22,296,568**

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

Participations in the amount of euro 1,388 thousand (2016: euro 20,727 thousand) are measured at cost as their fair value cannot be reliably determined. The fair value cannot be determined reliably as there is no active market for these securities and it is not possible to make a reasonable assessment of the probabilities of different fair value estimates. The shares and participations are primarily strategic participations. The market for these is limited to co-shareholders. Instruments measured at cost with a carrying amount of euro 5,122 thousand (2016: euro 22,215 thousand) were sold in the business year. A result of euro 1 thousand (2016: euro 111 thousand) was realised.

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

Carrying amounts of underlyings of fair value hedges

	Interest rate risk		Foreign currency risk	
Euro thousand	Available for sale	Amortised cost	Available for sale	Amortised cost
31 Dec 2017				
Loans and advances to customers	0	0	0	27,786
Financial investments	1,040,120	0	40,815	0
Financial assets	**1,040,120**	**0**	**40,815**	**27,786**
Amounts owed to credit institutions	0	0	0	0
Debts evidenced by certificates	0	385,986	0	0
Subordinated liabilities	0	11,774	0	0
Financial liabilities	**0**	**397,760**	**0**	**0**
31 Dec 2016				
Loans and advances to customers	0	0	0	78,217
Financial investments	1,171,773	0	44,456	0
Financial assets	**1,171,773**	**0**	**44,456**	**78,217**
Amounts owed to credit institutions	0	17,320	0	0
Debts evidenced by certificates	0	655,723	0	0
Subordinated liabilities	0	0	0	0
Financial liabilities	**0**	**673,043**	**0**	**0**

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

Euro thousand	Level 1	Level 2	Level 3	Total
31 Dec 2017				
Trading assets	8,320	55,267	0	63,587
Financial investments	1,797,444	61,336	74,353	1,933,134
available for sale	1,797,444	61,336	74,353	1,933,134
Participations	0	0	116,214	116,214
Derivatives - investment book	0	104,195	0	104,195
Assets held for sale	0	0	1,918	1,918
Total	**1,805,765**	**220,799**	**192,486**	**2,219,049**
Trading liabilities	0	77,459	0	77,459
Derivatives - investment book	0	386,113	0	386,113
Liabilities held for sale	0	0	0	0
Total	**0**	**463,571**	**0**	**463,571**
31 Dec 2016				
Trading assets	11,766	130,651	0	142,417
Financial investments	1,937,330	134,579	67,173	2,139,082
available for sale	1,937,330	134,579	67,173	2,139,082
Participations	0	0	4,514	4,514
Derivatives - investment book	0	89,038	0	89,038
Assets held for sale	0	0	0	0
Total	**1,949,096**	**354,268**	**71,687**	**2,375,051**
Trading liabilities	0	417,873	0	417,873
Derivatives - investment book	0	169,837	0	169,837
Liabilities held for sale	0	0	0	0
Total	**0**	**587,710**	**0**	**587,710**

Participations totalling euro 1,388 thousand (2016: euro 20,727 thousand) are measured at amortised cost because their fair value cannot be reliably determined.

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

When determining market values for level 2 financial investments, the Association 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 credit spreads and transactions in comparable products performed on active markets. The system prices are then adjusted accordingly if necessary. The main level 2 input factors are interest rates including associated interest rate volatilities, foreign exchange swap points, exchange rates, share prices, index rates, including related volatilities and credit spreads obtained from brokers on a daily basis. Market valuation adjustments are made through linear interpolations of the directly obtained broker data. The input factors used undergo daily quality assurance and are archived in the valuation system.

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

Development of Level 3 fair values of financial assets

Euro thousand	Participations	Available for sale	Total
As at 1 Jan 2016	5,528	0	5,528
Changes in the scope of consolidation	0	0	0
Additions	0	70,562	70,562
Disposals	0	-26	-26
Valuation			
through profit and loss	0	-3,154	-3,154
through other comprehensive income	-1,014	-208	-1,222
As at 31 Dec 2016	4,514	67,173	71,687
Changes in the scope of consolidation	6,239	-3,394	2,846
Additions	14,097	10,640	24,737
Disposals	-41	-388	-429
Valuation			
through profit and loss	-1,976	0	-1,976
through other comprehensive income	93,381	322	93,702
As at 31 Dec 2017	**116,214**	**74,353**	**190,567**

The valuations shown in the table above are included in the item income from financial investments (income statement) or available for sale reserve (other comprehensive income). The valuations recorded in the income statement include holdings of financial assets in the amount of euro -1,976 thousand (2016: euro -3,154 thousand) at the reporting date.

The portfolio of assets available for sale that are allocated to Level 3 of the fair value hierarchy as at 31 December 2017 comprises participation certificates with a carrying amount of euro 74,353 thousand (2016: euro 67,173 thousand). They are not traded on any active market and only allow for alternative measurement by means of unobservable input parameters.

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

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

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

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

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

31 Dec 2017 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-3,355
Change in markup +/- 100 BP	1,514	-1,482
Change in redemption - 5 %	0	-3,623

31 Dec 2016 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity +/- 1 year	4,006	-3,814
Change in markup +/- 100 BP	1,064	-1,049
Change in redemption - 5 %	0	-3,326

The uncertainty regarding the time of redemption is calculated with parameter changes of + 1 year, resulting in a negative effect of euro 3,355 thousand in case of a maturity extension. This adjustment is considered a reasonable possible alternative by the management, as maturity changes may arise due to the approval process of the collection of securities by the banking supervision authority on the one hand and actual settlement on the other hand. Maturity change of - 1 year is considered as unrealistic due to the short remaining time until maturity.

A range of +/- 100 bp is considered a reasonable possible alternative to the amount of the markup on the base rate. In case of an increase of the markup, the fair value would reduce by euro 1,482 thousand (2016: euro 1,049 thousand) and a reduction of the markup on the base rate would result in an increase of the fair value by euro 1,514 thousand (2016: euro 1,064 thousand).

Based on the available corporate planning of the issuer, a redemption value of 100 per cent was assumed during measurement of the participation certificates, considering a reasonable possible alternative for the same to deviate by not more than 5 %. In case of a reduction of the redemption amount by 5 %, the fair value would reduce by euro 3,623 thousand (2016: euro 3,326 thousand). Repayment above the nominal value is not intended, meaning that any excess liquidity of the issuer cannot result in any price increase of the participation certificates.

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

The development of sensitivity analyses for the fair values of participations is described in note 20) Participations. The development of sensitivity analyses for the fair values of of investment property (IAS 40) is described in note 18) Investment Property.

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

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

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2017					
Liquid Funds	0	2,001,338	0	2,001,338	2,001,338
Loans and advances to credit institutions (gross)					494,889
Loans to credit institutions less individual impairments	0	0	501,713	501,713	494,889
Loans and advances to customers (gross)					19,768,453
Individual impairment to customers					-282,447
Loans to customers less individual impairments	0	0	19,209,673	19,209,673	19,486,005
Financial investments held to maturity	353,048	0	10,732	363,780	359,140
Financial investments	353,048	0	10,732	363,780	359,140
Financial assets held for sale	9,875	9,338	88,280	107,493	106,725
Financial assets total	**362,923**	**2,010,676**	**19,810,398**	**22,183,997**	**22,448,096**
Amounts owed to credit institutions	0	0	439,015	439,015	448,740
Amounts owed to customers	0	0	20,780,530	20,780,530	20,849,571
Debts evidenced by certificates	0	0	644,477	644,477	623,633
Subordinated liabilities	0	0	677,437	677,437	671,159
Financial liabilities held for sale	0	0	93,725	93,725	93,725
Financial liabilities total	**0**	**0**	**22,635,185**	**22,635,185**	**22,686,829**

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2016					
Liquid Funds	0	1,435,495	0	1,435,495	1,435,495
Loans and advances to credit institutions (gross)					642,866
Loans to credit institutions less individual impairments	0	0	635,860	635,860	642,866
Loans and advances to customers (gross)					19,385,588
Individual impairment to customers					-318,327
Loans to customers less individual impairments	0	0	17,931,714	17,931,714	19,067,260
Financial investments held to maturity	260,160	0	0	260,160	254,263
Financial investments	260,160	0	0	260,160	254,263
Financial assets held for sale	0	0	0	0	0
Financial assets total	**260,160**	**1,435,495**	**18,567,575**	**20,263,230**	**21,399,885**
Amounts owed to credit institutions	0	0	404,731	404,731	421,995
Amounts owed to customers	0	0	20,004,717	20,004,717	20,017,714
Debts evidenced by certificates	0	0	964,834	964,834	966,345
Subordinated liabilities	0	0	334,575	334,575	324,906
Financial liabilities held for sale	0	0	0	0	0
Financial liabilities total	**0**	**0**	**21,708,858**	**21,708,858**	**21,730,960**

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

For long-term financial instruments, fair value is calculated by discounting contractual cash flows. In 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, interest rates used are those with which corresponding liabilities with similar residual durations could have been assumed or issued as at the reporting date.

Fair value hierarchy

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

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

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

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

38) Derivatives

Derivative financial instruments

2017	Face value				Fair value
Euro thousand	**up to 1 year**	**1 to 5 years**	**more than 5 years**	**Total**	**31 Dec 2017**
Interest related transactions	314,382	2,024,094	2,590,076	4,928,553	-228,871
Caps & Floors	41,478	473,119	272,147	786,744	-878
Futures - interest related	4,800	35,000	0	39,800	0
Interest rate swaps	268,105	1,515,975	2,317,929	4,102,009	-227,993
Currency related transactions	1,165,602	786,290	292,087	2,243,979	-65,959
Cross currency swaps	0	786,161	292,087	1,078,247	-70,295
FX Swaps	262,329	0	0	262,329	-143
Forward exchange transactions	903,273	129	0	903,403	4,479
Other transactions	278,377	14,626	179,341	472,344	-9,279
Options	278,377	14,626	179,341	472,344	-9,279
Total	**1,758,361**	**2,825,010**	**3,061,504**	**7,644,875**	**-304,109**

2016	Face value				Fair value
Euro thousand	**up to 1 year**	**1 to 5 years**	**more than 5 years**	**Total**	**31 Dec 2016**
Interest related transactions	965,740	2,500,506	3,104,468	6,570,714	-244,656
Caps & Floors	80,213	515,970	337,181	933,364	-874
Futures - interest related	524,000	427,000	0	951,000	0
Interest rate swaps	361,527	1,557,536	2,767,288	4,686,350	-243,782
Currency related transactions	1,329,991	1,016,749	266,704	2,613,444	-125,265
Cross currency swaps	484,683	1,009,577	266,704	1,760,964	-123,119
FX Swaps	226,354	5,754	0	232,108	-1,194
Forward exchange transactions	618,954	1,418	0	620,372	-951
Other transactions	186,486	16,143	222,036	424,665	-10,496
Options	186,486	16,143	222,036	424,665	-10,496
Total	**2,482,217**	**3,533,398**	**3,593,208**	**9,608,823**	**-380,417**

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

39) Assets and liabilities denominated in foreign currencies

On the balance sheet date, assets denominated in foreign currencies totalled euro 1,652,635 thousand (2016: euro 2,222,738 thousand), whereas liabilities denominated in foreign currencies stood at euro 479,018 thousand (2016: euro 617,975 thousand).

40) Trust transactions

Euro thousand	31 Dec 2017	31 Dec 2016
Assets from trust transactions		
Loans and advances to credit institutions	47	0
Loans and advances to customers	110,312	117,575
Other assets	0	65
Liabilities arising from trust transactions		
Amounts owed to credit institutions	5,087	4,235
Amounts owed to customers	105,272	113,340
Other liabilities	0	65

41) Subordinated assets

Euro thousand	31 Dec 2017	31 Dec 2016
Loans and advances to customers	14,483	8,968
Financial investments	996	1,832

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

Euro thousand	31 Dec 2017	31 Dec 2016
Assets pledged as collateral		
Loans and advances to credit institutions	21,442	0
Loans and advances to customers	329,298	282,652
Financial investments	0	17,500
Liabilities for which assets have been pledged as collateral		
Amounts owed to credit institutions	333,517	285,152
Amounts owed to customers	17,223	15,000

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

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

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

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

43) Contingent liabilities and credit risks

Euro thousand	31 Dec 2017	31 Dec 2016
Contingent liabilities		
Liabilities arising from guarantees	1,039,243	1,169,741
Liabilities arising from assets pledged as collateral	8,909	7,110
Guaranteed letter of credit	1,743	0
Others (amount guaranteed)	25,325	12,736
Commitments		
Obligations from pension business	0	120
Unutilised loan commitments	3,009,122	2,708,174
Others	0	1

If the management estimates a cash outflow for financial guarantees, a provision is built for off-balance risks to the amount of the probable cash outflow under consideration of possible available collaterals. Therefore, the provision amounts to euro 17,839 thousand (2016: euro 21,685 thousand).

According to the Spin-off and Transfer Agreement dated 1 June 2015, VBW has resumed the central organisation and central institution function from VBAG (now immigon portfolioabbau ag, immigon). Following this spin-off, claims for damages were filed against immigon. VBW is a co-defendant in these proceedings on the basis of section 15 (1) SpaltG (Spin-off Act); the liability of VBW is limited in terms of 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 6.9 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 the half-year result of immigon published as at 30 June 2017, VBW expects immigon to be in a position to service its liabilities. In case that 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, the Association of Volksbanks 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 the Association of Volksbanks.

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 the Association of Volksbanks) that have existed or were completed within the last twelve months and have a significant impact on the financial situation or profitability of the Association of Volksbanks, or have recently had such an impact.

44) Repurchase transactions and other transferred assets

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

The 2015 restructuring agreement between the Republic of Austria and VBW – supplemented by an implementation agreement between VBW, the Volksbanks and other shareholders in VBW – includes, amongst others, provisions for a participation rights issue ("Austrian government's participation right") by VB Rückzahlungsgesellschaft mbH (VB RZG), which is a direct subsidiary of VBW. The participation rights were issued to fulfil the commitments made to the Austrian government in order to obtain approval for the restructuring from the European Commission under state aid law.

Dividends paid by VB RZG in respect of the Austrian government's participation rights are at the discretion of VBW as the sole shareholder of VB RZG. The Austrian government has no claim to a share of profits under the participation right. The shareholders of VBW granted shares in VBW to the Austrian government without consideration (25 % of the share capital plus one share). The shares were transferred to the Austrian government on 28 January 2016. The Austrian government is obliged to return these shares back to the relevant shareholders without consideration as soon as the total of the payments received by the Austrian government for participation rights and other specified eligible payments reach a certain amount. If the dividends received by the Austrian government in respect of its participation rights and further specified eligible payments (such as any dividends paid with respect to shares held by the Austrian government in VBW) do not reach the minimum thresholds set out by certain contractually stipulated reference dates (a “control event”), the government is entitled to full rights to the shares without further consideration and to claim further ordinary shares in VBW from the shareholders of VBW up to 8 % of the share capital of VBW without further consideration. In such a case, up to 33 % plus one share of the shares in VBW may become (legal and economic) property of the Austrian government, and the government may obtain full rights to this shareholding (excepting the pre-emption right granted). In the case that the pre-emption right granted by the Austrian government is exercised by a buyer designated by VBW and the minimum threshold for the total payments in respect of participation rights and other eligible payments is not met, the shareholders of VBW have committed to transfer further ordinary shares in VBW to the Austrian government as soon as the government gains full rights to the shares and covering the amount of shares previously transferred to the government and the shares acquired by the buyer designated by VBW.

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. Of the repayment amount of euro 300 million that was promised to the federal government, euro 67 million have already been repaid. Accordingly, the threshold existing at 31 December 2017 for the minimum repayment in the amount of euro 15 million was by far exceeded. From today’s point of view, the next threshold at 31 December 2019 in the amount of euro 75 million will be met as well.
Since the shareholders – essentially VB – retain beneficial ownership of the shares until a "control event" (*Verfügungsfall*) occurs, the shares were not de-recognised. In the Association's financial statements, these shares in VBW therefore continue to be offset against the equity of VBW following capital consolidation.

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

45) Related party disclosures

Euro thousand	Unconsoli-dated affiliates	Companies in which the Group has a participat-ing interest	Associated companies	Companies which exercise a signifcant influence on the parent as shareholders
31 Dec 2017				
Loans and advances to customers	49,476	16,003	26,718	0
Risk provisions (-)	-419	-102	-57	0
Debt securities	0	0	0	934,019
Amounts owed to customers	9,189	514	100,044	0
Liabilities arising from guarantees	1,642	0	16,535	0
Provisions	0	11	10	0
Transactions	48,918	48,051	113,173	0
31 Dec 2016				
Loans and advances to customers	40,894	54,325	18,425	0
Risk provisions (-)	-421	-75	-24	0
Debt securities	0	0	0	1,023,520
Amounts owed to customers	7,846	6,260	85,448	0
Liabilities arising from guarantees	1,660	0	4,826	0
Provisions	0	10	53	0
Transactions	61,656	43,213	20,775	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 up irrespective of whether plus or minus figures.

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

The Republic of Austria exercises significant influence over the CO. Only limited information on related parties is provid-ed for securities issued by the Republic of Austria that are held by companies included in the financial statements.

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

Euro thousand	31 Dec 2017	31 Dec 2016
Outstanding loans and advances	1,516	2,866
Redemptions	428	503
Interest payments	13	37

The definition of key management personnel can be found in note 1) a).

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

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

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

47) Branches

	31 Dec 2017	31 Dec 2016
Domestic	340	399
Foreign	3	3
Total number of branches	**343**	**402**

48) Events after the balance sheet date

On 5 December 2017 VOLKSBANK VORARLBERG e. Gen. signed the share purchase agreement regarding the sale of all participations in its subsidiary Volksbank AG in Switzerland. The closing took place on 28 February 2018. The purchase price comprises a provisional price in the amount of CHF 10,874 thousand and a purchase price adjustment which is calculated based on the final year end closing.

The international rating agency Fitch has upgraded the long-term issuer rating for the Association of Volksbanks by one level from BBB- to BBB on 19 February 2018.

49) Segment reporting

In line with the Association's future structure – consisting of eight merger groups and one specialist institution – the Association now has ten segments corresponding to the strategic business fields. The merger groups have mainly been formed until 2017 through mergers of institutions into provincial Volksbanks (regional banks). In addition to the eight regional banks and the specialist institution, the CO function of VBW and start:group, which was sold in the 2016 business year, are reported separately. These divisions reflect the different regions and services of the Association and are controlled in varying ways in accordance with the internal management and reporting structure. Control is based on the individual merger groups/regional banks and their higher-level holding companies and subordinate entities. In the case of VBW, reporting is based on allocation to the CO or Retail profit centres, which means that all results of VBW, its subordinate entities and higher-level holding companies are allocated to these two profit centres.

The measurement and accounting principles used in the consolidated financial statements are also applied to the segment reporting. Net interest income of profit centres is calculated according to the market interest method. Transfer prices for investments and refinancing between corporate entities are in line with standard market conditions.

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 control in connection with regulatory requirements on managing 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 syndicated financing division, including large-scale house-building, belongs to this 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.

Finally, all other activities that are undertaken in managing the Association of Volksbanks and performed by VBW as the CO within the meaning of the CRR and the Austrian Banking Act are reported.

Regional banks

The eight regional bank segments comprise standard banking services for retail customers, SMEs and commercial clients in the areas of investment and financing, advisory and investment services for securities, payment services, brokerage of insurance products, and foreign exchange business in the different regions.

These services are typically provided through the branches as well as through the internet and direct sales. Higher-level holding companies and subordinate companies related to the individual regional banks are likewise recognised in the relevant segments.

start:group

The start:bausparkasse AG and its subsidiary IMMO-Bank Aktiengesellschaft are reported in this segment. Both companies were sold with effect on 1 December 2016. In the division, the results up to the sale, the measurement result under IFRS 5, and the deconsolidation result were reported. The reclassification of the current result to the result of a discontinued operation is shown in the column consolidation.

Physicians

The segment Physicians / Pharmacists comprise Österreichische Ärzte- und Apothekerbank AG as well as Verwaltungsgenossenschaft Österreichische Apothekerbank eG, which provide Association of Volksbanks services to their specific customer groups.

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.

1-12/2017

Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia	Upper Austria
Net interest income	32,223	100,207	59,855	50,252	26,383	38,783
Risk provisions	2,020	378	-15,072	-12,342	-173	-5,367
Net fee and comission income	-5,434	65,996	27,384	24,064	14,141	23,384
Net trading income	5,448	348	273	245	22	144
General administrative expenses	-119,297	-142,617	-70,235	-57,498	-33,617	-53,162
Restructuring result	955	321	0	0	0	0
Other operating result	88,588	-1,968	-2,438	-8,290	-441	7,719
Income from financial investments	-1,483	-5,720	-257	-4,724	730	384
Income from companies measured at equity	-944	0	-6,677	0	0	0
Income from discontinued operation	0	0	0	0	0	0
Annual result before taxes	**2,077**	**16,945**	**-7,166**	**-8,294**	**7,045**	**11,884**
Income taxes	6,025	674	1,812	13,022	-1,972	7,686
Annual result after taxes	**8,102**	**17,619**	**-5,354**	**4,727**	**5,074**	**19,570**
31 Dec 2017						
Total assets	**6,044,699**	**6,254,739**	**3,197,705**	**2,644,534**	**1,330,709**	**2,268,474**
Loans and advances to customers	438,464	4,649,414	2,626,359	2,297,471	1,078,454	1,721,539
Companies measured at equity	39,743	1,001	7,204	2,746	2,452	7,463
Amounts owed to customers	623,141	5,512,578	2,809,406	1,812,234	1,162,417	2,016,938
Debts evidenced by certificates, including subordinated liabilities	792,958	126,052	35,477	40,535	38,852	31,814

1-12/2016

Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia	Upper Austria
Net interest income	34,999	96,350	52,824	52,599	24,231	36,276
Risk provisions	9,886	-24,465	-12,240	-10,662	-15,175	-6,854
Net fee and comission income	-2,203	62,146	30,186	23,653	13,722	24,160
Net trading income	4,131	468	-73	-29	-15	2
General administrative expenses	-131,108	-152,212	-75,184	-65,021	-34,655	-59,365
Restructuring result	7,054	-3,994	0	0	0	0
Other operating result	65,394	1,207	2,579	202	1,565	5,639
Income from financial investments	6,629	-3,545	-744	-3,719	-1,437	-5,046
Income from companies measured at equity	275	0	0	0	0	0
Income from discontinued operation	0	0	0	0	0	0
Annual result before taxes	**-4,942**	**-24,044**	**-2,652**	**-2,977**	**-11,763**	**-5,188**
Income taxes	5,122	4,291	957	-4,375	4,790	-2,002
Annual result after taxes	**180**	**-19,753**	**-1,695**	**-7,352**	**-6,974**	**-7,190**
31 Dec 2016						
Total assets	**6,269,316**	**6,027,541**	**3,022,950**	**2,668,681**	**1,279,816**	**2,180,222**
Loans and advances to customers	591,575	4,388,505	2,472,923	2,350,486	1,018,648	1,543,030
Companies measured at equity	27,247	11,844	310	2,746	2,452	5,333
Amounts owed to customers	703,866	5,160,814	2,576,407	1,780,750	1,121,993	1,922,272
Debts evidenced by certificates, including subordinated liabilities	736,552	31,642	40,893	46,204	51,565	53,133

Salzburg	Tyrol	Vorarlberg	start:gruppe	Physicians	Consolidation	Total
49,510	47,180	29,616	0	11,943	-2,855	443,095
-7,477	-8,689	3,822	0	-2,514	0	-45,413
22,690	27,476	27,567	0	6,484	3,146	236,899
306	492	7,427	0	-343	0	14,362
-60,433	-56,435	-54,039	0	-20,094	81,885	-585,542
0	0	0	0	0	0	1,276
1,399	-1,359	-2,246	0	-522	-83,291	-2,850
634	-1,951	-2,430	0	940	-200	-14,076
0	0	0	0	0	0	-7,621
0	0	0	0	0	0	0
6,629	**6,715**	**9,717**	**0**	**-4,105**	**-1,315**	**40,131**
-1,327	-5,266	-797	0	872	298	21,027
5,302	**1,449**	**8,920**	**0**	**-3,233**	**-1,018**	**61,157**
2,633,853	**3,103,616**	**2,199,041**	**0**	**891,715**	**-5,245,814**	**25,323,270**
2,140,007	2,610,375	1,566,003	0	698,511	-58,145	19,768,453
6,320	26	20	0	3,481	0	70,456
2,134,809	2,473,928	1,567,810	0	802,237	-65,926	20,849,571
60,829	93,184	77,485	0	23,414	-25,809	1,294,792

Salzburg	Tyrol	Vorarlberg	start:gruppe	Physicians	Consolidation	Total
46,044	44,073	31,648	48,945	12,662	-57,557	423,095
-13,849	-9,091	-7,148	-690	-2,383	690	-91,983
23,751	27,323	26,000	-1,130	6,419	5,805	239,833
-4	-8	4,396	-5	-9	13	8,866
-60,626	-65,297	-52,293	-35,161	-19,973	135,704	-615,191
0	0	0	0	0	0	3,060
1,702	1,353	769	-16,641	1,591	-93,573	-28,211
-1,554	974	69	-8,887	-184	8,887	-8,558
0	0	0	0	0	0	275
0	0	0	-11,089	0	-4,543	-15,632
-4,537	**-674**	**3,441**	**-24,658**	**-1,877**	**-4,574**	**-84,445**
1,927	291	-7,434	2,145	-723	-36	4,953
-2,610	**-384**	**-3,994**	**-22,512**	**-2,600**	**-4,610**	**-79,493**
2,669,223	**2,994,168**	**2,415,898**	**0**	**946,164**	**-6,008,159**	**24,465,822**
2,136,490	2,505,921	1,748,517	0	699,620	-70,129	19,385,588
5,970	26	20	0	2,061	0	58,009
2,019,676	2,300,539	1,697,311	0	797,326	-63,239	20,017,714
69,836	115,215	119,060	0	42,103	-14,951	1,291,251

50) Risk report

General

The assumption and professional management of 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 BWG consisting of VBW and the primary banks of the Volksbank-Sector, Volksbank Wien (VBW) has the central task to ensure that the association of credit institutions has in place administrative, accounting and control procedures for the recognition, assessment, management and monitoring of the risks associated with banking transactions and banking operations as well as of the remuneration strategy and practices (section 39 (2) BWG). Control, and accordingly reporting, is focused at association level, including VBW as part of the Association. The implementation of control within the Association is effected through general and, if necessary, individual instructions.

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

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

Current developments

In 2017, the Association of Volksbanks was again submitted to the Supervisory Review and Evaluation Process (SREP) within the scope of the Single Supervisory Mechanism of the ECB. Apart from the regular field of review, this year's SREP also considered the stress test carried out in 2016 and supplemented by the IRRBB (Interest Rate Risk in the Banking Book) sensitivity analysis of the ECB.

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

The CET 1 requirement amounting to 10.925 % for 2018, as determined for the Association of Volksbanks, consists of the following: Pillar 1 CET requirement of 4.5 %, Pillar 2 requirement of 2.5 %, capital conservation buffer of 1.875 %, system risk buffer 0.25 % and Pillar 2 capital recommendation of 1.8 %. The total capital requirement for 2018 amounts to 12.625 % (Pillar 1 requirement of 8.0 %, Pillar 2 requirement of 2.5 %, capital conservation buffer of 1.875 %, system risk buffer 0.25 %).

Principles of risk policy

The risk policy principles 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

The association of credit institutions under section 30a BWG and of the primary banks of the Volksbank-Sector has taken all the necessary organisational precautions to comply with the requirements of 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 operative risk management. Risk assessment, risk measurement and risk control are carried out according to the dual-control principle. For the purpose of avoiding conflicts of interest, these tasks are performed by different organisational units.

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

Regulatory requirements

Implementation of the regulations regarding equity base at the Association of Volksbanks is as follows:

Pillar 1 Minimum capital requirements

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

Pillar 2 Internal capital adequacy assessment

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 implements all measures required to ensure sufficient capitalisation and liquidity, at all times, for current business activities and also for those planned in future, as well as the associated risks.

Pillar 3 Disclosure

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

Risk management across the Association

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

a) Internal capital adequacy process – ICAAP and stress testing

To ensure a sustainable, risk-adequate capital base, VBW, 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. The ICAAP starts by identifying the material risks of the Association, 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 process serves the purpose of determining the hazard potential of newly accepted significant risks and of measuring existing significant risks. The results of risk inventory are summarised and analysed for the Association. The results of the risk inventory process are used to inform the risk strategy and form a starting point for the risk-bearing capacity statement, as significant types of risk must be taken into account within the risk-bearing capacity statement.

Risk strategy

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

The local or individual risk strategies of the credit institutions attributed to the Association of Volksbanks are derived from the risk strategy of the Association and are initiated and supported by the CO. Additionally, the locally prepared risk strategies are submitted to quality assurance procedures and checked for compliance with the Association's risk strategy by the CO.

Risk Appetite Statement (RAS) and limit system

The core element of the risk strategy is a Risk Appetite Statement (RAS) and integrated limit system in line with the business strategy. The RAS set of indicators comprising strategic and other (operational) indicators helps the Managing Board of the CO to implement central strategic goals of the Association of Volksbanks, specifying the same.

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

Risk-bearing capacity statement

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

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

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

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

Under the going-concern perspective, the continued existence of orderly business operations is meant to be ensured. Smaller risks that may occur with a certain probability should be absorbed without jeopardising current operations. Hidden reserves, the annual surplus/deficit achieved in the current business year, the target profit/loss for the coming 12 months, as well as the capital that exceeds the CET1 capital ratio of 8.25 % as defined in the 2017 risk strategy are essentially recognised as risk coverage potential. During risk quantification, a confidence level of 95 % and a holding period of one year are applied. The bank-wide risk limit is set at 100 % of the available risk coverage potential in the economic going-concern perspective.

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

Stress testing

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

Apart from these risk type-specific stress tests and sensitivity analyses, bank internal stress tests as well as regulatory stress tests are regularly carried out across various risk types. The bank-wide semi-annual internal stress test consists of scenario analyses, sensitivity analyses and the reverse stress test. In the scenario analyses, economic crisis scenarios are defined and the changed risk parameters for the individual risk categories and areas of business derived therefrom. Apart from the risk side, the effects of crisis scenarios on risk covering potentials are also determined. Finally, in a stressed risk-bearing capacity analysis, the various effects of the crisis scenarios on risk-bearing capacity are summarised and analysed. Based on the findings of the bank-wide 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 are monitored more closely, and planning targets are derived for strategic risk indicators.

Risk reporting

The reporting framework implemented within the Association of Volksbanks 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 bank-wide risk report for the Association serves as a core element of the reporting framework. The bank-wide 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 bank-wide risk report provides the CO Managing Board with management-related information on a monthly basis and is sent to the Supervisory Board of VBW quarterly.

Complementing the bank-wide risk report, various risk-specific reports (e.g. analyses in credit risk regarding the development of individual sub-portfolios) are provided in addition to the reporting framework.

Reorganisation and liquidation planning

As the Association of Volksbanks was classified as a system-relevant credit institution, the Association has worked out a restructuring plan and submitted the same to the relevant regulatory authorities (e.g. ECB). This restructuring 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 which occur in case a contracting party fails to meet its payment obligations.

Credit risk management organisation

Within the Association, the responsibilities associated with credit risk are taken care of by operative credit risk management and certain subdivisions of the risk controlling function. The units Credit Risk Management Branches, Credit Risk Management Real Estate & Corporates, Restructuring Management & Collection are responsible for operative credit risk management. The Risk Controlling function is responsible for risk assessment, risk measurement and risk control as well as for credit risk reporting.

Operative credit risk management

Lending principles

- Loan transactions are necessarily based on loan agreements with borrower-specific limits. The determination and monitoring of the limits is subject to uniform regulations at the level of the Association.
- The rating obligation applies to all exposures above the defined minimum level. The rating process is based on the dual-control principle and is applicable across the Association.
- In selecting collateral securities, attention is paid to the cost-benefit ratio, and accordingly recoverable collateral securities that cause little administrative effort and are not very cost-intensive as well as actually realisable collateral securities will preferably resorted to. For this reason, physical collateral, such as real estate collateral, and financial collateral, such as cash collateral or collateral in the form of securities, is given priority. The recov-

erability and enforceability of collateral security must basically be assessed prior to any credit decision. Principles for the management of collateral and uniform rules for the selection, provision, administration and valuation of collateral security apply at the level of the Association.

- Foreign currency and repayment vehicle loans are basically no longer offered or granted.
- The principal market for credit business is the Austrian market. Lending to customers in the defined target countries of Germany, Switzerland, Liechtenstein and Slovenia may only be effected within the locally allocated limits.
- Syndicated credits will basically be concluded together with the CO.

Decision-making process

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

Monitoring of exposure and collateral

The processes for the review of exposures and collateral are governed by uniform regulations across the Association and must be observed by all credit institutions attributed to the Association.

Limits

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

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

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

In order to achieve a sustainably healthy portfolio quality, requirements exist for transactions with new customers and increases of the exposure of existing customers; these depend on the customer's credit rating and are applicable across the Association.

Intensified credit risk management

Within the Association, intensified credit risk management means the special monitoring of customers with payment difficulties and/or customers threatened by default. Among others, intensified credit risk management comprises processes relating to the early detection of customers threatened by default, the dunning procedure, forbearance processes, as well as default identification.

Early identification (EWS): During early identification, customers who might show an increased risk of default within the next few months are systematically identified on the basis of certain indicators. In this way, the Association is put in a position to counteract potential defaults early on. The early identification of customers threatened by default is governed within a uniform early warning system (EWS) throughout the Association. Dunning procedure: The dunning procedure applied across the Association is uniform and automatised. The criteria and requirements for the dunning procedure are centrally defined by VBW for the entire Association.

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

Default identification: The process of default identification serves to recognise defaults in time. A customer is deemed defaulted if a default of performance of more than 90 days exists and/or if complete settlement of the debt is considered unlikely. The Association has defined 13 possible types of default event that are used for the consistent classification of default events across the Association. Among others, default identification also builds on the early warning and forbearance processes described above. Additionally, there are other (checking) processes, e.g. the analysis of expected cash flows within the regular or event-driven exposure checks, which may trigger classification to a default category.

Problem Loan Management

Within the Problem Loan Management system (PLM) applicable throughout the Association, allocation of the customers takes place on the basis of clearly defined indicators applied consistently across the Association. Subsequently, a distinction is made between customers

- under intensive supervision (negative change of risk estimation, but not defaulted yet)
- in the process of restructuring (imminent risk of default or defaulted already, but customer is eligible for restructuring), and
- subject to collection (defaulted customers and customers not eligible for restructuring)

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

Quantitative credit risk management

Measurement and control of credit risk

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

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

Rating systems

Across the Association, standardised models are applied to determine credit ratings (the VB rating family) and to determine the amount of loss in case of default. The expected probability of default of each customer is assessed via the VB rating family and expressed through the VB master scale, which comprises a total of 25 rating levels. The PD range used not only allows a comparison of internal ratings with classifications by external rating agencies but especially enables a comparison of credit ratings across customer segments. The rating classes in rating category 5 cover the reasons for defaulting on loans as applied across the Association and are also used for reporting non-performing loans (NPL).

Credit Value at Risk

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

Concentrations

Quantification and valuation of concentrations across the Association is effected monthly, via the risk parameters identified, on the one hand, and in the course of preparing the risk report, on the other hand. Additionally, concentration risk also considers the effects on the bank as a whole.

Counterparty default risk

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

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

Credit risk mitigation

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

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

Credit risk reporting

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

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

Development of the credit risk-related portfolio in 2017

Definition: credit risk-related portfolio

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

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

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

Credit-risk-relevant portfolio:

Euro thousand	31 Dec 2017	31 Dec 2016
Liquid funds	1,783,881	1,026,464
Loans and receivables to credit institutions	494,889	642,866
Loans and receivables to customers	19,768,453	19,385,588
Trading assets	8,320	24,162
Financial investments	2,184,269	2,212,175
Contingent liabilities	1,049,895	1,176,851
Credit risks	3,009,122	2,708,174
Total	**28,298,828**	**27,176,280**

As at 31 December 2017, the total credit risk-related portfolio amounted to euro 28,298,828 thousand (31 December 2016: euro 21,176,280 thousand). Loans and advances to customers constitute the biggest group of receivables, which corresponds to the business model of classic credit business with a focus on Retail and SME customers.

Loans and advances to credit institutions and liquid funds are primarily used to manage liquidity and include a comparatively low credit risk. Financial investments primarily include securities from the Treasury portfolio that are also preferrentially used to manage the liquidity of the entire Association. The majority of credit risk-related securities are Austrian and European government debentures and covered bonds of European banks in the investment grade range. A securities portfolio with the main objective of generating profits from market trends is not aimed at within the Association of Volksbanks. As liquidity risk is controlled centrally by the CO, there are hardly any credit risk-related positions in these balance sheet items within the other Volksbanks.

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

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

Development by customer segments[1]

The following tables show the distribution of the credit risk-related portfolio by balance sheet items and customer segments. The largest customer segment of the credit risk-relevant items is the SME segment that is internally broken down into SME Retail, SME and SME Corporates with euro 13,001,237 thousand as at 31 December 2017 (31 December 2016: euro 12,743,606 thousand), followed by the private customer segment.

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

Portoflio sub-diveded by customer segments:

31 Dec 2017 Euro thousand	Banks	Retail	SME	Corporates	Public sector	Others
Liquid funds	0	0	0	0	1,783,881	0
Loans and receivables to credit institutions	494,889	0	0	0	0	0
Loans and receivables to customers	0	7,901,511	10,572,991	398,989	311,538	583,424
Trading assets	6,079	0	0	2,241	0	0
Financial investments	559,477	0	0	34,296	1,590,495	0
Contingent liabilities	6,034	116,871	869,006	49,096	755	8,134
Credit risks	5,595	926,241	1,552,965	132,932	216,792	174,596
Total	**1,072,074**	**8,944,623**	**12,994,962**	**617,554**	**3,903,461**	**766,154**

31 Dec 2016 Euro thousand	Banks	Retail	SME	Corporates	Public sector	Others
Liquid funds	0	0	0	0	1,026,464	0
Loans and receivables to credit institutions	642,866	0	0	0	0	0
Loans and receivables to customers	0	8,064,355	10,281,778	401,247	328,445	309,762
Trading assets	12,582	0	0	0	11,580	0
Financial investments	508,626	0	0	15,050	1,685,758	2,741
Contingent liabilities	5,818	96,292	1,018,266	53,639	1,004	1,832
Credit risks	10,467	858,098	1,439,668	131,482	198,518	69,941
Total	**1,180,359**	**9,018,746**	**12,739,712**	**601,418**	**3,251,769**	**384,277**

Development by currencies

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

Portoflio sub-diveded by currencies:

31 Dec 2017

Euro thousand	EUR	CHF	USD	GBP	Others
Liquid funds	1,765,477	18,404	0	0	0
Loans and receivables to credit institutions	464,674	10,116	4,081	865	15,153
Loans and receivables to customers	18,392,689	1,285,155	24,232	2,270	64,107
thereof Retail	6,995,304	878,026	3,409	0	24,772
thereof SME	10,163,015	366,942	3,963	4	39,067
thereof Corporates	363,100	16,496	16,860	2,266	268
thereof other	871,270	23,692	0	0	0
Trading assets	8,320	0	0	0	0
Financial investments	2,108,550	57,154	0	0	18,565
thereof Banks	524,799	34,679	0	0	0
thereof Corporates	34,296	0	0	0	0
thereof Public sector	1,549,455	22,475	0	0	18,565
thereof other	0	0	0	0	0
Contingent liabilities	1,041,126	6,530	2,181	37	22
Credit risks	2,991,604	7,331	7,237	578	2,372
Total	**26,772,440**	**1,384,689**	**37,731**	**3,750**	**100,219**

31 Dec 2016

Euro thousand	EUR	CHF	USD	GBP	Others
Liquid funds	958,078	68,386	0	0	0
Loans and receivables to credit institutions	504,430	20,070	12,875	3,573	101,919
Loans and receivables to customers	17,381,419	1,892,419	27,911	6,845	76,993
thereof Retail	6,764,925	1,254,636	6,383	230	38,181
thereof SME	9,729,966	507,247	6,362	0	38,202
thereof Corporates	319,486	59,371	15,166	6,615	609
thereof other	567,042	71,165	0	0	0
Trading assets	24,162	0	0	0	0
Financial investments	2,115,883	73,062	0	0	23,229
thereof Banks	462,685	45,940	0	0	0
thereof Corporates	15,050	0	0	0	0
thereof Public sector	1,635,406	27,122	0	0	23,229
thereof other	2,741	0	0	0	0
Contingent liabilities	1,165,448	8,116	3,210	38	39
Credit risks	2,667,502	11,045	21,773	69	7,784
Total	**24,816,922**	**2,073,098**	**65,769**	**10,525**	**209,965**

Development of repayment vehicle and foreign currency loans

As at 31 December 2017, the total borrowings under repayment vehicle and foreign currency loans amounted to euro 1,710,734 thousand (31 December 2016: euro 2,304,759 thousand).

Development by countries

The main business activity of the Association focuses on the Austrian market. This is also evident from the following tables: at 31 December 2017, Austrian exposures accounted for 90.1 % of the credit risk-related portfolio (31 December 2016: 88.3 %). Foreign receivables within the customer portfolio are not expanded as a matter of principle. Special rules apply to the four defined target countries of Germany, Switzerland, Liechtenstein and Slovenia within the customer portfolio.

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

Portfolio sub-divides by countries:

31 Dec 2017

Euro thousand	Austria	Germany	Switzerland	Liechtenstein	Slovenia	EEA	EU CEE	Others
Liquid funds	1,765,477	0	18,404	0	0	0	0	0
Loans and receivables to credit institutions	27,896	124,653	41,322	0	0	255,992	1,074	43,952
Loans and receivables to customers	18,635,368	683,814	85,830	88,742	40,710	88,596	97,056	48,336
thereof Retail	7,449,141	233,069	29,699	60,796	16,796	41,096	49,553	21,361
thereof SME	10,152,963	283,878	24,417	12,975	23,809	30,418	40,918	3,614
thereof Corporates	316,691	21,456	8,228	14,971	105	17,082	4,384	16,071
thereof Others	716,572	145,411	23,487	0	0	0	2,201	7,291
Trading assets	8,320	0	0	0	0	0	0	0
Financial investments	1,122,200	96,033	1,611	0	1,557	670,731	236,082	56,055
thereof Banks	162,855	87,028	1,611	0	0	295,180	3,037	9,766
thereof Corporates	11,451	0	0	0	0	8,603	387	13,856
thereof Public sector	947,893	9,005	0	0	1,557	366,949	232,659	32,433
thereof Others	0	0	0	0	0	0	0	0
Contingent liabilities	1,027,759	12,302	4,191	2,498	178	226	404	2,337
Credit risks	2,905,077	74,815	4,556	8,848	430	4,452	3,182	7,760
Total	**25,492,096**	**991,617**	**155,914**	**100,089**	**42,875**	**1,019,998**	**337,798**	**158,441**

31 Dec 2016

Euro thousand	Austria	Germany	Switzerland	Liechtenstein	Slovenia	EEA	EU CEE	Others
Liquid funds	958,078	0	68,386	0	0	0	0	0
Loans and receivables to credit institutions	44,535	160,273	91,672	7	0	297,351	514	48,515
Loans and receivables to customers	18,013,078	708,541	244,457	92,895	46,974	103,047	116,970	59,624
thereof Retail	7,486,142	263,957	96,990	67,011	18,529	48,459	58,749	24,518
thereof SME	9,805,861	322,847	26,743	12,472	28,427	27,639	50,926	6,863
thereof Corporates	261,117	22,462	49,952	13,412	18	26,949	7,295	20,042
thereof Others	459,958	99,276	70,772	0	0	0	0	8,201
Trading assets	24,162	0	0	0	0	0	0	0
Financial investments	1,224,779	70,202	1,640	0	1,619	623,894	254,108	35,932
thereof Banks	154,436	60,731	1,640	0	0	279,665	3,067	9,086
thereof Corporates	3,928	0	0	0	0	7,753	0	3,370
thereof Public sector	1,063,673	9,471	0	0	1,619	336,475	251,041	23,477
thereof Others	2,741	0	0	0	0	0	0	0
Contingent liabilities	1,154,691	12,833	4,990	1,095	193	225	460	2,364
Credit risks	2,589,490	71,188	7,180	22,597	394	5,381	1,995	9,950
Total	**24,008,812**	**1,023,038**	**418,325**	**116,593**	**49,180**	**1,029,898**	**374,048**	**156,385**

Development by sectors[2]

The most important sector within loans and advances to customers of VBW are the private households with 41.0 % as at 31 December 2017 (31 December 2016: 41.1 %). The largest commercial sector within VBW is the real estate sector as at 31 December 2017. It accounts for a share of 23.1 % (31 December 2016: 21.7 %).

[2]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 2017 Euro thousand	Private households	Financial services incl. Banks	Public authorities	Real estate	Construction industry
Liquid funds	0	1,783,881	0	0	0
Loans and receivables to credit institutions	0	494,889	0	0	0
Loans and receivables to customers	8,096,237	256,380	351,444	4,564,326	672,019
Trading assets	0	6,079	0	0	0
Financial investments	0	568,248	1,582,212	0	0
Contingent liabilities	120,188	296,813	11,017	62,882	117,359
Credit risks	906,088	95,882	172,407	564,566	242,048
Total	**9,122,514**	**3,502,171**	**2,117,081**	**5,191,774**	**1,031,426**

31 Dec 2017 Euro thousand	Tourism	Trade and reparis	Physicians/ healthcare	Agriculture and forestry	Others
Liquid funds	0	0	0	0	0
Loans and receivables to credit institutions	0	0	0	0	0
Loans and receivables to customers	1,345,360	990,977	761,415	622,583	2,107,712
Trading assets	0	0	0	0	2,241
Financial investments	0	0	0	0	33,809
Contingent liabilities	151,837	87,188	21,340	16,655	164,616
Credit risks	114,034	238,418	92,102	104,035	479,542
Total	**1,611,231**	**1,316,582**	**874,858**	**743,273**	**2,787,919**

31 Dec 2016 Euro thousand	Private households	Financial services incl. Banks	Public authorities	Real estate	Construction industry
Liquid funds	0	1,026,464	0	0	0
Loans and receivables to credit institutions	0	642,866	0	0	0
Loans and receivables to customers	7,976,717	275,435	375,323	4,211,660	665,719
Trading assets	0	12,582	11,580	0	0
Financial investments	0	484,968	1,691,324	16,795	0
Contingent liabilities	93,322	425,888	12,840	50,998	119,957
Credit risks	769,163	89,036	156,578	417,813	247,354
Total	**8,839,202**	**2,957,239**	**2,247,645**	**4,697,267**	**1,033,030**

31 Dec 2016 Euro thousand	Tourism	Trade and reparis	Physicians/ healthcare	Agriculture and forestry	Others
Liquid funds	0	0	0	0	0
Loans and receivables to credit institutions	0	0	0	0	0
Loans and receivables to customers	1,337,784	1,014,207	774,067	642,956	2,111,718
Trading assets	0	0	0	0	0
Financial investments	0	0	0	0	19,088
Contingent liabilities	157,238	93,752	24,376	18,462	180,017
Credit risks	96,412	247,724	86,110	94,314	503,670
Total	**1,591,434**	**1,355,683**	**884,553**	**755,732**	**2,814,494**

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 (non-performing loans, NPLs). The NR category primarily comprises exposures below the threshold for mandatory rating.

Portfolio sub-divided by ratings:

31 Dec 2017 Euro thousand	Risk category 1 (1A - 1E)	Risk category 2 (2A - 2E)	Risk category 3 (3A - 3E)	Risk category 4 (4A - 4E)	Risk category 5 (5A - 5E)	Risk category 6 (NR)
Liquid funds	1,783,881	0	0	0	0	0
Loans and receivables to credit institutions	148,530	255,560	65,574	25,225	0	0
Loans and receivables to customers	340,088	5,536,283	10,927,391	2,112,791	839,100	12,800
thereof Retail	14,262	4,503,495	2,730,895	413,927	232,919	6,013
thereof SME	45,172	799,709	7,481,885	1,651,117	588,651	6,457
thereof Corporates	22,097	112,344	235,253	22,090	6,955	251
thereof Others	258,556	120,735	479,359	25,658	10,575	80
Trading assets	0	0	8,320	0	0	0
Financial investments	1,379,512	741,576	62,158	988	10	25
thereof Banks	188,332	358,397	12,749	0	0	0
thereof Corporates	11,778	20,191	1,307	984	10	25
thereof Public sector	1,179,402	362,987	48,102	4	0	0
thereof Others	0	0	0	0	0	0
Contingent liabilities	2,976	118,421	784,890	92,777	22,010	28,821
Credit risks	293,081	779,565	1,727,672	184,668	11,644	12,492
Total	**3,948,067**	**7,431,405**	**13,576,006**	**2,416,449**	**872,764**	**54,137**

31 Dec 2016 Euro thousand	Risk category 1 (1A - 1E)	Risk category 2 (2A - 2E)	Risk category 3 (3A - 3E)	Risk category 4 (4A - 4E)	Risk category 5 (5A - 5E)	Risk category 6 (NR)
Liquid funds	1,026,464	0	0	0	0	0
Loans and receivables to credit institutions	108,294	450,361	56,105	28,107	0	0
Loans and receivables to customers	333,498	4,658,724	10,705,176	2,674,111	1,000,930	13,149
thereof Retail	11,787	3,861,068	3,255,153	679,169	245,193	12,089
thereof SME	45,134	605,143	6,962,116	1,959,416	709,600	370
thereof Corporates	6,431	109,180	234,685	16,721	33,702	529
thereof Others	270,146	83,333	253,223	18,805	12,436	161
Trading assets	11,580	6	12,576	0	0	0
Financial investments	1,612,942	365,466	233,492	0	275	0
thereof Banks	200,402	304,197	3,757	0	270	0
thereof Corporates	11,435	0	3,609	0	6	0
thereof Public sector	1,398,363	61,270	226,125	0	0	0
thereof Others	2,741	0	0	0	0	0
Contingent liabilities	1,627	101,738	919,784	106,429	23,641	23,633
Credit risks	269,641	644,892	1,549,413	217,612	11,222	15,394
Total	**3,364,045**	**6,221,186**	**13,476,546**	**3,026,258**	**1,036,068**	**52,176**

Development of NPL portfolio

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

As at 31 December 2017, the NPL ratio within internal risk control amounted to 3.66 % for the Association of Volksbanks (2016: 4.45 %).

The NPL coverage ratio through risk provisions or Coverage Ratio I for internal reporting amounts to 37.4 % for the Association fo Volksbanks as at 31 December 2017 (2016: 31.9 %).

The NPL coverage ratio through risk provisions and collateral securities or Coverage Ratio III for internal reporting amounts to 101.6 % for the Association of Volksbanks as at 31 December 2017 (2016: 94.2 %).

These ratios under the internal risk perspective exclusively refer to loans and advances to customers as well as credit risks and contingent liabilities towards customers. For this reason, these figures are different from the values presented in the following table.

NPL Portfolio:

31 Dec 2017 Euro thousand	Credit risk-volume - total	NPL	NPL Ratio	Risk provisions for NPL	NPL coverage ratio	Collateral for NPL
Liquid funds	1,783,881	0	0.00 %	0	0.00 %	0
Loans and receivables to credit institutions	494,889	0	0.00 %	0	0.00 %	0
Loans and receivables to customers	19,768,453	839,100	4.24 %	312,842	37.28 %	549,411
thereof Retail	7,901,511	232,919	2.95 %	73,428	31.53 %	167,037
thereof SME	10,572,991	588,651	5.57 %	223,647	37.99 %	377,926
thereof Corporates	398,989	6,955	1.74 %	5,679	81.65 %	2,357
thereof Others	894,962	10,575	1.18 %	10,088	95.40 %	2,091
Trading assets	8,320	0	0.00 %	0	0.00 %	0
Financial investments	2,184,269	10	0.00 %	0	0.00 %	0
Contingent liabilities	1,049,895	22,010	2.10 %	10,152	46.13 %	11,013
Credit risks	3,009,122	11,644	0.39 %	3,030	26.02 %	0
Loans and receivables to customers, contingent liabilities, credit risks	23,827,470	872,754	3.66 %	326,024	37.36 %	560,424
Liquid funds, loans and receivables to credit institutions and customers	22,047,222	839,100	3.81 %	312,842	37.28 %	549,411

31 Dec 2016 Euro thousand	Credit risk volume - total	NPL	NPL Ratio	Risk provisions for NPL	NPL coverage ratio	Collateral for NPL
Liquid funds	1,026,464	0	0.00 %	0	0.00 %	0
Loans and receivables to credit institutions	642,866	0	0.00 %	0	0.00 %	0
Loans and receivables to customers	19,385,588	1,000,930	5.16 %	318,327	31.80 %	628,924
thereof Retail	8,064,355	245,193	3.04 %	69,418	28.31 %	152,779
thereof SME	10,281,778	709,600	6.90 %	218,388	30.78 %	461,755
thereof Corporates	401,247	33,702	8.40 %	21,322	63.27 %	10,219
thereof Others	638,208	12,436	1.95 %	9,200	73.98 %	4,171
Trading assets	24,162	0	0.00 %	0	0.00 %	0
Financial investments	2,212,175	275	0.01 %	0	0.00 %	0
Contingent liabilities	1,176,851	23,641	2.01 %	9,485	40.12 %	16,335
Credit risks	2,708,174	11,222	0.41 %	2,645	23.57 %	0
Loans and receivables to customers, contingent liabilities, credit risks	23,270,613	1,035,793	4.45 %	330,457	31.90 %	645,259
Liquid funds, loans and receivables to credit institutions and customers	21,054,918	1,000,930	4.75 %	318,327	31.80 %	628,924

Development forbearance portfolio

With respect to customer loans prior to allocation of the Association's guarantee, concessions were made for economic reasons for a total carrying amount of euro 541,521 thousand (31 December 2016: euro 581,692 thousand). This amount relates to performing forborne credit exposures in the amount of euro 239,997 thousand (31 December 2016: euro 256,560 thousand) and non-performning forborne credit exposures in the amount of euro 325,132 thousand (31 December 2016: euro 284,524 thousand).

Development of positions past due

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

31 Dec 2017 Euro thousand	Not past due	1-30 days past due	31-90 days past due	91-180 days past due	181-365 days past due	365 days past due
Liquid funds	1,783,881	0	0	0	0	0
Loans and receivables to credit institutions	488,216	6,067	606	0	0	0
Loans and receivables to customers	19,112,943	231,538	82,203	32,161	54,087	255,521
thereof Retail	7,727,805	39,227	12,587	8,196	16,043	97,653
thereof SME	10,127,621	185,530	51,522	23,922	38,043	146,353
thereof Corporates	378,067	1,845	18,095	43	0	939
thereof Others	879,451	4,936	0	0	0	10,575
Trading assets	8,320	0	0	0	0	0
Financial investments	2,184,269	0	0	0	0	0
Other Assets	0	0	0	0	0	0
Contingent liabilities	1,049,895	0	0	0	0	0
Credit risks	3,009,122	0	0	0	0	0
Total	**27,636,646**	**237,605**	**82,809**	**32,161**	**54,087**	**255,521**

31 Dec 2016 Euro thousand	Not past due	1-30 days past due	31-90 days past due	91-180 days past due	181-365 days past due	365 days past due
Liquid funds	1,026,464	0	0	0	0	0
Loans and receivables to credit institutions	642,027	839	0	0	0	0
Loans and receivables to customers	18,429,763	358,086	123,435	40,776	94,324	339,204
thereof Retail	7,829,033	66,615	23,939	10,972	17,775	116,021
thereof SME	9,636,027	254,881	84,707	20,078	70,440	215,645
thereof Corporates	347,025	32,312	1,695	9,726	5,853	4,636
thereof Others	617,678	4,278	13,094	0	256	2,902
Trading assets	24,162	0	0	0	0	0
Financial investments	2,212,175	0	0	0	0	0
Other Assets	0	0	0	0	0	0
Contingent liabilities	1,176,851	0	0	0	0	0
Credit risks	2,708,174	0	0	0	0	0
Total	**26,219,616**	**358,925**	**123,435**	**40,776**	**94,324**	**339,204**

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.

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 past due:

31 Dec 2017 Euro thousand	Loans and receivables to customers (gross)	Collaterals	NPL	Collateral for NPL	NPL not impaired	Collateral for NPL not impaired	NPL impaired	Collateral for NPL impaired	Impairment for NPL
Not past due	19,112,943	15,618,729	456,542	321,960	50,264	44,242	406,278	277,718	157,147
1-30 days past due	231,538	138,336	18,335	13,431	430	428	17,905	13,003	5,734
31-90 days past due	82,203	62,884	22,454	14,836	4,555	4,273	17,899	10,563	9,082
91-180 days past due	32,161	22,871	32,161	22,511	5,873	5,661	26,288	16,849	9,359
181-365 days past due	54,087	34,290	54,087	34,156	3,348	3,160	50,739	30,997	22,088
365 days past due	255,521	142,529	255,521	142,517	25,515	22,852	230,006	119,665	109,432
Total	**19,768,453**	**16,019,639**	**839,100**	**549,411**	**89,985**	**80,616**	**749,115**	**468,795**	**312,842**

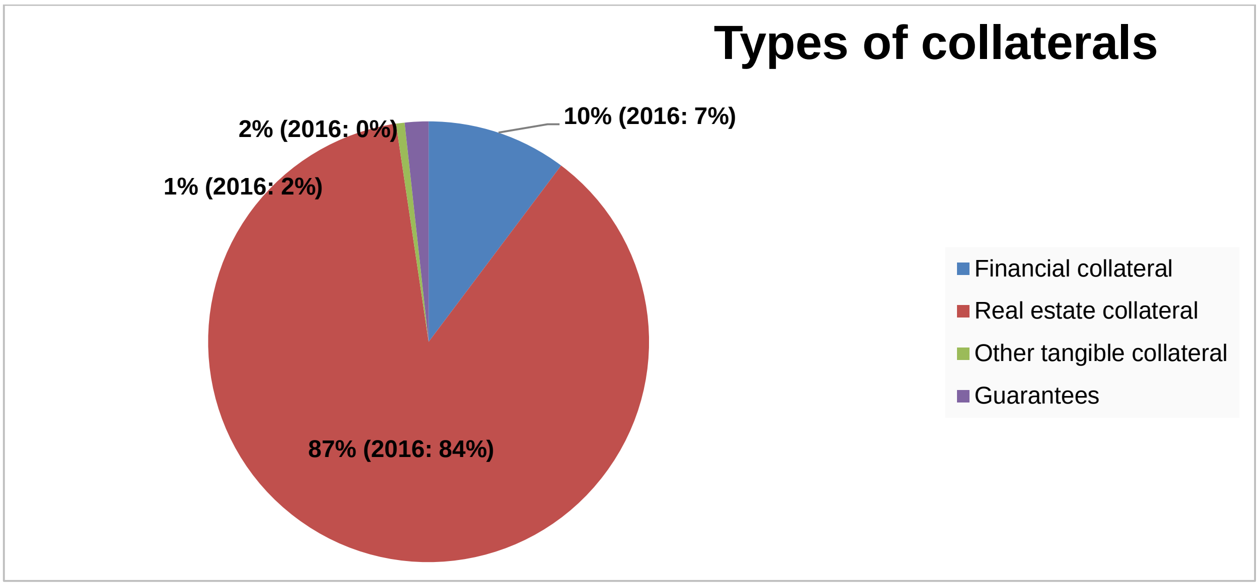
31 Dec 2016 Euro thousand	Loans and receivables to customers (gross)	Collaterals	NPL	Collateral for NPL	NPL not impaired	Collateral for NPL not impaired	NPL impaired	Collateral for NPL impaired	Impairment for NPL
Not past due	18,429,763	14,538,991	474,687	324,517	131,546	129,086	343,141	195,432	133,988
1-30 days past due	358,086	227,155	14,702	11,037	6,954	6,943	7,748	4,094	2,952
31-90 days past due	123,435	79,433	37,236	22,307	9,987	9,869	27,249	12,438	14,341
91-180 days past due	40,776	21,691	40,776	20,167	10,168	9,947	30,608	10,220	15,262
181-365 days past due	94,324	61,907	94,324	61,594	21,853	20,997	72,472	40,596	29,110
365 days past due	339,204	190,119	339,204	189,302	69,659	65,747	269,544	123,555	122,674
Total	**19,385,588**	**15,119,296**	**1,000,930**	**628,924**	**250,167**	**242,589**	**750,763**	**386,335**	**318,327**

NPL = Non Performing Loans

Development of the collateral securities portfolio

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

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



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

31 Dec 2017 Euro thousand	Credit risk volume - total	Allowable collateral amount - total	Real estate collateral	Financial collateral	Personal Collaterals	Other tangible collateral	Loan loss allowances	Provisions
Loans and receivables to customers	19,768,453	16,019,638	14,042,695	1,603,101	271,703	102,140	361,913	0
thereof Retail	7,901,511	6,765,450	6,084,231	656,388	13,152	11,679	88,075	0
thereof SME	10,572,991	8,335,306	7,189,216	875,601	213,058	57,432	255,350	0
thereof Corporates	398,989	281,844	180,441	53,059	19,640	28,703	7,175	0
thereof Others	894,962	637,038	588,807	18,052	25,853	4,326	11,312	0
Contingent liabilities	1,049,895	353,218	262,985	76,436	10,955	2,842	0	11,399
Credit risks	3,009,122	0	0	0	0	0	0	6,440
Total	**23,827,470**	**16,372,856**	**14,305,680**	**1,679,537**	**282,658**	**104,982**	**361,913**	**17,839**

31 Dec 2016 Euro thousand	Credit risk volume - total	Allowable collateral amount - total	Real estate collateral	Financial collateral	Personal Collaterals	Other tangible collateral	Loan loss allowances	Provisions
Loans and receivables to customers	19,385,588	15,119,296	13,100,827	1,645,229	265,852	107,388	397,680	0
thereof Retail	8,064,355	6,573,772	5,809,224	735,433	14,056	15,059	85,583	0
thereof SME	10,281,778	7,939,899	6,801,417	875,628	206,455	56,399	280,072	0
thereof Corporates	401,247	269,113	196,132	21,805	16,356	34,820	22,135	0
thereof Others	638,208	336,511	294,054	12,363	28,984	1,109	9,890	0
Contingent liabilities	1,176,851	458,556	320,007	119,368	10,935	8,246	0	13,244
Credit risks	2,708,174	0	0	0	0	0	0	8,441
Total	**23,270,613**	**15,577,852**	**13,420,834**	**1,764,597**	**276,787**	**115,634**	**397,680**	**21,685**

Development of the netting positions

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

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

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

c) Market risk

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

- Interest rate risk in the banking book
- Credit spread risk
- Market risk in the trading book
- Foreign currency risk (open currency positions)

Interest rate risk in the banking book

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

The interest rate risk in the banking book comprises all interest-bearing transactions (on balance and off balance), except for transactions in the trading book. The interest rate risk position from the client business of the Association of Volksbanks mainly arises from variable index-linked credit business and variable-interest deposits (in the form of sight and savings deposits), as well as from implicit floors, in both the asset side and the liabilities side client business. In credit business, this is associated with a shift from index-linked positions towards fixed-interest positions, as increasingly fixed-interest loans are granted in the new business. Additional decisive factors are bond positions of the bank's own portfolio, own issues and the interest-rate swaps used to control the interest rate position. At the end of 2017, the Association of Volksbanks reports a relatively low positive term transformation. As at 31 December 2017, the present-value interest rate risk (regulatory interest rate risk statistics according to the OeNB standard procedure) amounted to 5.7 % of own funds, which is clearly below the regulatory limit of 20 %. The interest rate sensitivity in the form of the present value of a basis point (PVBP) is around euro -1.1 million.

The Asset-Liability-Committee (ALCO) is responsible for controlling the interest rate position of the Association of Volksbanks within the scope of risk limits defined by Risk Controlling and approved by the Managing Board within ALCO. The ALCO is the central body for the management of interest rate risks. It is convened monthly at the CO or ad hoc as required. The Asset Liability Management (ALM) function of the CO, 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 banks of the Association. The aim is to create a maturity structure contribution by way of positive term transformation. Effects on both income and present value are considered in managing the interest rate position. Interest rate risk reporting within the ALCO is taken care of by the Market and Liquidity Risk department of the CO.

Present-value risk measurement and limitation are mainly done on the basis of the interest rate gap (net position of the contractual or modelled fixed interest rates per maturity band), a banking book VaR based on historical simulations, the interest rate sensitivity in the form of a PVBP, and regulatory interest rate statistics. P&L risk measurement is implemented in the form of a net interest income (NII) simulation. In the process, the NII of the next years is calculated for five potentially unfavourable scenarios. For 2018, the NII decreases by euro 109 million in the least favourable scenario (a marked interest rate reduction (200 BP in parallel)). The results of the NII simulation and the banking book VaR are taken into account in the ICAAP. In both perspectives, positions with indefinite interest rates (e.g. in the form of sight and savings deposits, current account facilities) are consistently included in the risk measurement process by replication assumptions. The assumptions are determined on the basis of statistical analyses, supplemented by expert opinions. They are regularly reviewed for validity and validated in a group that is independent of the modelling process.

Concentration risk

No concentration risks exist within the interest rate risk.

Credit spread risk

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

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

The calculation of the credit spread VaR is based on a historical simulation. In 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 backtesting and validated in a group independent from the modelling approach on a recurring basis.

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

Euro thousand 31 Dec 2017	Credit Spread Value at Risk	10 basis point-shift
Section 30a of the Austrian Banking Act – Association of Volksbanks	121,895	-15,313

Euro thousand 31 Dec 2016	Credit Spread Value at Risk	10 basis point-shift
Section 30a of the Austrian Banking Act – Association of Volksbanks	140,711	-16,478

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

Concentration risk

Concentration risks can only arise on the level of issuers or risk clusters in the sense of similar issuers. Within Credit Spread Risk, risk clusters are monitored. Within the securities portfolio, the biggest concentrations currently exist in the Republic of Austria risk cluster with 44 %, covered bonds with 21 % and the Republic of Italy with 6 % of the carrying amount. Concentrations with individual issuers are limited by the issuer lines within credit risk.

Portfolio structure by credit rating:

Euro thousand	31 Dec 2017	31 Dec 2016
1A	1,514,343	1,551,264
1B-1C	199,773	256,616
1D-2A	93,939	101,008
2B-3A	399,523	426,567
3B-4E (NIG)	2,906	3,895
5A-5E (Default)	2	20
no rating	10	10
Total	**2,210,496**	**2,339,380**

Portfolio structure by sectors:

Euro thousand	31 Dec 2017	31 Dec 2016
Financial sector	569,034	508,888
Public sector	1,575,299	1,692,324
Corporates	36,832	37,798
No classification	29,331	100,370
Total	**2,210,496**	**2,339,380**

Top 10 exposures in the public sector:

Euro thousand 31 Dec 2017	Available for sale	Held to maturity	Loans and receivables	Total
Austria	912,209	10,308	0	922,517
Italy	116,057	20,000	0	136,057
Poland	97,284	0	0	97,284
Belgium	58,773	15,686	0	74,459
Czech Republic	56,520	0	0	56,520
Luxembourg	37,361	11,185	0	48,546
Portugal	48,102	0	0	48,102
Spain	42,105	0	0	42,105
France	0	40,074	0	40,074
Switzerland	0	1,582	25,637	27,219
Total	**1,368,411**	**98,835**	**25,637**	**1,492,883**
31 Dec 2016				
Austria	984,090	10,343	0	994,433
Italy	119,867	20,000	0	139,867
Poland	103,492	4,310	0	107,802
Switzerland	0	0	74,495	74,495
Belgium	61,549	15,766	0	77,314
Czech Republic	58,114	0	0	58,114
Portugal	40,128	0	0	40,128
Spain	43,860	0	0	43,860
Hungary	31,183	0	0	31,183
Slovakia	6,670	21,935	0	28,605
Total	**1,448,954**	**72,353**	**74,495**	**1,595,802**

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

Portfolio structure according to IAS 39 categories:

Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
31 Dec 2017				
Available for sale	1,804,193	0	29,347	1,833,540
Held to maturity und loans & receivables	350,319	26,637	0	376,956
Total	**2,154,513**	**26,637**	**29,347**	**2,210,496**

Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
31 Dec 2016				
Available for sale	1,911,629	0	100,788	2,012,417
Held to maturity und loans & receivables	251,968	74,995	0	326,963
Gesamt	**2,163,597**	**74,995**	**100,788**	**2,339,380**

Market risk in the trading book

The market risk in the trading book of the Association of Volksbanks is of minor importance. The trading book is kept centrally at the CO. The associated credit institutions 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 regulatory capital adequacy requirements of the trading book are calculated by means of the standard approach – the Association of Volksbanks does not use any internal model for market risk in the trading book. The limit structure reflects the risk and treasury strategy.

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

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

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

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

Apart from 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 (delta, gamma, vega, rho). Additionally, there are management action triggers and stop-loss limits.

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

The systems used ensure the daily unbiased valuation of the trading book items. All rules and organisational procedures in connection with the measurement and monitoring of market risks are summarised in the Market Risk guideline.

Foreign currency risk (open FX positions)

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

Currency Euro thousand	31 Dec 2017	31 Dec 2016
CZK	2,956	4,180
CHF	-2,506	1,062
USD	373	465
JPY	-346	-749
GBP	78	62
Other	855	1,081
Total	**1,411**	**6,102**

d) Liquidity risk

As the CO of the Association of Volksbanks, VBW is responsible for liquidity management across the entire Association and acts as “lender of last resort” for the primary banks. The primary banks cover their funding requirements and invest their excess liquidity via VBW. Both operative, 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. 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 of the CO is responsible for controlling the liquidity position of the Association within the scope of risk limits defined by Risk Controlling and approved by the Managing Board within ALCO. The ALCO of the CO 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, the Association of Volksbanks distinguishes between illiquidity risk and funding cost increase risk. Illiquidity risk is the risk to be unable to settle payment obligations when they are due. In case of illiquidity risk, additional subcategories, e.g. refinancing risk (roll-over risk), call risk and market liquidity risk are distinguished, which are of relevance especially in the context of liquidity stress testing. For the Association, which consists of retail banks, 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).

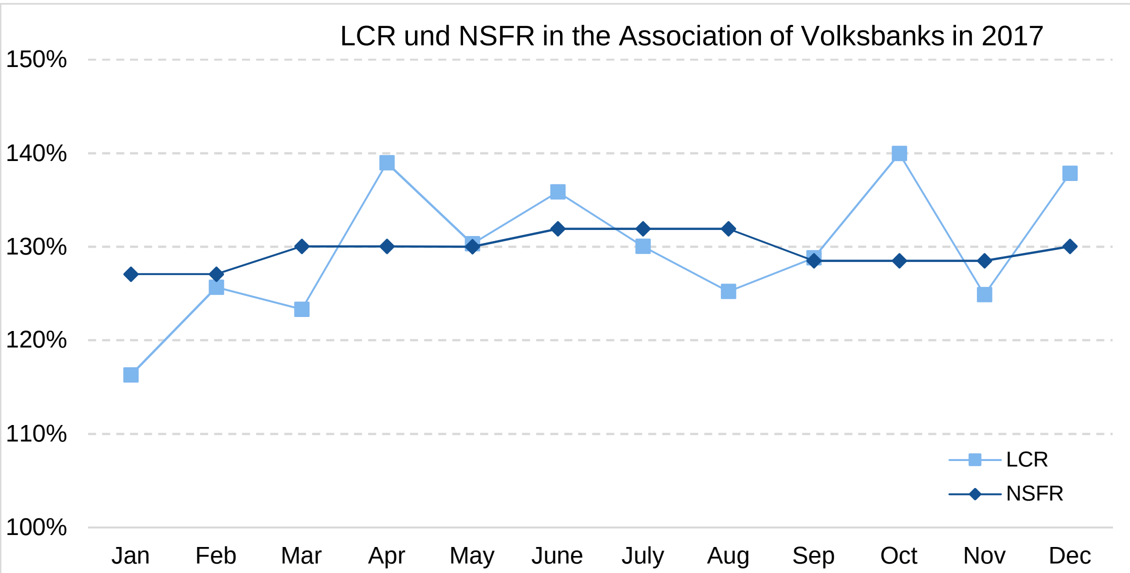
Illiquidity risk is managed by holding a sufficient liquidity buffer. VBW is responsible for the central management of the liquidity buffer for the whole of the Association. The liquidity buffer mainly consists of highly liquid bonds that are LCR-eligible for the major part, of deposits with the national 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.

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

The risk measurement and limitation of illiquidity risk is done through the regulatory indicators LCR and NSFR, the survival period from internal liquidity stress testing, and through additional operational 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 within the Association. In 2017, both indicators were always clearly above the regulatory limits. Since February, the LCR has always exceeded 120 % at the end of the month, indicating a comfortable liquidity situation.

Regulatory liquidity ratio LCR and NSFR in 2017:



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

Concentration risk

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

Operative liquidity management

The Liquidity Management department in the Treasury division is responsible for operational liquidity management. The department is the central unit within the Association of Volksbanks for matters regarding the pricing of liquidity (transfer pricing), the central management of collateral across the Association, the determination of the funding structure, the disposition of available liquid funds, and compliance with the refinancing strategy; it 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 collateral of the Association (bonds and credit claims) and underlying stock management for covered bonds
- Issue planning
- Daily liquidity forecast for the following 31 days, and weekly for the following 12 months
- Monitoring of refinancing positions of the Association, and the control system put into effect by VBW as CO with the approval under section 30a BWG, for the individual banks of the Association – a.o. liquidity reports, refinancing management, collateral utilisation, early warning system
- Compliance with minimum reserve regulations for the Association of Volksbanks
- Reporting to the CO Managing Board and to the ALCO

e) Operational risk

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

Organisation

Within the Association, 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, 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.

Operative risk management and risk controlling function

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

- 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 within OpRisk Management need to be adjusted to the respective bank, in compliance with the requirements of the Association, following the principle of proportionality.
- The appropriateness of the risk control and monitoring measures and other risk-minimising measures is assessed on an on-going basis, but at least once a year, and reported to the Managing Board. 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 the Association, 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.

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

f) Other risks

Other risks that the Association has to face are the investment risk, strategic risk, reputational risk, equity risk, and the business risk.

Investment risk is defined by the Association as the risk that any participation held is lost or impaired. As this risk is significant for the Association, it is quantified and taken into account in the risk-bearing capacity calculation.

Strategic risk is the risk of negative effects on capital and earnings due to business policy decisions or insufficient adjustment to changes of the economic environment.

Reputational risk is the risk of negative effects on the result of the bank due to a loss of reputation and an associated negative effect on the stakeholders (regulatory authority, owners, creditors, employees, customers).

The Association defines equity risk as the risk of an instable composition of internal equity in relation to the bank's type and size, or difficulties in quickly raising additional risk covering potentials if needed.

Business risk (yield risk) is the risk arising from the volatility of earnings and the associated risk of no longer being able to (fully) cover sticky fixed costs.

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.

While other risks, except for the investment risk, are not significant for the Association, they are nevertheless inherent in its operations. Organisational and process-based measures, in particular, have been implemented to manage other risks.

51) Fully consolidated companies[1)]

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
3V-Immobilien Errichtungs-GmbH; Wien	HD	100.00 %	100.00 %	35
BBG Beratungs- und Beteiligungsgesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	40
Domus IC Leasinggesellschaft m.b.H.; Salzburg	HD	100.00 %	100.00 %	18
Gärtnerbank Immobilien GmbH; Wien	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Wien	HD	100.00 %	100.00 %	35
VB Aktivmanagement GmbH; Klagenfurt	SO	100.00 %	100.00 %	35
VB Kärnten Leasing GmbH; Ferlach	FI	100.00 %	100.00 %	634
VB Rückzahlungsgesellschaft mbH; Wien	SO	100.00 %	100.00 %	35
VB Services für Banken Ges.m.b.H.; Wien	HD	98.89 %	98.89 %	327
VB Verbund-Beteiligung Region Wien eG; Wien	SO	90.42 %	90.42 %	3,857
VB-Immobilienverwaltungs- und -vermittlungs GmbH; Klagenfurt	HD	100.00 %	100.00 %	73
VBKS Leasing d.o.o.; Kranj	FI	100.00 %	100.00 %	542
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	HD	99.00 %	99.00 %	36
Volksbank AG, Schweiz; St. Margrethen	KI	100.00 %	100.00 %	6,419
Volksbank Aktiengesellschaft; Schaan	KI	100.00 %	100.00 %	37,359
Volksbank Salzburg Leasing Gesellschaft m.b.H.; Salzburg	FI	100.00 %	100.00 %	73
Volksbank Vorarlberg Leasing GmbH; Rankweil	FI	100.00 %	100.00 %	37
Volksbank Vorarlberg Marketing- und Beteiligungs GmbH; Rankweil	HD	100.00 %	100.00 %	36
Volksbank Vorarlberg Versicherungs-Makler GmbH; Dornbirn	HD	100.00 %	100.00 %	60
VVB Immo GmbH & Co KG; Rankweil	HD	100.00 %	100.00 %	10
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Wien	FI	100.00 %	100.00 %	872

1) All fully consolidated companies are under control

52) Companies included

Company names and headquarters	Type*	Nominal capital in euro thousand
Österreichische Ärzte- und Apothekerbank AG; Wien	KI	15,482
VB-Beteiligung GmbH in Liqu.; Klagenfurt	SO	100
Verwaltungsgenossenschaft Österreichische Apothekerbank eG; Wien	SO	270
Volksbank Kärnten eG; Klagenfurt	KI	34,746
Volksbank Niederösterreich AG; St. Pölten	KI	27,203
Volksbank Oberösterreich AG; Wels	KI	21,192
Volksbank Salzburg eG; Salzburg	KI	12,558
Volksbank Steiermark AG; Graz	KI	69,504
Volksbank Tirol AG; Innsbruck	KI	20,430
VOLKSBANK VORARLBERG e. Gen.; Rankweil	KI	1,052
VOLKSBANK WIEN AG; Wien	KI	132,894
Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung; Horn	KI	738

53) Unconsolidated affiliated companies

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
"VB-Real" Projektentwicklungs Gesellschaft m.b.H.; Wels	HD	100.00 %	100.00 %	500
ARBEITSGEMEINSCHAFT Für WIRTSCHAFTS-PR UND ÖFFENTLICHKEITSARBEIT IM STEIR. SALZKAMMERGUT GesnbR; Bad Aussee	SO	95.00 %	95.00 %	42
ARZ-Volksbanken Holding GmbH; Wien	HO	98.75 %	98.75 %	256
Atlas Bauträger GmbH; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	36
Atlas Beteiligungsgesellschaft mbH.; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	87
Cetium Immobilien GmbH in Liqu.; St. Pölten	SO	100.00 %	100.00 %	135
EVP Energieversorgung GmbH in Liqu.; Heidenreichstein	SO	99.99 %	99.99 %	35
Forum IC Leasinggesellschaft m.b.H.; Salzburg	FI	100.00 %	100.00 %	36
Freizeitcenter Betriebsführungs GmbH in Liqu.; Salzburg	SO	100.00 %	100.00 %	35
Hotel Erzherzog Johann Betriebsges. m.b.H.; Bad Aussee	SO	100.00 %	100.00 %	745
Immobilien Besitz- und Verwertungsgesellschaft mbH in Liqu.; Judenburg	HD	100.00 %	100.00 %	35
Immo-Contract Baden Maklergesellschaft m.b.H.; Baden	SO	100.00 %	100.00 %	175
IMMO-CONTRACT St. Pölten Maklergesellschaft m.b.H.; St. Pölten	SO	96.50 %	96.50 %	73
Immo-Contract Weinviertel GmbH; Mistelbach an der Zaya	SO	65.69 %	65.69 %	35
Meinhardgarage Gesellschaft m.b.H.; Innsbruck	SO	100.00 %	100.00 %	50
Meinhardgarage Gesellschaft m.b.H. & Co. KG; Innsbruck	SO	100.00 %	100.00 %	210
NEKRETNINE ADRIA d.o.o.; Rijeka	SO	100.00 %	100.00 %	3
Nordfinanz Vermögensberatung GmbH; Heidenreichstein	SO	99.99 %	99.99 %	150
Phönix Immobilien- und Bauträger GmbH; Graz	HD	100.00 %	100.00 %	35
REALCONSTANT Liegenschaftsverwertungs-Ges.m.b.H.; St. Pölten	SO	99.90 %	99.90 %	73
Realitäten Beteiligungs-GmbH; Schärding	SO	100.00 %	100.00 %	500
Resort Errichtungs- und Betriebsges.m.b.H.; Heidenreichstein	SO	99.76 %	99.76 %	42
Sporthotel Betriebsführungs GmbH; Salzburg	SO	100.00 %	100.00 %	35
Süd- und Weststeirische Immobilientreuhand GmbH; Graz	HD	100.00 %	100.00 %	35
TVB Bauträger Gesellschaft m.b.H. in Liqu.; Tulln	SO	100.00 %	100.00 %	36
UVB-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
V.I.P. Volksbank Immobilienprojekte VOBA Treuhand- und VerwaltungsgesellschaftmbH & Co KG; Salzburg	SO	100.00 %	100.00 %	7
VB - REAL Volksbank Krems-Zwettl Immobilien- und Vermögenstreuhandgesellschaft m.b.H.; Krems an der Donau	SO	100.00 %	100.00 %	727
VB Buchführung GmbH; Ferlach	SO	100.00 %	100.00 %	36
VB ManagementBeratung GmbH; Wien	SO	100.00 %	100.00 %	36
VB Real Estate Leasing Ismene GmbH; Graz	FI	100.00 %	100.00 %	36
VB Real Estate Leasing Viribus GmbH; Graz	FI	100.00 %	100.00 %	36
VB Realitäten Gesellschaft m.b.H.; Ferlach	SO	100.00 %	100.00 %	36
VBKA-Holding GmbH; Wien	SO	100.00 %	100.00 %	35
VOBA Treuhand- und Verwaltungsgesellschaft mbH; Salzburg	SO	100.00 %	100.00 %	37
Volksbank Salzburg Immobilien GmbH; Salzburg	SO	100.00 %	100.00 %	35
Volksbank Tirol Immobilien GmbH; Kufstein	SO	100.00 %	100.00 %	35
Volksbank Tirol Versicherungsservice GmbH; Innsbruck	SO	100.00 %	100.00 %	50
Volksbank Vorarlberg Immobilien GmbH & Co OG; Dornbirn	SO	100.00 %	100.00 %	109
VOME Holding GmbH; Wien	HO	100.00 %	100.00 %	35
VVB Liegenschaftsvermietungsgesellschaft mbH & Co KG; Rankweil	HD	100.00 %	100.00 %	10
Wohn + Wert Realitäten GmbH; Graz	HD	100.00 %	100.00 %	100

*Abbreviations Type

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

Vienna, 11 April 2018

Gerald Fleischmann
Chairman of the Managing Board

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

Josef Preissl
Deputy Chairman of the Managing Board

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

Rainer Borns
Member of the Managing Board

Control, Financial Data Steering, Finance, Legal and Compliance

Thomas Uher
Member of the Managing Board

Credit risk management, Risk controlling, Transition Credit

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BANKING ASSOCIATION

Audit Opinion

We have audited the Consolidated Financial Statements of the Banking Association according to section 30a of the Austrian Banking Act of

VOLKSBANK WIEN AG,
Vienna, Austria,

as the central organization and the assigned banks, which comprise the Banking Association's Consolidated Statement of Financial Position as of 31 December 2017, and the Consolidated Statement of Comprehensive Income, Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements of the Banking Association present fairly, in all material respects, the consolidated financial position of the Banking Association as of 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the accounting and valuation principles described in the Framework of Rules for the preparation of consolidated financial statements of the Banking Association 2017.

Basis for our Opinion

We conducted our audit in accordance with the Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities pursuant to these rules and standards are described in the „Responsibilities of the Auditor of Banking Association" section of our report. We are independent of the audited Banking Association in accordance with the Austrian commercial and banking 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.

Emphasis of matter

We would emphasize in particular,
- that the consolidated financial statements of the Banking Association were prepared in accordance with the Framework of Rules for the preparation of the consolidated financial statements of the Banking Association 2017 and
- their only purpose is to assist VOLKSBANK WIEN AG to meet the regulatory requirements and they shall not be used for any other purpose.

Our opinion is not modified in respect of these matters.

Key Audit Matters

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

Valuation of loans and advances to customers

Risk to the Consolidated Financial Statements

Loans and advances to customers represent a significant line item in the consolidated statement of financial position. As of 31 December 2017, the carrying amount of loans and advances to customers (gross) amounts to Euro 19,768.5 million, i.e. 78.06 % of total assets of Euro 25,323.3 million. The credit risk provisions for loans and advances to customers amount to Euro 362.0 million.

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

AUDITOR'S REPORT

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

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

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

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

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

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

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

Recognition of deferred tax assets on tax loss carryforwards
Risk to the Consolidated Financial Statement
As of 31 December 2017, tax loss carryforwards amount to EUR 584.2 million. Taking into account the corporate income tax rate of 25 %, there are potential deferred tax assets on tax loss carryforwards amounting to EUR 146.0 million. Based on future expected taxable income, the Banking Association recognized deferred tax assets on tax loss carryforwards amounting to EUR 56.4 million as of 31 December 2017.

The Managing Board of VOLKSBANK WIEN AG describes the approach to determine deferred tax assets on tax loss carryforwards in Note 3 t).

Recognition of deferred tax assets on tax loss carryforwards highly depends on estimates made by the Managing Board in respect of the future availability of sufficient taxable profit and the reversal of deferred tax liabilities.

The assessment of the realisation of tax loss carryforwards, which were mainly recognized in VOLKSBANK WIEN AG, is based on the forecasts and is subject to uncertainties and therefore represents a risk to the consolidated financial statements.

AUDITOR'S REPORT

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

We evaluated the assumptions underlying the forecast of future taxable profits on which deferred tax assets are expected to be realized.

For this purpose, we compared the key input parameters for the forecast of future taxable profits with internal budgeting and with an externally prepared valuation report of VOLKSBANK WIEN AG as of 31 December 2017 and assessed them. Moreover, we assessed the appropriateness of the assumptions made, using externally available data, such as macroeconomic forecasts, and the company's past results is respect of their accuracy.

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

Management‘s Responsibility and Responsibility of the Audit Committee for the Consolidated Financial Statements of the Banking Association

Management is responsible for the preparation and fair presentation of the consolidated financial statements of the Banking Association in accordance with the accounting and valuation principles described in the Framework of Rules for the preparation of the consolidated financial statements of the Banking Association 2017 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements of the Banking Association that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Banking Association'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 Banking Association or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Banking Association's financial reporting process.

Banking Association´s Auditor´s Responsibilities

Our objective art to obtain reasonable assurance about whether the consolidated financial statements of the Banking Association as a whole are free from material misstatements - whether due to fraud or error - and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material, if individually or inaggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements of the Banking Association.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing we exercise professional judgement and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material 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 Banking Associations's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

AUDITOR'S REPORT

- 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 Banking Assocation'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 Banking Assocation to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements of the Banking Association, including the notes, and whether the consolidated financial statements of the Banking Association 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 Banking Association to express an opinion on the consolidated financial statements of the Banking Association. We are responsible for the direction, supervision and performance of the audit of the Banking Association. 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 of the Banking Association 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

Report on the Banking Association's Management Report for the Consolidated Financial Statements of the Banking Association

In accordance with Austrian Generally Accepted Accounting Principles the Banking Association's management report is to be audited as to whether it is consistent with the consolidated financial statements of the Banking Association and prepared in accordance with legal requirements.

Management is responsible for the preparation of the Banking Association's management report in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements.

We have conducted our audit in accordance with generally accepted standards on the audit of Banking Association's management reports as applied in Austria.

Opinion

In our opinion, the Banking Association´s 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 of the Banking Association and our understanding of the Banking Association and its environment, we did not note any material misstatements in the management report of the Banking Association.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report (Banking Association's report), other than the consolidated financial statements of the Banking Association, the management report of the Banking Association, and the auditor's report. We expect the annual report (Banking Association's report) to be provided to us after the date of the auditor's report.

AUDITOR'S REPORT

Our opinion on the consolidated financial statements of the Banking Association 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 of the Banking Association or any apparent material misstatement of fact.

Additional Information in accordance with Article 10 EU Regulation

At the Annual General Meeting dated 18 May 2016, we were elected as the auditor and appointed by the supervisory board on 12 July 2017 to audit the Banking Association´s consolidated financial statements of VOLKSBANK WIEN AG. We have been auditor of the Banking Association´s consolidated financial statements of VOLKSBANK WIEN AG from the year ended 31 December 2015 without interruption.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Banking Association.

Engagement Partner

The engagement partner is Mr. Walter Reiffenstuhl.

Restriction of Use

Our report must not be used for any other purpose than to meet regulatory requirements and shall not be used for any other purpose. Third party claims cannot be derived from our report. A transmission of our report requires our explicit prior consent.

Vienna, 11 April 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Walter Reiffenstuhl
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid.

TERMINOLOGY AND IMPRINT

TERMINOLOGY

Association of Volksbanks
Apart from the banks of the association of credit institutions, Volksbank-Einlagensicherung eG and Volksbank Vertriebs- und Marketing eG also belong to the Association of Volksbanks.

Banking association in accordance with section 30a of the Austrian Banking Act (BWG)
The banking association comprises the primary banks as associated banking institutions and VOLKSBANK WIEN AG as the central organisation.

Primary banks
9 regional Volksbanks, 1 specialist bank (Österreichische Ärzte- und Apothekerbank AG)
status: December 2017

VOLKSBANK WIEN AG
is one of the regional Volksbanks and also the central organisation of the banking association.

Austrian Cooperative Association
Within the Association of Volksbanks, audit and representation of interests shall be effected by Österreichischer Genossenschaftsverband (Schulze-Delitzsch) [Austrian Cooperative Association] – ÖGV in brief. Moreover, according to the BWG, ÖGV shall be responsible for early identification of risks regarding its members, together with Volksbank Einlagensicherung eG. The primary banks as well as Volksbank Einlagensicherung eG are regular members of ÖGV.

IMPRINT

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Any role discriptions in this consolidated annual report that are used only in the masculine form apply analogously to the feminine form.