VOLKSBANK

ANNUAL REPORT

ASSOCIATION OF VOLKSBANKS

2018

KEY FIGURES OF THE ASSOCIATION OF VOLKSBANKS

Euro million	31 Dec 2018	31 Dec 2017	31 Dec 2016
Statement of financial position			
Total assets	**26,564**	**25,323**	**24,466**
Loans and receivables customers (net)	**20,502**	**19,407**	**18,988**
Amounts owed to customers	**21,555**	**20,850**	**20,018**
Debts evidenced by certificates	**529**	**624**	**966**
Subordinated liabilities	**634**	**671**	**325**
Own funds according to Basel III for the association of Volksbanks			
Common equity tier 1 capital (CET1)	1,761	1,636	1,642
Additional tier 1 capital (AT1)	14	10	0
Tier 1 capital (T1)	**1,775**	**1,646**	**1,642**
Tier 2 capital (T2)	523	553	362
Own funds	**2,298**	**2,199**	**2,003**
Risk weighted exposure amount - credit risk	12,301	11,700	11,609
Total risk exposure amount settlement risk	0	0	0
Total risk exposure amount market risk	86	112	153
Total risk exposure amount operational risk	1,288	1,369	1,442
Total risk for credit valuation adjustment	56	60	61
Other risk exposure amount	845	0	0
Total risk exposure amount	**14,577**	**13,240**	**13,266**
Common equity tier 1 capital ratio[1]	**12.08%**	**12.36%**	**12.38%**
Tier 1 capital ratio[1]	**12.18%**	**12.43%**	**12.38%**
Equity ratio[1]	**15.77%**	**16.61%**	**15.10%**
Income statement	**1-12/2018**	**1-12/2017**	**1-12/2016**
Net interest income	419.8	431.8	409.2
Risk provision	6.3	-45.4	-92.0
Net fee and commission income	233.5	236.9	239.8
Net trading income	-0.7	14.4	8.9
Result from financial investments	-3.1	-2.8	5.4
Other operating result	28.4	-2.8	-28.2
General administrative expenses	-568.2	-585.5	-615.2
Restructuring result	-4.2	1.3	3.1
Result from companies measured at equity	11.5	-7.6	0.3
Result from discontinued operation	0.0	0.0	-15.6
Result before taxes	**123.5**	**40.1**	**-84.4**
Income taxes	-8.3	21.0	5.0
Result after taxes	**115.2**	**61.2**	**-79.5**
Non-controlling interest	0.0	0.0	0.0
Consolidated net income	**115.2**	**61.1**	**-79.5**
Key ratios[2]			
Operating cost-income-ratio	**84.7%**	**85.5%**	**86.9%**
ROE before taxes	**6.8%**	**2.3%**	**-3.9%**
ROE after taxes	**6.4%**	**3.5%**	**-3.8%**
ROE consolidated net income	**6.4%**	**3.6%**	**-3.8%**
NPL ratio	**2.7%**	**3.7%**	**4.5%**
Net interest margin	**1.6%**	**1.7%**	**1.7%**
Leverage ratio	**6.4%**	**6.2%**	**6.5%**
Net stable funding ratio	**125.9%**	**130.0%**	**127.1%**
Loan deposit ratio	**95.6%**	**94.9%**	**95.7%**
Coverage ratio I	**35.7%**	**37.4%**	**31.9%**
Coverage ratio III	**103.3%**	**101.6%**	**94.2%**
Resources	**1-12/2018**	**1-12/2017**	**1-12/2016**
Staff average	**3,903**	**4,202**	**4,560**
Thereof domestic	3,863	4,139	4,529
Thereof abroad	40	64	31
	31 Dec 2018	**31 Dec 2017**	**31 Dec 2016**
Staff at end of period	**3,778**	**4,129**	**4,347**
Thereof domestic	3,740	4,068	4,281
Thereof abroad	38	61	66
Number of branches	**304**	**343**	**402**
Thereof domestic	303	340	399
Thereof abroad	1	3	3
Number of customers	**1,109,145**	**1,133,431**	**1,177,956**

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

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Report on the business development and economic situation

Business development

After the strong merger years of 2016 and 2017, the last merger was carried out by way of contribution of the banking operation of Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung (VB Horn) into VBW in 2018. On 21 March 2018, the general meeting of VB Horn unanimously resolved upon the merger with VBW, which was implemented in the first half of 2018.

The members of the Austrian Association of Volksbanks continue to position themselves as strong regional banks with a Retail and Corporate focus in Austria. As CO, VBW assumes extensive management and steering functions within the Association 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 2018 again, the Association of Volksbanks paid special attention to the management of non-performing loans (NPL). The NPL ratio was reduced to 2.7% (31 December 2017: 3.7%) in the past business year.

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

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

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

Economic environment

According to preliminary information by the Austrian Institute of Economic Research (WIFO) (January 2019), Austria's gross domestic product has grown by 2.7% year-on-year in 2018. This constitutes a slight increase in dynamics as compared to 2017, when growth had only amounted to 2.6% based on revised data. Accordingly, the growth rate of the Austrian economy in the past year was markedly higher than that of the euro zone, which – according to estimates by the European Central Bank (ECB) – has grown by 1.9%. Growth in Austria was due both to industrial production and to booming construction as well as services sectors.

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

Monetary policy in the euro zone remained expansive also in the previous year. The ECB left the main refinancing rate at 0.00%, the interest rate for the prime refinancing facility at 0.25% and the deposit rate at -0.40%. After reducing the volume of monthly net securities purchases from euro 80 billion to euro 60 billion already in April 2017, the ECB further decreased net purchases to euro 30 billion in January 2018 and to euro 15 billion in October. In December 2018, net securities purchases were ceased completely. Discontinued securities will continue to be reinvested.

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

In 2018, the tightening of monetary policy continued in the USA; in four steps, the Fed raised the target range for the Fed Funds Rate by a total of 100 basis points, to 2.25% – 2.50%. In that year, the euro depreciated from 1.21 USD/EUR to 1.15 USD/EUR.

The euro also weakened against the Swiss franc, from 1.17 CHF/EUR in January to 1.13 CHF/EUR in December, which was due to a certain extent to the role of the CHF as a safe haven in the middle of macroeconomic risks increasingly perceived over the course of the year. In connection with a heightened sense of risk amid slackening economic data, a correction took place on the European equity markets in the fourth quarter, and the ATX ended the year with a decrease of just under 20%.

Regional development and branches of industry

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

In Lower Austria, the development of regional value added compared to other federal Länder was inconspicuous. At a growth rate of 3.6% Y/Y of gross value added in the first half of the year, the material goods production sector, which is very important for this federal Land, was very strong. High growth rates were also reported in the construction sector. The decline in the number of unemployed persons was more pronounced than in the other federal Länder.

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

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

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

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

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

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

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

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

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

Result of the Association

IFRS 9 financial instruments entered into force with effect from 1 January 2018. According to IFRS 9 transitional provisions, any retrospective application to previous reporting periods is not required; therefore, the comparative figures from the 2017 financial year were not adjusted. In the course of transition to IFRS 9, also the presentation of the items was amended. The figures of the comparative period were adjusted to the amended structure.

The result of the Association before taxes amounts to euro 123 million (2017: euro 40 million). The result of the Association after taxes and non-controlling interest amounts to euro 115 million (2017: euro 61 million).

The net interest income for the 2018 business year amounts to euro 420 million, thus undercutting the income for the comparative period (2017: euro 432 million) by euro 12 million. The decrease is essentially due to higher interest expenses from the subordinate bond issued in the fourth quarter of 2017, in the amount of euro -8 million, as well as lower net interest income from derivatives in the amount of euro -7 million. A contrary effect derives from debts evidenced by certificates in the amount of euro 4 million.

In 2018, at euro +6 million, the risk provision item has improved by euro 52 million against the comparative period (euro -45 million). This effect essentially results from lower allocations to individual allowances for impairment.

The net fee and commission income in the reporting period amounts to euro 233 million, a slight decrease by euro 3 million compared to the previous period (2017: euro 236 million). The decrease is essentially due to lower fee and commission income from securities business in the amount of euro -9 million and was partially offset by higher income from checking account business and payment transactions (by euro 3 million), as well as euro 2 million from foreign exchange, foreign notes and coins, and precious metals business.

The net trading income in the 2018 business year amounts to euro -1 million, a decrease by euro 15 million compared to the previous period (euro 14 million). In addition to a decline in operations, the measurement results of trading book derivatives that are used for hedging investment book items as well as last year's positive measurement result of currency-related transactions, mainly at Volksbank Vorarlberg, are responsible for this decline.

The result from financial investments for the reporting period amounts to euro -3 million, and has approximately remained the same compared to the previous period (euro -3 million). The valuation of SPPI-non-compliant loans results in a loss of euro -14 million in the reporting period. This compares to higher valuation results from derivatives of euro 4 million and investment properties of euro 5 million. Among others, the valuation of investment properties includes income from the sale of one property in the amount of euro 3 million. Moreover, the valuation of debts evidenced by certificates that are now measured at fair value through profit or loss, due to the business model, leads to a positive result in the amount of euro 2 million.

The other operating result for the 2018 business year amounts to euro 28 million (2017: euro -3 million). Income of euro 15 million is included from the sale of VB Switzerland in the first quarter of 2018. Additionally, income from allocations from the

Gemeinschaftsfonds (common fund) were reported in the amount of euro 10 million, as well as proceeds from the sale of intangible and tangible assets in the amount of euro 10 million. A provision was made in the amount of euro -7 million for interest claims from corporate loans with floors. In the previous year, the position included an allocation to provisions for interest claims for the charging of negative interest rates in the amount of euro -11 million.

General administrative expenses of euro 568 million (2017: euro 585 million) have decreased by euro 17 million compared to the previous year. By comparison with the end of 2017, the headcount decreased by 344 from 4,121 and now amounts to 3,777 employees. This decrease coincided with a reduction of staff expenses by euro 17 million from euro 344 million in the previous year to euro 326 million in 2018. In the sphere of administrative expenses, an increase by euro 7 million from euro 208 million to euro 215 million occurred. This is essentially due to higher legal and consultancy expenses as well as IT costs. By comparison with the previous period (2017: euro 34 million), depreciation on tangible assets decreased by euro 7 million and amounts to euro 27 million for the 2018 business year.

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

In the reporting year, the result of companies measured at equity amounted to euro 12 million (2017: euro -8 million). The increase is essentially based on the valuation of the company shares acquired in VB Verbund Beteiligung eG, and on the current result.

Due to the tax planning of the next four years, it was possible, in the 2018 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 261 million (2017: euro 359 million), no deferred tax assets are recognised. Deferred tax is recognised for the remaining valuation differences, especially in connection with financial instruments.

Financial position

As at 31 December 2018, total assets amount to euro 26.6 billion, increasing by euro 1.2 billion compared to the end of 2017 (euro 25.3 billion), essentially due to the increase in loans to and receivables from customers.

As at 31 December 2018, loans to and receivables from customers less risk provisions amount to euro 20.5 billion, thus increasing by euro 1.1 billion compared to the previous year (euro 19.4 billion), with VBW as well as Volksbank Lower Austria and Volksbank Tyrol contributing the major part of this increase.

Financial investments of euro 2.5 billion have increased slightly compared to the previous year (euro 2.3 billion), mainly because of investments in bonds.

Apart from vacant retail branches and investment properties, assets held for sale essentially include assets of VB Liechtenstein that are very likely to be sold in the first quarter of 2019.

Amounts owed to credit institutions in the amount of euro 0.6 billion have slightly increased compared to the previous year (euro 0.4 billion).

Amounts owed to customers in the amount of euro 21.6 billion have increased by euro 0.7 billion compared to the end of 2017 (euro 20.8 billion). The increase mainly originates from VBW, as well as the Volksbanks in Lower Austria and Tyrol.

As at 31 December 2018, debts evidenced by certificates amount to euro 0.5 billion and have decreased compared to the previous year (euro 0.6 billion) mainly due to redemptions.

The equity positions (including company shares and non-controlling interests) increased by euro 102 million from euro 1.8 billion to euro 1.9 billion. An amount of euro 13 million was recognised from the effect of initial application of IFRS 9. The increase due to the result of the Association in the amount of euro 115 million is partially offset by contrary effects from the disposal of VB Switzerland in the currency reserve of euro -4 million, valuation of participations after deduction of deferred taxes of euro -6 million, as well as distributions of VBW to its shareholders of euro -7 million. Moreover, deconsolidations were effected that are shown in the line Changes to scope of consolidation, which reduced equity by euro -6 million.

Report on branch establishments

The Association does not have any branch establishments.

Financial performance indicators

As at 31 December 2018, the regulatory own funds of the VBW group of credit institutions amount to euro 2.3 billion (2017: euro 2.2 billion). The aggregate risk amount was euro 14.6 billion (2017: euro 13.2 billion) as at 31 December 2018. The Tier I capital ratio in relation to total risk amounts to 12.1% (2017: 12.4%), the equity ratio in relation to total risk is 15.8% (2017: 16.6%).

Due to the amended classification of speculative real estate financing transactions, RWAs increased by euro 817 million as at 31 December 2018. Based on the available figures of the Association of Volksbanks, however, the capital ratios continue to be complied with. Regulatory capital requirements were again increased by the ECB and constitute a challenge for the Association of Volksbanks, since meeting them will require capital enhancement measures. Regulatory own funds, aggregate risk amount and the key indicators calculated therefrom were determined acc. to the CRR (EU Regulation No. 575/2013). For more detailed information, please refer to the Notes (especially Chapter 36).

Performance indicators	2018	2017	2016
Return on equity before taxes	6.8%	2.3%	-3.9%
Return on equity after taxes	6.4%	3.5%	-3.8%
Cost-income-ratio	84.7%	85.5%	86.9%

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

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

The operational cost-income ratio is calculated from operating income in relation to operating expenses. The operating income consists of net interest income, net fee and commission income, net trading income, as well as the other operating result, and result of a disposal group, if positive. Operating expenses include 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 2018, Human Resources was dealing with the follow-up of the previous years' mergers and the implementation of the last 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. By way of example, the new digital appraisal interview and the unified definition of job descriptions across the Association may be mentioned here. They were 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 regulatory aspects were included. At the same time, a competence model was worked out for the respective job descriptions. In the future, the job descriptions will enable career and development paths to be attended to and developed 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. A pilot project concerning the application of new and digital learning opportunities (VR headsets) was started successfully.

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 was completed by the end of 2018.

Report on the future development and risks of the Association

Future development of the Association

Economic environment

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

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

OeNB expects that the Austrian inflation rate, which is still expected to be above 2% this year, will return to the ECB's target inflation rate of 1.9% by 2021. The forecast of the European Central Bank for the average inflation rate in the euro zone for 2019 amounts to a mean of 1.6%. Hence, the rate of price increases would not quite reach the target inflation rate of the European Central Bank of a little under 2% again in 2019, but would achieve the same approximately at 1.8% in 2021. This in combination with the ECB's monetary easing would suggest a continuation of the low-interest environment in 2019, although continuing monetary tightening in the USA should provide for a slight upward trend as regards returns, and also in Europe, a gradual normalisation of monetary policy is expected.

The risks associated with this outlook are manifold. They include, in particular, the introduction of trade obstacles that may affect Austrian exporters and suppliers and subsequently burden other companies and the employment situation of private households, which would also be reflected in banking business. A modification of growth rates in the neighbouring countries might also affect tourism to a certain extent. Tensions within the European Union in connection with the exit negotiations with Great Britain or any increase in political uncertainty in the member states, e.g. after elections, constitute a risk for the course of economic development within the region. A rapid rise in interest rates would also have to be classified as a risk for economic activity and the real estate markets. Additionally, geopolitical conflicts may also potentially harm the cautious (by comparison with previous years), but basically positive economic outlook.

Future development of the 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 12.25%, a total capital ratio of at least 16%, an NPL (non-performing loans) ratio of no 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 be over 12% within the Association of Volksbanks.

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

Significant risks and uncertainties

As regards the legally required disclosures on the use of financial instruments, the risk management targets and methods as well as the existing risk of price changes, default, liquidity and cash flow risks, please refer to the information contained in the Notes (in particular the risk report in chapter 52).

Report on research and development

The 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. The data is then processed using the Tagetik consolidation software. Checks are effected based on the dual-control principle as well as an additional review by the department manager.

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

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

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

Risk assessment

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

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

Information and communication

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

The staff of the group accounting function are regularly briefed with respect to amendments in international accounting, in order to identify any risks of unintentional false reporting at an early stage. Moreover, 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 documentation of the number of checks carried out in relation to those specified.

FINANCIAL STATEMENTS

Statement of comprehensive income

INCOME STATEMENT	Note	1-12/2018 Euro thousand	1-12/2017 Euro thousand	Changes Euro thousand	%
Interest and similar income		520,801	533,531	-12,730	-2.39 %
Interest and similar expenses		-101,247	-101,724	478	-0.47 %
Valuation result - modification		277	0	277	100.00 %
Net interest income	4	419,831	431,806	-11,975	-2.77 %
Risk provision	5	6,313	-45,413	51,726	-113.90 %
Fee and commission income		267,271	267,932	-661	-0.25 %
Fee and commission expenses		-33,816	-31,033	-2,782	8.97 %
Net fee and commission income	6	233,455	236,899	-3,444	-1.45 %
Net trading income	7	-678	14,362	-15,039	-104.72 %
Result from financial investments	8	-3,076	-2,787	-289	10.37 %
Other operating result	9	28,432	-2,850	31,282	< -200.00 %
General administrative expenses	10	-568,157	-585,542	17,385	-2.97 %
Restructuring result	11	-4,170	1,276	-5,446	< -200.00 %
Result from companies measured at equity		11,524	-7,621	19,144	< -200.00 %
Result before taxes		**123,475**	**40,131**	**83,344**	**> 200.00 %**
Income taxes	12	-8,276	21,027	-29,303	-139.36 %
Result after taxes		**115,199**	**61,157**	**54,041**	**88.36 %**
Result attributable to shareholders of the parent company (Consolidated net result)		**115,173**	**61,147**	**54,026**	**88.35 %**
thereof from continued operation		115,173	61,147	54,026	88.35 %
Result attributable to non-controlling interest		26	11	16	148.37 %
thereof from continued operation		26	11	16	148.37 %

Other comprehensive income

	1-12/2018 Euro thousand	1-12/2017 Euro thousand	Changes Euro thousand	%
Result after taxes	**115,199**	**61,157**	**54,041**	**88.36 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation of obligation of defined benefit plans (including deferred taxes)	3,858	2,464	1,394	56.57 %
Revaluation reserve (including deferred taxes)	1,282	0	1,282	100.00 %
Fair value reserve - equity instruments (including deferred taxes)	-5,679	0	-5,679	100.00 %
Revaluation of own credit risk (including deferred taxes)	-1,836	0	-1,836	100.00 %
Total items that will not be reclassified to profit or loss	-2,376	2,464	-4,840	-196.41 %
Items that may be reclassified to profit or loss				
Currency reserve	-4,032	-6,431	2,399	-37.30 %
Fair value reserve - debt instruments (including deferred taxes)				
Change in fair value	-2,361	78,866	-81,227	-102.99 %
Net amount transferred to profit or loss	131	-153	285	-185.71 %
Change in deferred taxes arising from untaxed reserve	-1,793	10	-1,803	< -200.00 %
Change from companies measured at equity	-2,481	2,517	-4,998	-198.56 %
Total items that may be reclassified to profit or loss	**-10,536**	**74,810**	**-85,345**	**-114.08 %**
Other comprehensive income total	**-12,911**	**77,274**	**-90,185**	**-116.71 %**
Comprehensive income	**102,287**	**138,431**	**-36,144**	**-26.11 %**
Comprehensive income attributable to shareholders of the parent company	**102,259**	**138,419**	**-36,159**	**-26.12 %**
thereof from continued operation	102,259	138,419	-36,159	-26.12 %
Comprehensive income attributable to non-controlling interest	28	12	16	132.44 %
thereof from continued operation	28	12	16	132.44 %

Interest and similar income included income in the amount of euro 494,490 thousand (1-12/2017: euro 519,007 thousand), which are calculated based on effectiv interest method.
Reclassification were done from net interest income to result from financial investments due to changes in presentation. For detailed information, please refer to note 4.

Statement of financial position as at 31 December 2018

	Note	31 Dec 2018 Euro thousand	31 Dec 2017 Euro thousand	Changes Euro thousand	%
ASSETS					
Liquid funds	13	1,731,644	2,001,338	-269,694	-13.48 %
Loans and receivables credit institutions	14, 15	469,491	494,848	-25,357	-5.12 %
Loans and receivables customers	14, 15	20,502,248	19,406,540	1,095,708	5.65 %
Assets held for trading	16	56,312	63,587	-7,275	-11.44 %
Financial investments	15, 17	2,468,431	2,292,273	176,158	7.68 %
Investment property	18	47,097	52,180	-5,082	-9.74 %
Companies measured at equity	19	88,499	70,456	18,043	25.61 %
Participations	20	109,022	117,602	-8,580	-7.30 %
Intangible assets	21	998	1,591	-593	-37.27 %
Tangible assets	22	327,245	413,672	-86,427	-20.89 %
Tax assets	23	100,333	92,602	7,730	8.35 %
Current taxes		7,570	2,413	5,157	> 200.00 %
Deferred taxes		92,762	90,190	2,573	2.85 %
Other assets	24	153,166	190,476	-37,310	-19.59 %
Assets held for sale	25	509,183	126,105	383,078	> 200.00 %
TOTAL ASSETS		**26,563,668**	**25,323,270**	**1,240,398**	**4.90 %**
LIABILITIES					
Amounts owed to credit institutions	26	595,091	448,740	146,351	32.61 %
Amounts owed to customers	27	21,555,395	20,849,571	705,824	3.39 %
Debts evidenced by certificates	28	529,329	623,633	-94,303	-15.12 %
Liabilities held for trading	29	71,785	77,459	-5,674	-7.32 %
Provisions	30, 31	250,120	264,261	-14,142	-5.35 %
Tax liabilities	23	19,626	23,158	-3,532	-15.25 %
Current taxes		8,705	9,995	-1,290	-12.91 %
Deferred taxes		10,920	13,163	-2,242	-17.04 %
Other liabilities	32	508,850	508,866	-15	0.00 %
Liabilities held for sale	33	544,420	103,684	440,736	> 200.00 %
Subordinated liabilities	34	634,052	671,159	-37,107	-5.53 %
Total nominal value cooperative capital shares	35	4,249	4,010	239	5.96 %
Subscribed capital	35	299,844	288,640	11,204	3.88 %
Reserves	35	1,548,743	1,457,918	90,825	6.23 %
Non-controlling interest	35	2,164	2,171	-7	-0.32 %
TOTAL LIABILITIES		**26,563,668**	**25,323,270**	**1,240,398**	**4.90 %**

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

Changes in equity and cooperative capital shares

Euro thousand	Subscribed capital [1]	Reserves	Shareholders' equity	Non-controlling interest	Equity	Cooperative capital shares [2]	Equity and cooperative capital shares
As at 1 January 2017	**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
Revaluation of obligation of defined benefit plans (including deferred taxes)		2,463	2,463	1	2,464		2,464
Currency reserve		-6,431	-6,431		-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		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	0	-65,159	-65,159	2,025	-63,134	-369	-63,504
As at 31 December 2017	**288,640**	**1,457,918**	**1,746,558**	**2,171**	**1,748,729**	**4,010**	**1,752,739**
Impact of adopting IFRS 9		**12,598**	**12,598**		**12,598**		**12,598**
As at 1 January 2018 restated	**288,640**	**1,470,516**	**1,759,157**	**2,171**	**1,761,328**	**4,010**	**1,765,337**
Consolidated net income		115,173	115,173	26	115,199		115,199
Change in deferred taxes arising from untaxed reserve		-1,793	-1,793	0	-1,793		-1,793
Revaluation of obligation of defined benefit plans (including deferred taxes)		3,856	3,856	2	3,858		3,858
Currency reserve		-4,032	-4,032	0	-4,032		-4,032
Revaluation reserve (including deferred taxes)		1,282	1,282		1,282		1,282
Fair value reserve - equity instruments (including deferred taxes)		-5,679	-5,679	0	-5,679		-5,679
Fair value reserve - debt instruments (including deferred taxes)		-2,229	-2,229	0	-2,229		-2,229
Own credit risk reserve (including deferred taxes)		-1,836	-1,836	0	-1,836		-1,836
Change from companies measured at equity		-2,481	-2,481		-2,481		-2,481
Comprehensive income	0	102,259	102,259	28	102,287	0	102,287
Dividends paid		-7,347	-7,347	-16	-7,363		-7,363
Changes in base amount regulation	921	0	921		921	-921	0
Changes scope of consolidation	10,328	-16,371	-6,043	0	-6,043	-38	-6,081
Change in cooperative capital and participation capital	0	0	0		0	760	760
Reclassification fair value reserve due to sale		0	0		0		0
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation	0	75	75	-19	56	3	60
As at 31 December 2018	**299,844**	**1,548,743**	**1,848,587**	**2,164**	**1,850,751**	**4,249**	**1,855,000**

thereof obtained in reserves:

Euro thousand	31/12/2018	31/12/2017
Currency reserve	12,498	16,610
thereof through profit or loss	112	-106
Fair value reserve	-705,987	86,611
thereof deferred taxes	235,329	-28,903
Own credit risk reserve	2,523	0
thereof deferred taxes	-841	0

1) Subscribed capital incl. participation capital and cooperative capital shares, pursuant to IFRIC 2 eligible as equity.
2) 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	Note	1-12/2018	1-12/2017
Annual result (before non-controlling interest)		**115,199**	**61,157**
Non-cash positions in annual result and other adjustments			
Net interest income	4	-419,554	-423,347
Income from participations	8	-3,168	-3,589
Depreciation, amortisation, impairment and reversal of impairment of financial instruments and fixed assets	8, 10	9,263	60,014
Allocation to and release of provisions, including risk provisions	5, 8, 11	18,209	57,199
Gains from the sale of financial investments and fixed assets	8, 9	-25,459	-2,330
Result from contribution of assets and liabilities	2	0	-8,213
Income taxes	12	9,027	-21,027
Changes in assets and liabilities from operating activities			
Loans and advances to credit institutions	14	-85,013	121,234
Loans and advances to customers	14	-1,138,359	-527,936
Trading assets	16	3,617	15,841
Financial investments	17	134,886	235,926
Investment property	18	17,240	11,671
Other assets from operating activities	24	7,469	8,748
Amounts owed to credit institutions	26	148,369	33,474
Amounts owed to customers	27	1,234,795	833,270
Debts evidenced by certificates	28	-95,606	-323,202
Derivatives	16, 24, 29, 32	24,095	-76,307
Other liabilities	32	-22,937	-76,263
Interest received		470,536	491,675
Interest paid		-75,625	-91,536
Dividends received		3,167	3,539
Income taxes paid		-25,618	-10,427
Cash flow from operating activities		**304,532**	**369,571**
Proceeds from the sale or redemption of			
Financial investments at amortised cost	17	0	0
Participations	20	315	1,206
Intangible and tangible assets	21, 22	27,260	16,361
Disposal of subsidiaries (net of cash disposed)	2	7,257	0
Payments for the acquisition of			
Financial investments at amortised cost	17	-366,848	-112,286
Participations	20	-10,851	-1,512
Intangible and tangible assets	21, 22	-15,287	-19,124
Acquisition of subsidiaries - liquid funds	2	0	808
Cash flow from investing activities		**-358,155**	**-114,547**
Change in cooperative capital and participation capital	35	760	-1,476
Dividends paid	35	-7,363	-13,935
Cash inflow of subordinated liabilities	34	4,268	412,837
Cash outflow of subordinated liabilities	34	-42,651	-61,278
Cash flow from financing activities		**-44,987**	**336,149**
Cash and cash equivalents at the end of previous period	13	**1,990,348**	**1,401,998**
Cash flow from operating activities		304,532	369,571
Cash flow from investing activities		-358,155	-114,547
Cash flow from financing activities		-44,987	336,149
Effect of currency translation		1,316	-2,823
Cash and cash equivalents at the end of period	13	**1,893,054**	**1,990,348**

Details of the calculation method of cash flow statement are shown in note 3) kk).
Details to the changes in subordinated liabilities are shown in note 34).

NOTES

1) General information

VOLKSBANK WIEN AG (VBW), with 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, hence, 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 thousands 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 20 March 2019 and then subsequently submitted to the Supervisory Board for notice.

a) Accounting principles for the Association

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), if 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 2018 and 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 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 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.

2) Presentaion and changes in the scope of consolidation

In December 2018 Realitäten Beteiligungs-GmbH acquired interests in VB Verbund-Beteiligung eG. (VB Verb). Therefore, according to CRR the company must be classified as financial institution, as it exceeds the materiality limits of Art. 19 CRR. From this moment on it must be included in the consolidated financial statements of the Association. Recognition of prior year results is recorded in equity without any effect on profit or loss in line Change in scope of consolidation.

With the inclusion in the Association's scope of consolidation mainly property with a carrying amount of euro 1 million was added, opposed by internal refinancing. As the shares of VB Verb were purchased from VB Oberösterreich, this acquisition did not have any effect on the financial statement of the Association.

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.

Deconsolidation result VB Switzerland

Euro thousand	
Assets proportional	100,430
Liabilities proportional	94,589
Revaluation IAS 19 proportional	1,523
Currency reserve proportional	6,224
Disposal of net assets proportional	**1,906**
Revenue proportional	13,396
Deconsolidation result	**15,302**

By way of an agreement on a transfer and contribution in kind dated 24 April 2018, Waldviertler Volksbank Horn registrierte Genossenschaft mit beschränkter Haftung contributed its undertaking, the Horn banking operation, to VBW. The contribution in kind is effected against the granting of 49,629 new no-par shares of VBW. The registration in the Companie's Register was effected on 20 June 2018. As there is no joint management agreed with the CO in the statue of VB Horn –now WV Beteiligung eG – the company was deconsolidated at this point. As the company is no subordinated entity and there is no controlling relationship within the Association, no result of disposal is recorded in the profit or loss statement. The equity disposal is netted with the capital increase of VBW and is shown in the position changes in the scope of consolidation, without effect on the income statement.

In October 2018, the amendment of the statues of Verwaltungsgenossenschaft Österreichische Apothekerbank eG was entered in the Companie's Register. Joint management agreement was withdrawn of the statues. Hence, the precondition for involvement defined in section 30a of the Austrian Banking Act ceased to exist and the company was deconsolidated at this point. As the company is no subordinated entity and there is no controlling relationship within the Association, no result of disposal is recorded in the profit or loss statement. The equity disposal is shown in the position changes in the scope of consolidation, without effect on the income statement.

Also, in October 2018 VBKS Leasing d.o.o. (VBKS) contributed its leasing business to VB Kärnten Leasing GmbH. After the contribution VBKS was still holding security properties. Therefore, it was classified as ancillary banking service according to CRR. Falling below materiality thresholds as defined in article 19 CRR the entity was deconsolidated subsequently.

Volksbank Vorarlberg Versicherungs-Makler GmbH was contributed to Volksbank Vorarlberg e Gen in October 2018. This reorganization does not have any effect on the Association of Volksbanks.

Participation right of the federal government

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

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

According to its contractual obligations towards the federal government, VBW must submit to the Volksbanks a proposal for the total amount to be distributed with respect to the federal government’s participation right by RZG in the subsequent calendar year and for the total amount of the primary banks’ contributions required for this purpose (indirect contributions of the Volksbanks and direct contribution of VBW to RZG) by 30 November of each year. VBW is charged according to the share of its retail segment in the Association of Volksbanks (total assets UGB/BWG). Of the repayment amount of euro 300 million promised to the federal government, euro 75 million have already been repaid as at 31 December 2018. Accordingly, the threshold existing at 31 December 2019 for the minimum repayment in the amount of euro 75 million was met prematurely.

Since the shareholders – essentially VB – retain beneficial ownership of the shares until a "control event" (Verfügungsfall) occurs, the shares are not de-recognised. In the Association's financial statements, these shares in VBW therefore continue to be offset against the equity of VBW during capital consolidation.

Number of consolidated companies

	31 Dec 2018			31 Dec 2017		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Fully consolidated companies						
Credit institutions	9	1	10	10	2	12
Financial institutions	4	0	4	4	1	5
Other companies	15	0	15	16	0	16
Total	**28**	**1**	**29**	**30**	**3**	**33**
Companies measured at equity						
Credit institutions	0	0	0	0	0	0
Other companies	2	0	2	0	0	2
Total	**2**	**0**	**2**	**2**	**0**	**2**

Number of unconsolidated companies

	31 Dec 2018			31 Dec 2017		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Affiliates	36	2	38	41	1	42
Associated companies	8	0	8	9	0	9
Companies total	**44**	**2**	**46**	**50**	**1**	**51**

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. In addition to 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 taken into account for the assessment of materiality. The calculation of the quantitative characteristics was based on the latest available financial statements of the companies and the Association's consolidated financial statements for 2018.

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 53), 55), 56)).

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 based on at cost measurement excluding the following items:

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

As at 1 January 2018 the new accounting standard IFRS 9 – Financial instruments took effect. Further details regarding the initial application of IFRS 9 are covered by this chapter. Changes due to and impacts of these new regulations are also illustrated. As part of the transition to IFRS 9 the item structure was changed, and figures of the comparative period have been adjusted accordingly.

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

Initially applied standards and interpretations

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

BY – business year

Standards and interpretations to be applied in future

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

a) Initially applied standards and interpretations

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

Compared with IAS 39, balance sheet equity has increased by euro 13 million. Essentially, this resulted from changes to the risk provision methodology compared to IAS 39, and from the required reclassification of the respective financial instruments. Applying IFRS 9 impairment provisions as at 1 January 2018 resulted in a positive movement of the impairments reported of euro 31.4 million (before deferred tax). A volume of euro 639 million of loans is now measured at fair value, as the benchmark test carried out was negative for critical fixed interest rate periods, resulting in a reduction of equity by euro -2.9 million (before deferred tax). In the sphere of securities, a volume of euro 1,667 million is allocated to the ‘Hold’ business model, a volume of euro 512 million to the ‘Hold and Sell’ business model, and a volume of euro 128 million to the Other business model. Considering hedge accounting, the negative effect on equity due to the revaluation of securities amounts to euro -8.3 million (before deferred tax). Moreover, for structured own issues with a volume of euro 82 million designated as hedge accounting under IAS 39, the fair value option was applied. The resulting change of equity has entailed a reduction of euro -4 million (before deferred tax), as a consequence of reclassification. A detailed presentation of the effects on the Association is shown in Note c) Changes in classification and measurement.

IFRS 15 – Revenue from contracts with customers: IFRS 15 is to be applied to sales revenue from customer contracts and replaces the previously applicable standards IAS 11 and IAS 18 as well as IFRICs 13, 15 and 18. IFRS 15 provides for a principle-based five-step model, which regulates the way how, the extent to which and the point in time when revenues are to be realised. Sales revenue must be realised if the customer has the power of disposition with respect to the agreed services. This may take place either based on a period or a point in time. The transfer of opportunities and risks is no longer decisive. Sales revenue must be measured at the amount of the consideration that the company expects to receive. Application of the standard is mandatory for financial years commencing on or after 1 January 2018.

Interest income and dividends from ordinary operations previously governed by IAS 18 are only covered by IFRS 15 to a limited extent. The provisions under IFRS 9 are applicable to the remuneration for financial services, provided they constitute an integral part of the effective interest rate. In terms of content, this will not have any effect on the Associa-tion´s consolidated financial statements compared to the previous way of procedure. For this reason, the distinction of revenue from income from financial instruments according to IFRS 15 covered by IFRS 9, as well as income from leases under IFRS 16 and/or IAS 17 is of importance to the Association. Application of IFRS 15 for the areas or items identified did not result in any material effect for the Association.
Please refer to note 6) Net fee and commission income for further details regarding fee and commission income and expense.

Annual improvements of IFRS (2014-2016 cycle)
The amendments relate to wording in need of improvement and clarifications. Standards IFRS 1, IFRS 12 and

IAS 28 were concerned. As regards IFRS 1 and IAS 28, application of the new provisions is mandatory for reporting periods commencing on or after 1 January 2018; as regards IFRS 12, application is mandatory for reporting periods commencing on or after 1 January 2017. The amendments will not have any significant effects on the Associatio

b) Standards and interpretaions to be applied in the future

IFRS 16 – Leases: In the fourth quarter of 2017, the Association initiated a project for analysing all leases with respect to accounting and effects. The primary effects of the new standard are on the accounting of contracts previously designated as operating lease. Recognition of almost all leases takes place in the balance sheet of the lessee.

Upon first-time application of IFRS 16 as at 1 January 2019, the Association expects to enter assets rights of use in the amount of approximately euro 171 million on the assets side; correspondingly, leasing liabilities will be recognised in the same amount. The rights of use mainly relate to buildings, as well as motor vehicles and parking spaces. The amount recognised of the rights of use constitutes the present value of the leases. The present value was determined from the contractual leasing payments, the respective residual terms and the incremental borrowing rate. In the statement of comprehensive income, in the 2019 business year, a higher burden of expenditure is expected due to the splitting of leasing expenses into an interest component and an impairment component, compared to linear distribution of expenses, in the amount of approximately euro 1.6 million. The Association exercises its option not to enter any right of use on the assets side for short-term leases, as well as leases with low-value assets. Accounting at the lessor will change only slightly compared to IAS 17, and therefore no material effects on the Association are expected, except for more comprehensive information in the notes.

The Association has decided to apply modified retroactive recognition, which means that the previous year’s comparative figures are not adjusted, and accordingly adjustments are basically reported in retained earnings in the course of the transition. At the time of initial application, the rights of use and corresponding leasing liabilities within the Association are of the same amount; therefore no effects on equity will result from this at the time of first-time application.

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

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

Annual improvements to IFRS (2015-2017 cycle)

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

c) Changes in classification and measurement

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

With the exception of the described amendments for classification and measurement of financial instruments the Association applies the same classification and measurement methods as in the annual report of 2017. Accounting principles mentioned in note 1) also constitute an exception.

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

Classification and recognition of financial instruments

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

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

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

The allocation of financial assets to any of the following business models is carried out at management level and derived from how the financial assets are managed to generate cash flows:

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

A business model aims or is meant to manage financial assets in a certain manner. The evaluation of business models was effected on the basis of various criteria such as targets, compensation, performance measurement, management and/or risk strategy, frequency and timing of selling transactions, as well as reasons for the selling transactions. Based on these criteria, individual portfolios or sub-portfolios were created within the business models. Apart from analysing, defining and stipulating the business model condition, analysing the arrangement of the cash flows of financial instruments is also required for them to be classified appropriately. The decisive criterion of assessment is whether there are exclusively non-leveraged interest and redemption payments on the outstanding principal. Basically, any financial instrument will only be considered as SPPI-compliant if its contractual cash flows correspond to those of any simple loan financing. Moreover, pursuant to IFRS 9, no distinction is required to be made any longer between the original underlying instrument and the embedded derivative. The financial asset is assessed as a whole and classified based on the business model and the contractual cash flow condition. Allocation to the business model is made at portfolio level, while the cash flow criterion must basically be checked for each individual financial instrument allocated to the 'Hold' and 'Hold and Sell' business models, respectively.

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

Changes of classification and measurement

Based on the list of criteria for determination of the business models and the SPPI criterion, portfolios were defined for the Associtaion of Volksbanks within the loan and securities division and allocated to the business models. The business model assessment in the loan division has shown that the objective is basically portfolio maintenance and growth in the Retail/SME, model, commercial, project and real estate financing spheres. No performance-based, variable compensation or selling transactions are intended. Risks included in the loan portfolio are minimised using, among others, interest rate derivatives or sub-participations. Accordingly, all portfolios in the loan sphere are allocated to the Hold to collect business model, unless there is an intention to sell loans or companies holding such loans. Portfolios or individual assets held for sale as well as such held in companies as held for sale are designated as held for sale and measured at fair value through profit or loss. On 5 December 2017 the purchase agreement for shares of VB Switzerland was signed. Thus, all financlial assets of this company were allocated to the other business model. As at 31 December 2017 some assets were recognised at fair value within the scope of IFRS 5. Hence, initial application of IFRS 9 did not have any effect. As at 31 December 2018 assets and liabilities of VB Liechtenstein were measured within the scope of IFRS 5. Additionally, there were no intentions to sell loan portfolios. Accordingly, all loans were allocated to the Hold to collect business model within the Association.

Identification of the business models for securities portfolios revealed that in the investment book remuneration is independent in terms of performance measurement. Performance is basically measured by net interest income. No performance-based, variable compensation has been scheduled. Within the positions in the investment book, no dif-ferentiation in terms of management and risk strategies is effected either. All investments within the investment book are made within the scope of the group-wide investment strategy and basically show a low credit risk profile. Accord-ingly, identification of the business models essentially took place based on the following parameters: investment goals, such as compliance with regulatory requirements or realising returns, as well as reasons for and frequency of selling transactions. The Association defines as compliant any sales of positions that do no longer fit the investment strategy due to a significant increase in default risk, taking place shortly before maturity and the sales proceeds ap-proximately correspond to the remaining contractual payments, which are effected, among others, due to expiration of the basis of the business and taking place within the scope of a strategic reorientation associated with regulatory or risk-related considerations. The different portfolios within the Association result from different objectives for invest-ments in the investment book.

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

For financial liabilities, classification and measurement under IFRS 9 remain unchanged, with the exception that gains and losses from a financial liability designated at fair value through profit or loss, which have emerged due to changes of the bank’s own credit risk, are reported in OCI.

Accounting of impairments of financial assets

The new regulations regarding impairments under IFRS 9 must be applied to financial assets classified as at amortised cost and at fair value through OCI, as well as to off-balance sheet loan commitments and financial guarantees. Therefore, not only losses already occurred but also expected losses must be recognised. In this context, a distinction is made as to whether or not the default risk of financial assets has deteriorated significantly ever since their initial recognition. If a significant deterioration has occurred, and if the default risk cannot be assessed as low on the reporting date, all lifetime expected credit losses must be recognised with effect from that date. In case of significant deterioration and low default risk, only those losses expected for the lifetime of the financial instrument must be taken into account that result from future potential loss events within the next twelve months. Exceptions exist for trade receivables. For these assets, all expected losses must (receivables without any significant financing component) or may (receivables with a significant financing component and lease receivables) be taken into account already at the time of initial recognition. For further information, please refer to note 5) Risk provisions.

Accounting of hedging relationships

As at 1 January 2018, hedge accounting according to IFRS 9 was applied within the Association. The aim of the new rules is for hedge accounting to be related more clearly to the economic risk management of the company. As previously, companies are obliged to document the respective risk management strategy including risk management goals at the beginning of a hedging relationship; but now, the relationship between the hedged underlying transaction and the hedging instrument has to correspond to the requirements of the risk management strategy. The comprehensive disclosure requirements for hedge accounting due to IFRS 9 and according to IFRS 7 are met in note 39) Hedging.

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

Transition

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

Reclassification and valuation of financial instruments

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

Euro thousand	Valuation category acc. to IAS 39	Valuation category acc. to IFRS 9	Carrying amount IAS 39 31 Dec 2017	Carrying amount IFRS 9 1 Jan 2018
Liquid funds	Amortised cost	Amortised cost	2,001,338	2,001,338
Loans and receivables credit institutions (net)			494,848	494,824
	Amortised cost	Amortised cost	494,848	493,328
		Fair value through profit or loss - obligatory		1,495
Loans and receivables customers (net)			19,406,540	19,435,609
	Amortised cost	Amortised cost	19,406,540	18,770,713
		Fair value through profit or loss - obligatory		664,896
Assets held for trading			63,587	63,587
Fixed-income securities	Held for trading	Fair value through profit or loss	8,320	8,320
Positive fair values of derivatives	Held for trading	Fair value through profit or loss	55,267	55,267
Financial investments (net)			2,292,273	2,283,281
Fixed-income securities			2,184,269	2,175,272
	Held to maturity	Amortised cost	359,140	1,640,286
	Available for sale	Fair value through OCI	1,825,129	523,744
		Fair value through profit or loss - obligatory		11,242
Equities and other variable-yield securities			108,005	108,008
	Available for sale	Fair value through OCI	108,005	0
		Fair value through profit or loss - obligatory		108,008
Participations	Available for sale	Fair value through OCI	117,602	117,602
Positive fair values of derivative instruments (investment book)	Held for trading	Fair value through profit or loss	104,195	104,195
Financial assets total			**24,480,384**	**24,500,435**
Financial assets of the disposal group			106,725	105,676
Amounts owed to credit institutions	Amortised cost	Amortised cost	448,740	448,740
Amounts owed to customers	Amortised cost	Amortised cost	20,849,571	20,849,571
Debts evidenced by certificates			623,633	627,613
	Amortised cost	Amortised cost	623,633	522,786
		Fair value through profit or loss - designated		104,827
Liabilities held for trading	Held for trading	Fair value through profit or loss	77,459	77,459
Negative fair values of derivative instruments (investment book)	Held for trading	Fair value through profit or loss	386,113	386,113
Subordinated liabilities	Amortised cost	Amortised cost	671,159	671,159
Financial liabilities total			**23,056,675**	**23,060,655**
Financial liabilities of the disposal group			93,725	93,725

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

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

Financial assets

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Valuation	Carrying amount IFRS 9 1 Jan 2018
Amortised cost				
Liquid funds	2,001,338			2,001,338
Loans and receivables credit institutions (net)	494,848	-1,504	-16	493,328
Thereof reclassification to Fair value through profit or loss		-1,504		
Loans and receivables customers (net)	19,406,540	-652,692	16,865	18,770,713
Thereof reclassification to Fair value through profit or loss		-652,692		
Fixed-income securities Held to maturity	359,140	-359,140		0
Thereof reclassification to Amortised cost		-343,639		
Thereof reclassification to Fair value through OCI		-15,501		
Fixed-income securities amortised cost		1,649,782	-9,496	1,640,286
Thereof reclassification from Held to maturity		343,639		
Thereof reclassification from Available for sale		1,306,144		
At amortised cost - total	**22,261,865**	**636,447**	**7,353**	**22,905,665**
Fair value through profit or loss				
Assets held for trading	63,587			63,587
Loans and receivables credit institutions (gross) - Fair value through profit or loss - obligatory	0	1,504	-9	1,495
Thereof reclassification from Amortised cost		1,504		
Loans and receivables customers (gross)	0	652,692	12,204	664,896
Thereof reclassification from Amortised cost		652,692		
Fixed-income securities - Fair value through profit or loss – obligatory		11,242	0	11,242
Thereof reclassification from Available for sale		11,242		
Equities and other variable-yield securities - Fair value through profit or loss – obligatory		108,008	0	108,008
Thereof reclassification from Available for sale		108,008		
Positive fair values from derivatives (investment book)	104,195			104,195
Fair value through profit or loss - total	**167,783**	**773,446**	**12,195**	**953,424**
Fair value through OCI				
Fixed-income securities Available for sale	1,825,129	-1,825,129		0
Thereof reclassification to Fair value through OCI		-507,740		
Thereof reclassification to Amortised cost		-1,306,144		
Thereof reclassification to Fair value through profit or loss		-11,246		
Fixed-income securities Fair value through OCI		523,240	504	523,744
Thereof reclassification from Available for sale		507,740		
Thereof reclassification from Held to maturity		15,501		
Equities and other variable-yield securities available for sale	108,005	-108,005		0
Thereof reclassification to Fair value through profit or loss		-108,005		

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Valuation	Carrying amount IFRS 9 1 Jan 2018
Participations Available for sale	117,602	-117,602		0
Thereof reclassification to Fair value through OCI		-117,602		
Participations Fair value through OCI - designated		117,602		117,602
Thereof reclassification from Available for sale		117,602		
Fair value through OCI - total	**2,050,736**	**-1,409,893**	**504**	**641,346**
Financial assets total	**24,480,384**	**0**	**20,052**	**24,500,435**

The column Valuation includes effects from revaluations and impairments.

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

Financial liabilities

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Valuation	Carrying amount IFRS 9 1 Jan 2018
Amortised cost				
Amounts owed to credit institutions	448,740			448,740
Amounts owed to customers	20,849,571			20,849,571
Debts evidenced by certificates	623,633	-100,847		522,786
Thereof reclassification to Fair value through profit or loss		-100,847		
Subordinated capital	671,159			671,159
Amortised cost - total	**22,593,103**	**-100,847**	**0**	**22,492,257**
Fair value through profit or loss				
Debts evidenced by certificates Fair value through profit or loss - designated	0	100,847	3,980	104,827
Thereof reclassification from Amortised cost		100,847		
Liabilities held for trading	77,459			77,459
Derivative instruments - investment book	386,113			386,113
Fair value through profit or loss - total	**463,571**	**100,847**	**3,980**	**568,398**
Financial liabilities total	**23,056,675**	**0**	**3,980**	**23,060,655**

Impairment

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

Euro thousand	Risk provisions IAS 39 31 Dec 2017	Reclassification	Valuation	Risk provisions IFRS 9 1 Jan 2018
Amortised cost				
Loans and receivables customers	361,913	-15,073	-16,865	329,975
Loans and receivables credit institutions	41	0	16	57
Financial investments - fixed-income securities			737	737
Fair value through OCI				
Financial investments - fixed-income securities	0		92	92
Off-balance sheet obligations - loan commitments and financial guarantees	17,839	-126	-46	17,667
Risk provisions and off-balance sheet obligations	**379,792**	**-15,199**	**-16,066**	**348,527**

Deferred taxes

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

Euro thousand	Carrying amount IAS 39 31 Dec 2017	Effect on retained earnings	Effect on OCI-reserves	Carrying amount IFRS 9 1 Jan 2018
Deferred tax assets	90,190	4,590	1,121	95,900
Deferred tax liabilities	13,163	12,314	-2,602	22,875

Breakdown of effects from initial application of IFRS 9

Euro thousand	Retained earnings	Currency reserve	Fair value reserve	Own credit risk reserve	Reserves	Shareholders' equity non-controlling interest	Equity	Equity and cooperative capital shares
Impact of adopting IFRS 9	790,943	-79	-782,625	4,359	12,598	12,598	12,598	12,598
Loans and receivables credit institutions and customers	-12,437				-12,437	-12,437	-12,437	-12,437
Risk provisions	34,067		69		34,136	34,136	34,136	34,136
Financial investments	997	-79	-195,470		-194,553	-194,553	-194,553	-194,553
Companies measured at equity	17,737		-17,737		0	0	0	0
Participations	757,830		-757,830		0	0	0	0
Debts evidenced by certificates	-21,525			4,359	-17,166	-17,166	-17,166	-17,166
Hedging	14,274		188,344		202,618	202,618	202,618	202,618
Total	**790,943**	**-79**	**-782,625**	**4,359**	**12,598**	**12,598**	**12,598**	**12,598**

d) Application of estimates and assumptions

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

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

- Alternative investment measurement methods are used to assess the recoverability of financial instruments for which no active market is available. Some of the parameters taken as basis when determining fair value are based on assumptions concerning the future.
- The assessment of the recoverability of intangible assets, goodwill, investment properties and tangible assetsis based on assumptions concerning the future.
- The recoverability of financial instruments measured at amortised cost or at fair value through OCI is based on future assumptions.
- The recognition of deferred tax assets is based on the assumption that sufficient tax income will be generated in future in order to realise existing tax loss carryforwards; where required no deferred tax assets were recognized.
- Assumptions regarding the interest rate, retirement age, life expectancy and future salary increases are applied when measuring existing long-term employee provisions.
- Provisions are measured based on cost estimates from contractual partners, past experience and investment calculation methods.
- Assessments are regularly carried out for liabilities and impairment not recognised in the balance sheet due to guarantees and contingencies in order to determine whether on-balance sheet recognition in the financial statement is to be carried out.

If estimates were required to a greater extent, the assumptions made are shown with the note on the corresponding item. Actual values may deviate from the assumptions and estimates made if overall conditions develop contrary to expectations as at the balance sheet date. Amendments are recognised in profit or loss and assumptions adjusted accordingly once better information is obtained.

e) Consolidation principles

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 2018.

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 53), 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.

f) Currency translation

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

The individual financial statements of 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.

g) Net interest income

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

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

Net interest income consists of:

- Interest and similar income from credit and money market transactions (including unwinding effect from risk provisions)
- Interest and similar income from fixed-income securities
- Interest and similar expenses for deposits
- Interest and similar expenses for debts evidenced by certificates and subordinated liabilities
- The Interest component of derivatives reported in the investment book

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

h) Risk provision

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

The valuation models are based on statistically calculated parameters, such as historical default and loss ratios. The methods and parameters used are validated regularly in order to approximate the estimated and actual defaults and losses. The process for determining the impairment is computer-aided, using an impairment tool specifically developed for this purpose. Details regarding determination of the risk provisions are described in note Financial assets and liabilities as well as in note 52) Risk report b) Credit risk.

i) Net fee and commission income

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

j) Net trading income

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

k) Result from financial investments

The result from financial investments consists of:

- Realised gains and losses from disposal of financial investments

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

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

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

l) Other operating result

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

m) General administrative expenses

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

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

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

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

n) Restructuring result

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

o) Financial assets and liabilities

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

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

Financial liabilities

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

Derecognition and modification

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

The 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.

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

Offsetting

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

Measured at amortised cost

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

Measured at fair value through profit or loss

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
For the calculation of fair values, the following hierarchy is used and shows the meaning of the single parameters.

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

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

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

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

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

Impairment

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

Scope

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

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

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

General approach

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

A significant increase in credit risk is primarily measured based on the change in lifetime probability of default (PD). If the change in lifetime PD exceeds a predefined threshold, the financial asset is classified as total-term ECL. Additionally, default of performance of at least 30 days, classification as forborne or the customer’s transfer to intensive supervision are interpreted as a significant increase in credit risk.
Any objective evidence of impairment equals a downgrade of the customer's rating to the default rating category. This downgrade can basically be triggered by 13 defined default events. The definition of default within the Association corresponds to the requirements of CRR I Art. 178.

Options

- The option regarding the low credit risk exemption – i.e. the lump sum allocation of low-risk instruments to stage 1 without any further examination of any significant increase in credit risk – is exercised. The relevant instruments exclusively comprise receivables from customers and securities with an external investment grade rating. If several external ratings exist, the second best rating is used. In this way, it is guaranteed that at least two rating agencies provide the issuer with an investment grade rating.
- The option of a simplified procedure for trade receivables, contractual assets according to IFRS 15 and leasing receivables was not exercised, as such receivables either do not occur within the Association at present or are insignificant.

Information regarding the calculation logic

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

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

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

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

Derivative financial instruments

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

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

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

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

Own equity and debt instruments

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

p) Loans and receivables credit institutions and customers

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

Under IFRS 9, the gross carrying amount of receivables is reduced if it cannot reasonably be expected to be realisable. Therefore, the decisive criterion for the derecognition of receivables is their irrecoverability. Receivables must be derecognised completely if all prerequisites are met – if no recoverable collaterals exist for the receivables concerned, no other assets of the debtor are known, and if alternatively the debtor has not paid in spite of being ordered to do so and in spite of levy of execution, if the debtor is insolvent, unless there is any clear perspective of a dividend in bankruptcy, or in case of hopelessness of execution.

q) Risik provision

Individual loan loss provisions and portfolio loan loss provisions are effected for the special risks of banking business. Risk provisions for off-balance risks are reported under provisions. The valuation models are based on statistically calculated parameters, such as historical default and loss ratios. The methods and parameters used are validated regularly in order to approximate the estimated and actual defaults and losses. The process for determining the impairment is computer-aided, using an impairment tool specifically developed for the purpose.

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

r) Assets and liabilities held for trading

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

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

s) Financial investments

Financial investments comprise all securitised debt and equity instruments not classified as participations. These are purely financial investments without any relevance to the core business of the Association, where the optimisation of returns is of primary importance. Financial investments are initially recognised at fair value plus incremental direct transaction costs.

Classification of securitised debt instruments

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

Measured at amortised cost

The group of financial investments measured at amortised cost comprises financial assets that only provide for the claim to interest and redemption payments at given points in time (SPPI-criterion) and are held within the scope of a business model for the purpose of holding assets. Valuation is effected at amortised cost, with interest income being calculated according to the effective interest method.

Measured at fair value through profit or loss

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

Measured at fair value through OCI

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

Classification of equity instruments

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

t) Investment property

All land and buildings, also those under construction, that meet the definition of investment property as set out in IAS 40 are reported at fair value. Annual measurement is essentially based on RICS standards (Royal Institution of Chartered Surveyors). Following IFRS 13, the RICS defines fair value as the estimated amount for which an investment property could be sold on the date of valuation by a willing seller to a willing buyer in an arm’s-length transaction in normal business operations, wherein the parties had each acted knowledgeably, prudently and without coercion. These calculations are earnings calculations, most of which are prepared following the discounted cash flow methond based on current rent lists and lease expiry profiles. They are subject to assumptions regarding market developments and interest rates. The returns used are defined by the appraiser and reflect the current market situation as well as the advantages and disadvantages of the specific property. Comparative value methods are used for undeveloped plots of land where development is not expected in the near future. Transaction prices for similar properties recently sold on the open market are taken as a basis. These sales prices are analysed using comparable properties and adjusted with regard to differences in size, layout, location or use.

The real estate portfolio is valued mainly by external appraisers who are selected, among others, based on proven professional qualification and experience of the locations and categories of property being valued. External appraisals were obtained essentially from IMMO-CONTRACT Maklerges.m.b.H. External appraisers are paid a fixed fee which does not depend on the appraised market value of the property.

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

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

Rental income is recognised on a straight-line basis in accordance with the term of the respective contracts and reported in the result from financial investments.

u) Participations and investments in companies measured at equity

This item includes subsidiaries and participations established or acquired for strategic reasons and as financial investments. Strategic investments are companies that cover the areas of business of the Association, as well as companies that support those areas of business. Subsidiaries are fully consolidated if they are material for the presentation of a true and fair view of the net assets, financial position and earnings situation of the Association.

Companies on which a material influence is exerted are measured according to the equity method. All other participations are reported at fair value, except if their acquisition costs are less than euro 50 thousand and the equity share does not exceed a carrying amount of euro 100 thousand. As these participations are not listed at a stock exchange and no market prices are available on an active market, the participations are measured by means of valuation methods and input factors some of which are not observable. Valuations are effected according to the discounted cash flow method and the peer group approach. Various calculation models are applied. The income approach is used if the Association of Volksbanks controls the company or exercises any management function, and budgets are available accordingly. If the company is not controlled, the fair value calculation is performed on the basis of the dividend paid as well as the annual results of the last five years. In case of companies whose object does not permit any regular income or the result of which is controlled by the parent company through settlements, the net assets are used as valuation criterion. In case of participations in co-operatives, the share capital is used as the fair value, provided the subscription of new shares and the cancellation of existing shares are possible at any time. If valuation reports are prepared by external valuators, they will be used for current valuation.

To the extent that the discounted cash flow method is applied, the discount rates used are based on the respective current recommendations of the Fachsenat der österreichischen Kammer der Wirtschaftstreuhänder as well as of international financial data service providers and, in the 2018 financial year, range between 6.9 - 8.9 % (2017: 6.9 - 8.9 %). The market risk premium used for the calculation is 7.30 % (2017: 6.75 %), the beta values used range between 0.8 - 1.1

(2017: 0.8 - 1.1). Additional country risks did not have to be considered. Discounts due to fungibility and exercise of control in the amount of 10 % in each case are effected for two participating interests.

Changes in value are reflected in the fair value reserve. If the reason for impairment ceases to exist, the reversal of impairment is made without any effect on profit or loss directly in equity, taking into account any deferred taxes.

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

v) Intangible and tangible assets

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

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

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

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

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

w) Tax assets and liabilities

Both the current and the deferred income tax assets and liabilities are reported in these items.

Under IAS 12, tax deferral is determined according to the balance sheet liability method. Deferred taxes are derived from all temporary differences between the tax base of an asset or liability and its carrying amount in the financial statements prepared in accordance with IFRS. For subsidiaries, deferred taxes are calculated 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 formed and 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.

x) Other assets

Deferred items are used for accruing income and expenses and are shown in this item together with other assets. Value adjustments are recognised for impairments. 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 the result from financial investments.

y) 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 coordinated 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 cost 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.

z) Liabilities

The initial recognition of amounts owed to credit institutions and customers as well as debts evidenced by certificates is performed at fair value plus directly attributable transaction cost. Subsequent measurement is performed at amortised cost in accordance with the effective interest method, unless these liabilities were designated as liabilities at fair value through profit or loss. Financial liabilities for which the fair value option was chosen, gains and losses arising from a change in the company´s own credit risk must be recognised in OCI. Any remaining valuation changes are shown in the income statement.

aa) 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. 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 Association. Employees are not required to make contributions to the plans. In the Association, staff pension entitlements reported as transferred assets - plan assets - were transferred to BONUS Pensionskasse Aktiengesellschaft. There are no extraordinary risks, risks specific to the company or plans, or significant risk concentrations.

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

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

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

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 obligation 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 or loss when the plan is amended. All income and expenses associated with defined benefit plans are recognised under staff expenses.

Parameters for calculating employee benefit obligations

	2018	2017	2016	2015
Expected return on provisions for pensions	1.10 %	1.10 %	1.10 %	1.50 %
Expected return on provisions for severance payments	1.10 %	1.10 %	1.10 %	2.00 %
Expected return on anniversary pensions	1.10 %	1.10 %	1.10 %	2.00 %
Expected return on plan assets	1.10 %	1.10 %	1.10 %	1.50 %
Future salary increase	3.00 %	3.00 %	3.00 %	3.00 %
Future pension increase	2.00 %	2.00 %	2.00 %	2.00 %
Fluctuation rate	none	none	none	none

The fundamental biometric actuarial assumptions of the latest Austrian scheme 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 need for provisions for staff not employed in Austria is insubstantial an adjustment of the parameters and biometric acturial assumptions to the conditions in the countries of the affiliated companies has not been made.

The current retirement age limits are generally taken into account in these calculations, it is assumed that employees will retire upon reaching standard pensionable age, which is 65 years for men and between 60 and 65 years for women. For staff not employed in Austria, the general retirement age as stipulated in the respective country is used as a calculation basis.

The measurement of pension obligations includes legitimate claims of employees that are in active service at the measurement date, as well as the entitlements of current pension recipients. These entitlements are defined in special agreements and/or in the bylaws, and they represent legally binding and irrevocable claims.

bb) Provisions

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 established in the amount of the most probable future claims, taking into account cost estimates of contractual partners, experienced data and financial mathematical calculation methods. A contingent liability is reported if a potential 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. The allocation and release of risk provisions are recorded under risk provisions in the income statement. Amounts allocated to and released from the restructuring provision are included under restructuring result.

cc) Other liabilities

Deferred items are formed for accruing income and are shown in this item together with other liabilities. This item also includes all negative 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 the result from financial investments.

dd) Subordinated liabilities

Subordinated liabilities are initially recognised at fair value plus directly attributable transaction cost. Subsequent measurement is performed at amortised cost using the effective interest method, unless these liabilities were designated 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 net income before changes in reserves of the company issuing the capital. Supplementary capital interests also participate in any loss. The repayment amount is reduced by current losses. Repayment at nominal value is only possible if the proven losses are covered by profits.

ee) Equity

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

Capital management is done on the basis of the supervisory capital. For further details see chapter gg) own funds.

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.

ff) 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 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 fair value reserve, the hedging reserve, and the revaluation reserve are reported as valuation reserves. Any deferred taxes are deducted from the reserves.

gg) Own funds

The company is subject to external capital requirements based on the European Union's CRD IV and CRR (Basel III). The rules on capital ratios specified there constitute the central management variable in the 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 based on their relative risks by the risk weighting to be allocated to a counterparty. The procedures for determining risk-relevant parameters (exposure, risk weighting) are based on percentages specified by regulatory requirements (standard approach). There is also an equity capital requirement for credit valuation adjustments in derivatives transactions. This is derived from regulatory requirements and, in particular, reflects the counterparty risk in the derivatives transaction. The market risk component of the Group is also calculated using the standard approach. The capital requirements for operational risk are calculated by multiplying the revenues by the respective percentages for the divisions.

Regulatory own funds can be broken down into three elements:

- Common equity tier I (CET1)
- Additional tier I (AT1)
- Supplementary capital or tier II capital (T2)

The first two components comprise the tier I capital.

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

T2 also includes non-current subordinated liabilities.

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

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

hh) Trustee transaction

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

ii) Repurchase tranactions

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 risks or rewards are transferred, and they 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 liabilty.

jj) Contingent liabilities

Possible obligations where 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 they 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 of financial guarantees is performed at fair value. Generally, the fair value corresponds to the value of the premium agreed.

Guaranteed amounts from participations in cooperatives are reported under other contingent liabilities. A follow-up check is regularly performed in order to determine whether on-balance sheet recognition in the consolidated financial statements is necessary.

kk) Cash flow statement

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

Cash flows from non-current assets, such as financial instruments, participations and intangible and tangible assets measured at cost are allocated to the cash flow from investment activity. The cash flow from financing activity includes all cash flows of the owners as well as changes in subordinated capital and non controlling interests. Liquid funds have been defined as cash and cash equivalents and comprise balances with central banks as well as cash in hand. These balances are composed of the minimum reserve to be held according to statutory provisions and current investments with various central banks.

4) Net interest income

Euro thousand	2018	2017
Interest and similar income from	520,801	533,531
Credit and money market transactions with credit institutions	4,851	4,602
Credit and money market transactions with customers	453,149	461,192
Fixed-income securities	49,267	53,213
Derivative instruments	13,534	14,523
Interest and similar expenses for	-101,247	-101,724
Liquid funds	-7,202	-5,901
Deposits from credit institutions (including central banks)	-3,253	-4,381
Deposits from customers	-24,516	-35,849
Debts evidenced by certificates	-15,752	-19,914
Subordinated liabilities	-18,701	-10,354
Derivative instruments	-31,824	-25,325
Valuation result - modification	277	0
Net interest income	**419,831**	**431,806**

Net interest income according to IFRS 9 categories

Euro thousand	2018	2017
Interest and similar income from	520,801	533,531
Financial assets measured at amortised cost	481,571	469,609
Financial assets measured at fair value through OCI	12,919	49,398
Financial assets measured fair value through profit or loss - obligatory	12,777	0
Derivative instruments	13,534	14,523
Interest and similar expenses for	-101,247	-101,724
Financial liabilities measured at amortised cost	-66,278	-76,399
Financial liabilities measured at fair value through profit or loss - designated	-3,146	0
Derivative instruments	-31,824	-25,325
Valuation result - modification	277	0
Net interest income	**419,831**	**431,806**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 2,579 thousand (2017: euro 1,618 thousand) and interest expenses of euro -8,632 thousand (2017: euro -7,436 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.

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

Current income from equities and other variable-yield securities as well as from other affiliates and investments in other companies in the amount of euro 6,004 thousand and rental income investment property in the amount of euro 5,285 thousand, which were reported under interest and similar income in the previous year are now reported in result from financial investments.

5) Risk provision

Euro thousand	2018
Changes in risk provisions	7,123
Changes in provision for risks	1,360
Direct write-offs of loans and receivables	-14,781
Income from loans and receivables previously written off	11,725
Valuation result modification / derecognition	885
Risk provision	**6,313**

Euro thousand	2017
Allocation to risk provisions	-129,197
Release of risk provisions	95,613
Allocation to provisions for risks	-5,642
Release of provisions for risks	6,159
Direct write-offs of loans and receivables	-21,979
Income from loans and receivables previously written off	9,634
Risk provision	**-45,413**

6) Net fee and commission income

Euro thousand	2018	2017
Fee and commission income	267,271	267,932
Lending business	17,691	17,564
Securities and custody business	83,215	89,743
Payment transactions	118,337	113,671
Foreign exchange, foreign notes and coins and precious metals transactions	4,245	2,687
Financial guarantees	7,839	6,956
Other services	35,944	37,311
Fee and commission expenses	-33,816	-31,033
Lending business	-5,501	-3,101
Securities and custody business	-13,605	-14,117
Payment transactions	-12,480	-10,852
Foreign exchange, foreign notes and coins and precious metals transactions	-182	-416
Financial guarantees	-827	-1,494
Other services	-1,220	-1,053
Net fee and commission income	**233,455**	**236,899**

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 261 thousand (2017: euro 57 thousand).

7) Net trading income

Euro thousand	2018	2017
Equity related transactions	34	18
Exchange rate related transactions	509	14,520
Interest rate related transactions	-1,221	-176
Net trading income	**-678**	**14,362**

8) Result from financial investements

Euro thousand	2018	2017
Result from financial investments measured at fair value through profit or loss	-8,303	-13,603
Valuation from financial investments measured at fair value through profit or loss - obligatory	-12,774	-8,751
Loans and receivables credit institutions and customers	-13,868	0
Securities	-1,653	-97
Investment property	2,747	-2,547
Participations	0	-6,107
Valuation financial investments measured at fair value through profit or loss – designated	2,025	0
Debts evidenced by certificates	2,025	0
Income from equities and other variable-yield securities	1,541	0
Result from other derivative instruments	906	-4,853
Result from financial investments measured at amortised cost	65	57
Realised gains from disposal	65	57
Result from financial investments measured at fair value through OCI	3,037	6,150
Realised gains from disposal	24	1,834
Realised losses from disposal	-156	-1,687
Income from equities and other variable-yield securities	0	2,414
Income from participations	3,168	3,589
Result from fair value hedge	-2,424	-676
Valuation of underlying instruments	-5,791	-39,716
Loans and receivables credit institutions and customers	3,215	-1,262
Fixed-income securities	-10,152	-52,435
Amounts owed to credit institutions and customers	0	87
Debts evidenced by certificates	1,145	13,406
Subordinated liabilities	0	488
Valuation of derivative instruments	3,367	39,040
Rental income from investment property and operating lease	4,549	5,285
Result from financial investments	**-3,076**	**-2,787**

9) Other operating result

Euro thousand	2018	2017
Other operating income	46,357	45,683
Other operating expenses	-28,301	-44,089
Deconsolidation result from consolidated affiliates	15,302	0
Taxes and levies on banking business	-4,868	-4,386
Impairment of goodwill	-58	-58
Other operating result	**28,432**	**-2,850**

Other operating income includes income from cost allocations in the amount of euro 6,878 thousand (2017: euro 10,857 thousand). Moreover, other operating income includes income from the sale of intangible and tangible assets in the amount of euro 16,533 thousand (2017: euro 8,747 thousand) as well as contributions of the community fund in the amount of euro 10,000 thousand. In 2017 other operating income includes the profit of the acquisition of Volksbank Almtal in the amount of euro 8,213 thousand.

The result from the sale of VB Schweiz is shown in the deconsolidation result.

Other operating expenses include costs of external companies in the amount of euro -2,864 thousand (2017: euro -7,429 thousand). These costs are essentially allocated to members of the Association of Volksbanks. From valuation of assets held for sale and disposal groups an amount of euro -1,845 thousand (2017: euro -8,002 thousand) was recognised in other operating expenses. Furthermore, expenses from the disposal of intangible and tangible assets in the amount of euro -6,441 thousand (2017: euro -6,410 thousand) are included as well as a provision in the amount of euro -6,717 thousand for interest claims arising from corporate loans with floors.

In 2017 other operating result includes an allocation for the repayment of negative interest in the amount of euro -10,908 thousand.

Other taxes include the bank levy in the amount of euro -2,953 thousand (2017: euro -2,494 thousand).

10) General administrative expenses

Euro thousand	2018	2017
Staff expenses	-326,423	-343,577
Wages and salaries	-242,972	-247,015
Expenses for statutory social security	-64,154	-66,485
Fringe benefits	-4,237	-4,773
Expenses for retirement benefits	-7,775	-6,784
Allocation to provision for severance payments and pension funds	-7,285	-18,520
Administrative expenses	-214,588	-207,930
Office space expenses	-25,561	-27,013
Office supplies and communication expenses	-5,097	-7,692
Advertising, PR and promotional expenses	-17,283	-16,930
Legal, advisory and consulting expenses	-44,317	-41,638
IT expenses	-80,013	-72,484
Contribution to the deposit guarantee	-13,677	-12,975
Sundry administrative expenses (including training expenses for staff)	-28,640	-29,199
Depreciation and reversal of impairment	-27,146	-34,034
Depreciation	-25,563	-28,584
Impairment/reversal of impairment	-1,583	-5,451
General administrative expenses	**-568,157**	**-585,542**

Staff expenses include payments for defined contribution plans totalling euro 7,141 thousand (2017: euro 7,729 thousand).

Other administrative expenses include expenses for managing contracts for investment properties to the amount of euro 809 thousand (2017: euro 847 thousand).

For the business year, expenses for the auditor KPMG Austria GmbH Wirtschaftsprüfung und Steuerberatungsgesellschaft amounted to euro 2,565 thousand (2017: euro 2,261 thousand). Thereof euro 1,828 thousand (2017: euro 1,755 thousand) fall upon the audit of the consolidated financial statements including financial statements of fully consolidated companies and joint ventures, euro 537 thousand (2017: euro 404 thousand) upon advisory services, euro 15 thousand (2017: euro 7 thousand) upon tax advisory services and euro 186 thousand (2017: euro 95 thousand) upon other audit services.

Information on compensation to board members

Euro thousand	2018	2017
Total compensation		
Supervisory board VBW	555	1,267
Managing board VBW	2,061	1,942
Member of the managing board / Managing directors Volksbanks	5,563	4,931
Expenses for severance payments and pensions		
Supervisory board VBW	33	143
Managing board VBW	761	552
Member of the managing board / Managing directors Volksbanks	420	690

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	
	2018	2017	31 Dec 2018	31 Dec 2017
Domestic	3,863	4,139	3,740	4,068
Abroad	41	64	38	61
Total number of staff	**3,904**	**4,202**	**3,778**	**4,129**

	Average number of staff		Number of staff at end of period	
	2018	2017	31 Dec 2018	31 Dec 2017
Employees	3,855	4,106	3,734	4,043
Workers	49	96	44	86
Total number of staff	**3,904**	**4,202**	**3,778**	**4,129**

11) Restructuring result

Due to the “Adler” programme that was started in the 4th quarter of 2018 and which is meant to increase efficiency and reduce costs in subsequent years, provisions had to be formed for the reorganisations to be effected in the sphere of HR and branches. In the previous year, reorganisation provisions in the HR sphere were released.

12) Income taxes

Euro thousand	31 Dec 2018	31 Dec 2017
Current income taxes	-17,287	-10,208
Deferred income taxes	10,741	30,139
Income taxes for the current fiscal year	**-6,546**	**19,931**
Income taxes from previous periods continued operation	-1,730	1,095
Income taxes from previous periods	-1,730	1,095
Income taxes	**-8,276**	**21,027**

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

Euro thousand	31 Dec 2018	31 Dec 2017
Annual result before taxes - continued operation	123,475	40,131
Annual result before taxes - total	**123,475**	**40,131**
Imputed income tax 25 %	30,869	10,033
Tax relief resulting from		
Tax-exempt investment income	-406	-479
Investment allowances	0	-4
Other tax-exempt earnings	-1,546	-990
Release of untaxed reserve	537	11
Measurement of participation	-3,904	-3,824
Non-taxable valuation results	0	-1,409
Adjustment of deferred tax assets	1,021	7,446
Re-inclusion of deferred tax assets	-21,619	-33,683
Changes in tax rates	0	-18
Different foreign tax rates	-279	-689
Other differences	1,873	3,675
Income taxes for the current fiscal year	**6,546**	**-19,931**
Income taxes from previous periods	1,730	-1,095
Reported income taxes	**8,276**	**-21,027**
Effective tax rate - continued operations	**6.70 %**	**-52.40 %**

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 2018 and 2017 differ significantly from the statutory tax rate applicable in Austria.

Euro thousand	31 Dec 2018 Result before tax	Income taxes	Result after tax	31 Dec 2017 Result before tax	Income taxes	Result after tax
Valuation of obligation of defined benefit plans	5,254	-1,396	3,858	3,256	-792	2,464
Revaluation reserve	1,709	-427	1,282	0	0	0
Fair value reserve - equity instruments	-7,573	1,893	-5,679	0	0	0
Valuation of own credit risk	-2,449	612	-1,836	0	0	0
Currency reserve	-4,032	0	-4,032	-6,431	0	-6,431
Fair value reserve - debt instruments	-2,973	743	-2,229	104,958	-26,245	78,713
Change in deferred taxes of untaxed reserve	0	-1,793	-1,793	0	10	10
Change from companies measured at equity	-3,308	827	-2,481	3,356	-839	2,517
Other comprehensive income total	**-13,371**	**459**	**-12,911**	**105,140**	**-27,866**	**77,274**

Notes to the consolidated statement of financial positions

13) Liquid funds

Euro thousand	31 Dec 2018	31.12.2017
Cash in hand	220,736	217,457
Balances with central banks	1,510,908	1,783,881
Liquid funds	**1,731,644**	**2,001,338**

Transition from liquid funds to cash and cash equivalents

Euro thousand	31 Dec 2018	31 Dec 2017
Liquid funds	1,731,644	2,001,338
Restricted cash and cash equivalents	-20,328	-20,328
Cash and cash equivalents	**1,711,316**	**1,981,010**

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.

14) Loans and recaivables credit institutions and customers

Euro thousand	31 Dec 2018	31 Dec 2017
Loans and receivables credit institutions		
Amortised cost	468,487	494,889
Fair value through profit or loss	1,072	0
Gross carrying amount	469,560	494,889
Risk provision	-69	-41
Net carrying amount	**469,491**	**494,848**
Loans and receivables customers		
Amortised cost	20,218,871	19,768,453
Fair value through profit or loss	576,017	0
Gross carrying amount	20,794,888	19,768,453
Risk provision	-292,640	-361,913
Net carrying amount	**20,502,248**	**19,406,540**
Loans and receivables credit institutions and customers	**20,971,738**	**19,901,388**

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
On demand	18,252	23,734
Up to 3 months	358,815	366,080
Up to 1 year	2,505	38,556
Up to 5 years	7,417	7,659
More than 5 years	82,571	58,860
Loans and receivables credit institutions (gross)	**469,560**	**494,889**

Euro thousand	31 Dec 2018	31 Dec 2017
On demand	637,739	837,611
Up to 3 months	647,016	549,768
Up to 1 year	1,715,403	1,672,513
Up to 5 years	5,453,806	5,165,074
More than 5 years	12,340,924	11,543,487
Loans and receivables customers (gross)	**20,794,888**	**19,768,453**

Finance lease disclosures

Euro thousand	Until 1 year	Until 5 years	More than 5	Total
2018				
Total gross investment	23,976	103,674	12,327	139,977
Less paid non-interest-bearing deposits	-7,109	-9,825	-1,796	-18,729
Less unearned financial income	-1,320	-4,602	-609	-6,531
Present value of minimum lease payments	**15,548**	**89,247**	**9,923**	**114,718**
Total unguaranteed residual value				**10,064**
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**

The net present value of minimum lease payments is measured at amortised cost and reported in loans and receivables 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.

Sensivity analysis

Loans and receivables credit institutions and customers measured at fair value

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

Loans and receivables credit institutions
31 Dec 2018

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	2	-2
Change in risk markup +/- 100 bp	17	-16
Change in rating 1 stage down / up	0	-1
Change in rating 2 stages down / up	0	-1

Loans and receivables customers
31 Dec 2018

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	2,689	-2,662
Change in risk markup +/- 100 bp	28,150	-25,476
Change in rating 1 stage down / up	1,490	-714
Change in rating 2 stages down / up	3,503	-3,217

15) Risk provision

Risk provision – loans and receivables credit institutions

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Purchased or originated credit-impaired	Total
As at 1 Jan 2018	42	0	15	0	57
Increases due to origination and acquisition	34	0	0	0	34
Decreases due to derecognition	-39	-1	-15	0	-54
Changes due to change in credit risk	58	2	-1	0	59
Thereof transfer to stage 1	22	-22	0	0	0
Thereof transfer to stage 2	0	0	0	0	0
Thereof transfer to stage 3	0	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0	0
Changes due to update in the institution´s methodology for estimation	0	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0	0
Other adjustments	-26	0	0	0	-26
As at 31 Dec 2018	**69**	**1**	**0**	**0**	**69**

Euro thousand	Individual impairment credit institutions	Portfolio based allowance	Total
As at 1 Jan 2017	0	71	71
Changes in the scope of consolidation	0	79	79
Currency translation	0	-2	-2
Reclassification	0	-29	-29
Unwinding	0	0	0
Utilisation	0	0	0
Release	0	-82	-82
Addition	0	3	3
As at 31 Dec 2017	**0**	**41**	**41**

Risk provision – loans and receivables customers

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Purchased or originated credit-impaired	Total
As at 1 Jan 2018	21,603	33,215	275,157	0	329,975
Increases due to origination and acquisition	6,483	1,222	7,225	0	14,930
Decreases due to derecognition	-4,147	-6,197	-20,899	0	-31,243
Changes due to change in credit risk	-2,869	6,835	10,980	0	14,945
Thereof transfer to stage 1	42,182	-33,935	-8,248	0	0
Thereof transfer to stage 2	-3,986	5,087	-1,101	0	0
Thereof transfer to stage 3	-257	-5,416	5,674	0	0
Changes due to modifications without derecognition	0	0	0	0	0
Changes due to update in the institution´s methodology for estimation	0	0	0	0	0
Decrease in allowance account due to write-offs	0	0	-35,752	0	-35,752
Other adjustments	6	-412	191	0	-215
As at 31 Dec 2018	**21,075**	**34,663**	**236,902**	**0**	**292,640**

Euro thousand	Individual impairment credit institutions	Portfolio based allowance	Total
As at 1 Jan 2017	318,327	79,353	397,680
Changes in the scope of consolidation	44	272	315
Currency translation	-1,980	-271	-2,251
Reclassification	-11,159	-636	-11,796
Unwinding	-6,897	0	-6,897
Utilisation	-48,803	0	-48,803
Release	-87,293	-8,238	-95,531
Addition	120,208	8,986	129,194
As at 31 Dec 2017	**282,447**	**79,465**	**361,913**

Risk provision – financial investments measured at cost

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 1 Jan 2018	737	0	0	737
Increases due to origination and acquisition	78	0	0	78
Decreases due to derecognition	-13	0	0	-13
Changes due to change in credit risk	-61	0	0	-61
Thereof transfer to stage 1	0	0	0	0
Thereof transfer to stage 2	0	0	0	0
Thereof transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Changes due to update in the institution´s methodology for estimation	-267	0	0	-267
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2018	**474**	**0**	**0**	**474**

Risk provision – financial investments measured at fair value through OCI

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 1 Jan 2018	84	7	0	92
Increases due to origination and acquisition	2	0	0	2
Decreases due to derecognition	-22	-7	0	-30
Changes due to change in credit risk	-24	0	0	-24
Transfer to stage 1	0	0	0	0
Transfer to stage 2	0	0	0	0
Transfer to stage 3	0	0	0	0
Changes due to modifications without derecognition	0	0	0	0
Changes due to update in the institution´s methodology for estimation	-10	0	0	-10
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	0	0	0	0
As at 31 Dec 2018	**30**	**0**	**0**	**30**

16) Assets held for trading

Euro thousand	31 Dec 2018	31 Dec 2017
Fixed-income securities	4,657	8,320
Equities and other variable-yield securities	46	0
Positive fair values of derivative instruments	51,609	55,267
Exchange rate related transactions	26	33
Interest rate related transactions	51,583	55,234
Assets held for trading	**56,312**	**63,587**

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
Up to 3 months	1	1,383
Up to 1 year	2	0
Up to 5 years	512	504
More than 5 years	4,141	6,433
Fixed-income securities	**4,657**	**8,320**

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

17) Financial investments

Euro thousand	31 Dec 2018	31 Dec 2017
Financial investments		
Amortised cost	1,963,148	359,140
Fair value through OCI	390,155	1,933,134
Fair value through profit or loss	115,602	0
Gross carrying amount	2,468,905	2,292,273
Risk provision	-474	0
Net carrying amount	**2,468,431**	**2,292,273**

Risk provision for financial investments measured at fair value through OCI are part of the fair value reserve for debt instruments and therefore not shown in financial assets less risk provision in this table.

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

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
Up to 3 months	213,659	86,360
Up to 1 year	60,734	47,877
Up to 5 years	826,817	686,459
More than 5 years	1,261,004	1,363,573
Fixed-income securities	**2,362,214**	**2,184,269**

Breakdown of debt securities in accordance with the Austrian Banking Act

Euro thousand	31 Dec 2018	31 Dec 2017
Listed securities	2,129,478	2,166,217
Fixed-income securities	2,128,941	2,165,636
Equity and other variable-yield securities	537	581
Securities allocated to fixed assets	2,086,207	2,091,430
Securities eligible for rediscounting	2,009,070	2,051,346

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

18) Investment property

Euro thousand	Investment properties
Costs as at 1 Jan 2017	86,980
Change in the scope of consolidation	-1,738
Reclassification	4,199
Additions	1,284
Disposals	-20,420
Assets held for sale	-13,176
Costs as at 31 Dec 2017	57,130
Change in the scope of consolidation	0
Reclassification	4,880
Additions	60
Disposals	-9,725
Assets held for sale	-4,098
Costs as at 31 Dec 2018	**48,247**

Euro thousand	Investment properties
Cumulative valuation 1 Jan 2017	-14,225
Change in the scope of consolidation	-188
Reclassification	-1,671
Disposals	7,465
Assets held for sale	6,217
Depreciation	0
Valuation losses	-4,804
Valuation gains	2,257
Cumulative valuation 31 Dec 2017	-4,950
Change in the scope of consolidation	0
Reclassification	44
Disposals	-2,277
Assets held for sale	3,287
Depreciation	0
Valuation losses	-3,070
Valuation gains	5,817
Cumulative valuation 31 Dec 2018	**-1,150**

Euro thousand	Investment properties
Carrying amount 1 Jan 2017	72,755
Carrying amount 31 Dec 2017	52,180
Carrying amount 31 Dec 2018	47,097

Valuations shown in the table above are included within result from financial investments. These valuations include investment properties to the amount of euro 756 thousand (2017: euro 315 thousand) still held at the reporting date.

Furthermore, other operating expenses include repairs and maintenance expenses for investment properties in the amount of euro 955 thousand (2017: euro 986 thousand).

In 2018, investment properties with a carrying amount of euro 12,001 thousand (2017: euro 12,956 thousand) were disposed of.

Investment properties contain 47 completed properties (2017: 64) with a carrying amount of euro 32,693 thousand (2017: euro 36,124 thousand), as well as undeveloped land with a carrying amount of euro 14,404 thousand (2017: euro 16,056 thousand). These properties are located in Austria. In 2018 business year as well as 2017, there was no property under construction. At reporting date, all 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 land. The minimum and maximum values are reported for each individual input parameter along with the average value weighted by the carrying amount (average). The average value in the position carrying amount corresponds to the average value of each property. The parameter values therefore do not generally relate to one and the same property.

The sensivity analysis is calculated on all investment properties irrespective whether they are shown as investment properties or as assets held for sale.

Completed properties

	2018			2017		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	0	4,450	664	0	4,030	616
Rentable space in sqm	8	5,100	1,345	8	5,100	1,540
Occupancy rate	0 %	100.00 %	88.89 %	0 %	100.00 %	83.57 %
Discount rate	2.00 %	8.00 %	4.64 %	2.00 %	8.00 %	4.17 %

Sensitivity analysis

Euro thousand	Changes in the carrying amount if assumption is increased	Changes in the carrying amount if assumption is decreased
31 Dec 2018		
Discount rate (0.25 % change)	-1,801	2,006
Discount rate (0.50 % change)	-3,427	4,256
31 Dec 2017		
Discount rate (0.25 % change)	-2,439	2,750
Discount rate (0.50 % change)	-4,616	5,874

Undeveloped land

	2018			2017		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Carrying amount in euro thousand	25	2,860	960	24	2,930	803
Plot size in sqm	540	48,263	14,278	540	48,263	12,272
Value per sqm	5	718	174	5	750	195

Sensitivity analysis

Euro thousand	Changes in the carrying amount if assumption is increased	Changes in the carrying amount if assumption is decreased
31 Dec 2018		
Land value (10 % change)	1,440	-1,440
Land value (5 % change)	720	-720
31 Dec 2017		
Land value (10 % change)	1,606	-1,606
Land value (5 % change)	803	-803

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 2017	58,009
Changes in the scope of consolidation	17,551
Additions	0
Comprehensive income proportional	1,619
Impairment	-6,723
Reversal of impairment	0
Carrying amount as at 31 Dec 2017	70,456
Changes in the scope of consolidation	-1,000
Additions	10,000
Comprehensive income proportional	-363
Impairment	-286
Reversal of impairment	9,692
Carrying amount as at 31 Dec 2018	**88,499**

Associates

The Association holds 44.6 % (2017: 48.5 %) of the shares in VB Wien Beteiligungs eG. The company is located in Vienna and holds participations in companies within the financial sector. The equity interest rate decreased mainly due to the deconsolidation of VB Horn.

In addition, the Association holds 77.6 % (2017: 58.3 %) of shares in Verbund Beteiligung eG (VBW Bet). The company is located in Vienna and holds participations in companies within the financial sector. In 2018 business year, VBW and the Association of Volkbanks acquired additional shares of 19.3 % at nominal value. The pro rata fair value of the net assets of VBW Bet exceeds the cost of acquisition in the amount of euro 9,692 thousand. This income is shown together with the current valuation in the result of companies measured at equity.

None of these companies is listed on the stock exchange.

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

Additional information regarding associates

Euro thousand	Other companies 2018	2017
Assets		
Liquid funds	0	0
Loans and receivables credit institutions (net)	42,523	458
Loans and receivables customers (net)	0	0
Financial investments	1	1
Other assets	103,867	188,731
Total assets	**146,390**	**189,190**
Of which current assets	146,389	189,189
Liabilities and Equity		
Amounts owed to credit institutions	7,193	48,521
Amounts owed to customers	0	0
Debts evidenced by certificates	0	0
Subordinated liabilities	0	0
Other liabilities	755	1,819
Equity	138,442	138,850
Total liabilities and equity	**146,390**	**189,190**
Of which current liabilities	755	1,819
Statement of comprehensive income		
Interest and similar income	1,633	1,313
Interest and similar expense	-1,976	-1,425
Net interest income	-343	-112
Risk provision	-17	0
Result before taxes	2,996	-484
Income taxes	-184	-221
Result after taxes	2,812	-704
Other comprehensive income	-3,084	4,470
Comprehensive income	**-272**	**3,765**

Not recognised proportional loss

Euro thousand	2018	2017
Loss of the period proportional	0	0
Change in other comprehensive income of the period proportional	0	0
Cumulative loss	0	0
Cumulative other comprehensive income	0	0

Reconciliation

Euro thousand	2018	2017
Equity	138,442	138,850
Equity interest	n.a.	n.a.
Equity proportional	94,634	77,179
Cumulative impairment and reversals of impairment	-6,439	-6,723
Valuations previous years	304	0
Carrying amount as at 31 Dec 2018	88,499	70,456

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 2018	31 Dec 2017
Investments in unconsolidated affiliates	16,393	16,104
Investments in companies with participating interest	6,876	7,126
Investments in other companies	85,752	94,372
Participations	**109,022**	**117,602**

A list of unconsolidated affiliates can be found in note 56). Participations with a carrying amount of euro 315 thousand (2017: euro 1,213 thousand) were disposed of during the business year.

Sensitivity analysis

Participations valued by DCF method

Proportional market value Euro thousand 31 Dec 2018		Interest rate -0.50 %	 Actual	 0.50 %
	-10.00 %	19,651	18,610	17,735
Income component	**Actual**	21,617	**20,410**	19,379
	10.00 %	23,598	22,270	21,097
31 Dec 2017		**-0.50 %**	**Actual**	**0.50 %**
	-10.00 %	20,355	19,269	18,332
Income component	**Actual**	22,420	**21,158**	20,059
	10.00 %	24,487	23,102	21,877

Participations valued by net assets

Euro thousand 31 Dec 2018	Proportional market value If assumption is decreased	 Actual	 If assumptions is increased
Net assets (10 % change)	13,467	**14,963**	16,460
31 Dec 2017	**If assumption is decreased**	**Actual**	**If assumptions is increased**
Net assets (10 % change)	15,192	**16,920**	18,643

Participations valued by external appraisals

Euro thousand 31 Dec 2018	Lower band	Actual	Upper band
Proportional market value	59,194	**65,778**	72,329
31 Dec 2017	**Lower band**	**Actual**	**Upper band**
Proportional market value	62,773	**69,727**	76,687

21) Intangible assets

Euro thousand	Software	Goodwill	Others	Total
Costs as at 1 Jan 2017	43,767	866	675	45,307
Change in the scope of consolidation	0	0	0	0
Currency translation	-181	0	0	-181
Reclassification	-88	0	-32	-120
Additions	1,011	0	16	1,027
Disposals	-748	0	-9	-757
Assets held for sale	-1,174	0	0	-1,174
Costs as at 31 Dec 2017	42,587	866	650	44,102
Change in the scope of consolidation	-62	0	0	-62
Currency translation	88	0	0	88
Reclassification	0	0	0	0
Additions	149	0	0	149
Disposals	-1,288	0	0	-1,288
Assets held for sale	-1,153	0	0	-1,153
Costs as at 31 Dec 2018	**40,319**	**866**	**650**	**41,835**

Euro thousand	Software	Goodwill	Others	Total
Cumulative valuation 1 Jan 2017	-42,180	-750	-320	-43,250
Change in the scope of consolidation	0	0	0	0
Currency translation	167	0	0	167
Reclassification	88		32	120
Disposals	748		9	757
Assets held for sale	1,156	0	0	1,156
Depreciation	-711		-12	-723
Impairment	-680	-58	0	-738
Cumulative valuation 31 Dec 2017	-41,411	-808	-292	-42,511
Change in the scope of consolidation	66	0	0	66
Currency translation	-77	0	0	-77
Reclassification	0	0	0	0
Disposals	1,287	0	0	1,287
Assets held for sale	949	0	0	949
Depreciation	-479	0	-13	-492
Impairment	0	-58	0	-58
Cumulative valuation 31 Dec 2018	**-39,666**	**-866**	**-305**	**-40,837**

Euro thousand	Software	Goodwill	Others	Total
Carrying amount 1 Jan 2017	1,587	115	354	2,057
Carrying amount 31 Dec 2017	1,175	58	358	1,591
Thereof with unlimited useful life	0	58	0	58
Thereof with limited useful life	1,175	0	358	1,533
Carrying amount 31 Dec 2018	653	0	345	998
Thereof with unlimited useful life	0	0	0	0
Thereof with limited useful life	653	0	345	998

22) Tangible assets

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Costs as at 1 Jan 2017	699,344	36,045	222,490	13,470	971,349
Change in the scope of consolidation	-17,255	0	-183	0	-17,439
Currency translation	-1,566	-85	-243	-61	-1,955
Reclassification	8,830	-721	-1,183	-8,746	-1,820
Additions	8,817	1,437	7,360	483	18,097
Disposals	-26,974	-3,104	-15,860	-901	-46,839
Assets held for sale	-28,407	-45	-944	-154	-29,550
Costs as at 31 Dec 2017	642,789	33,528	211,436	4,091	891,844
Change in the scope of consolidation	-1,754	44	-48	-555	-2,313
Currency translation	671	38	107	14	830
Reclassification	3,705	-336	-11,237	1,251	-6,617
Additions	8,865	1,652	4,201	421	15,138
Disposals	-25,987	-2,868	-18,307	-508	-47,669
Assets held for sale	-78,455	-1,276	-1,952	-374	-82,057
Costs as at 31 Dec 2018	**549,833**	**30,782**	**184,201**	**4,340**	**769,156**

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Cumulative valuation 1 Jan 2017	-285,576	-32,446	-180,039	-5,934	-503,995
Change in the scope of consolidation	10,798	0	169	0	10,968
Currency translation	495	69	226	55	845
Reclassification	-3,503	406	1,303	2,871	1,076
Disposals	15,601	3,072	13,513	629	32,815
Assets held for sale	11,823	45	873	9	12,750
Depreciation	-15,768	-2,086	-9,479	-528	-27,861
Impairment	-3,374	0	-1,557	0	-4,931
Reversal of impairment	0	0	160	0	160
Cumulative valuation 31 Dec 2017	-269,503	-30,941	-174,831	-2,898	-478,172
Change in the scope of consolidation	1,656	-43	71	530	2,213
Currency translation	-225	-34	-99	-11	-369
Reclassification	-4,112	314	6,758	-600	2,361
Disposals	14,594	2,865	17,470	573	35,502
Assets held for sale	20,184	919	1,801	304	23,208
Depreciation	-15,322	-1,527	-7,545	-678	-25,072
Impairment	-2,695	0	0	0	-2,695
Reversal of impairment	0	0	1,112	0	1,112
Cumulative valuation 31 Dec 2018	**-255,421**	**-28,447**	**-155,263**	**-2,779**	**-441,911**

Euro thousand	Land and buildings	IT-Equipment	Office equipment and furniture	Others	Total
Carrying amount 1 Jan 2017	413,768	3,599	42,451	7,536	467,354
Carrying amount 31 Dec 2017	373,286	2,587	36,605	1,193	413,672
Carrying amount 31 Dec 2018	294,412	2,335	28,938	1,561	327,245

23) Tax assets and liabilities

Euro thousand	31 Dec 2018 Tax assets	31 Dec 2018 Tax liabilities	31 Dec 2017 Tax assets	31 Dec 2017 Tax liabilities
Current tax	7,570	8,705	2,413	9,995
Deferred tax	92,762	10,920	90,190	13,163
Tax total	**100,333**	**19,626**	**92,602**	**23,158**

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

	31 Dec 2018		31 Dec 2017		Net deviation 2018		
Euro thousand	Tax assets	Tax liabilities	Tax assets	Tax liabilities	Total	In income statement	In other comprehensive income
Loans and receivables credit institutions	94	165	0	0	-71	253	0
Loans and receivables customers	38,089	31,954	42,867	28,231	-8,500	411	0
Assets held for trading	46	0	124	0	-78	-78	0
Financial investments	567	65,293	256	72,440	7,458	4,818	743
Investment property	432	4,314	412	5,026	731	731	0
Participations	5,174	4,808	4,389	7,395	3,372	1,446	1,893
Intangible and tangible assets	39,650	5,388	33,238	5,067	6,091	6,519	-427
Amounts owed to customers	3,422	0	4,977	0	-1,555	-1,555	0
Debts evidenced by certificates and subordinated liabilities	17,783	34	17,880	230	100	-1,549	612
Liabilities held for trading	0	2	0	9	6	6	0
Provisions for pensions, severance payments and other provisions	32,202	12,358	35,609	13,350	-2,416	-1,044	-1,396
Other assets and liabilities	73,382	27,950	79,642	28,969	-5,241	-5,218	0
Other balance sheet items	0	39,566	0	38,687	-879	0	-1,793
Tax loss carryforwards	62,380	0	56,355	0	6,025	6,002	0
Deferred taxes before netting	273,220	191,832	275,748	199,402	5,043	10,741	-368
Offset between deferred tax assets and deferred tax liabilities	-180,457	-180,457	-185,558	-185,558	0	0	0
Reported deferred taxes	**92,762**	**11,375**	**90,190**	**13,844**	**5,043**	**10,741**	**-368**
Of which in assets or liabilities held for sale		454		681			

The remainder of the net difference in the annual comparison that is not reflected in either the income statement or other comprehensive income is primarily attributable to the adjustment to IFRS 9 in the amount of euro -4,001 thousand as well as the changes in the scope of consolidation.

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

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

In accordance with IAS 12.39 deferred tax liabilities for temporary differences regarding participations in subsidiaries in the amount of euro 65,299 thousand (2017: euro 53,464 thousand) as well as deferred tax assets in the amount of euro 10,146 thousand (2017: euro 5,733 thousand) were not recognised as a reversal is not expected soon.

For tax loss carryforwards in the amount of euro 252,340 thousand (2017: euro 358,772 thousand) no deferred taxes were recognised. Deferred tax assets for tax loss carryforwards and other deferred tax assets in the amount of euro 4,086 thousand (tax base) (2017: euro 29,784 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 252,340 thousand (2017: euro 358,772 thousand) can be carried forward without restriction, and are mainly attributable to VBW.

24) Other assets

Euro thousand	31 Dec 2018	31 Dec 2017
Deferred items	2,553	2,408
Other receivables and assets	75,189	83,872
Positive fair values of derivative instruments	75,423	104,195
Other assets	**153,166**	**190,476**

Other receivables and assets essentially consist of deferrals of euro 21,655 thousand (2017: euro 18,063 thousand), auxiliary accounts of the banking business and other allocations amounting to euro 17,234 thousand (2017: euro 16,928 thousand), receivables from property sales in the amount of euro 15,323 thousand (2017: euro 10,591 thousand).

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

Euro thousand	31 Dec 2018 Fair value hedge	31 Dec 2017 Fair value hedge
Interest rate related transactions	37,154	71,202
Positive fair values of derivative instruments	**37,154**	**71,202**

25) Assets held for sale

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

Euro thousand	31 Dec 2018	31 Dec 2017
Liquid funds	181,739	9,338
Loans and receivables credit institutions (net)	104,997	35,056
Loans and receivables customers (net)	107,004	52,452
Financial investments (net)	44,633	9,864
Investment property	2,503	6,959
Participations	0	15
Intangible assets	204	18
Tangible assets	58,121	11,892
Other assets	9,982	511
Assets held for sale	**509,183**	**126,105**

As of 31 December 2018 the result of assets held for sale shows, besides the Volksbank AG, Liechtenstein, and the carrying amount of the registered office of VBW at 1090 Vienna, Kolingasse, especially real estate which is no longer used operationally.
In the previous year this position mainly showed the result of Volksbank AG, Schweiz that was sold in February 2018.

26) Amounts owed to credit institutions

Euro thousand	31 Dec 2018	31 Dec 2017
Central banks	310,342	169,541
Other credit institutions	284,750	279,199
Amounts owed to credit institutions	**595,091**	**448,740**

Amounts owed to credit institutions are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
On demand	194,542	229,943
Up to 3 months	237,821	43,253
Up to 1 year	5,705	48,818
Up to 5 years	43,031	25,029
More than 5 years	113,992	101,698
Amounts owed to credit institutions	**595,091**	**448,740**

27) Amounts owed to customers

Euro thousand	31 Dec 2018	31 Dec 2017
Amortised cost	21,555,395	20,849,571
Savings deposits	8,750,205	9,217,464
Other deposits	12,805,190	11,632,107
Amounts owed to customers	**21,555,395**	**20,849,571**

Amounts owed to customers are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
On demand	15,294,492	13,915,580
Up to 3 months	1,251,264	1,337,221
Up to 1 year	2,697,240	2,799,294
Up to 5 years	1,370,716	1,773,122
More than 5 years	941,683	1,024,355
Amounts owed to customers	**21,555,395**	**20,849,571**

28) Debts evidenced by certificates

Euro thousand	31 Dec 2018	31 Dec 2017
Bonds	447,984	474,101
Amortised cost	341,409	474,101
Fair value through profit or loss - designated	106,575	0
Medium-term notes	57,236	119,937
Others	24,110	29,594
Debts evidenced by certificates	**529,329**	**623,633**

Medium-term notes and other debts evidenced by certificates are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
Up to 3 months	22,721	35,956
Up to 1 year	44,666	65,563
Up to 5 years	129,688	204,151
More than 5 years	332,255	317,962
Debts evidenced by certificates	**529,329**	**623,633**

29) Liabilities held for trading

Euro thousand	31 Dec 2018	31 Dec 2017
Negative fair values of derivative instruments		
Exchange rate related transactions	4	0
Interest rate related transactions	71,781	77,459
Liabilities held for trading	**71,785**	**77,459**

30) Provisions

Provisions for off-balance risks

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Total
As at 1 Jan 2018	3,495	3,209	10,962	17,667
Increases due to origination and acquisition	1,988	205	1,714	3,907
Decreases due to derecognition	-2,310	-3,165	-4,498	-9,974
Changes due to change in credit risk	-304	3,081	1,970	4,747
Thereof transfer to stage 1	3,111	-2,498	-612	0
Thereof transfer to stage 2	-293	352	-58	0
Thereof transfer to stage 3	-19	-497	516	0
Changes due to modifications without derecognition	0	0	0	0
Changes due to update in the institution´s methodology for estimation	0	0	0	0
Decrease in allowance account due to write-offs	0	0	0	0
Other adjustments	-13	-27	-777	-817
As at 31 Dec 2018	**2,856**	**3,304**	**9,370**	**15,530**

Euro thousand	Provisions for off-balance risks
As at 1 Jan 2017	21,685
Changes in the scope of consolidation	13
Currency translation	-136
Reclassification	-2,648
Unwinding	-21
Utilisation	-538
Release	-6,159
Addition	5,642
As at 31 Dec 2017	**17,839**

Euro thousand	**Other provisions**
As at 1 Jan 2017	30,313
Changes in the scope of consolidation	3,889
Currency translation	-167
Reclassification	1,577
Unwinding	0
Utilisation	-24,224
Release	-9,572
Addition	29,333
As at 31 Dec 2017	31,150
Changes in the scope of consolidation	1,790
Currency translation	101
Reclassification	630
Unwinding	31
Utilisation	-13,440
Release	-8,041
Addition	18,473
As at 31 Dec 2018	**30,694**

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 7,035 thousand (2017: euro 7,012 thousand) as at the reporting date. Other provisions were recognised for interest claims in connection with corporate loans with floors to euro 5,298 thousand (2017: euro 13,394 thousand) and for possible repayments from drawdowns of guarantees amounting to euro 10,860 thousand (2017: euro 2,604 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	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
Net present value as at 1 Jan 2017	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 arising from changes in financial assumptions	-2,616	-2,966	-608	-6,190
Actuarial gains or losses arising from changes in demographic assumptions	0	0	0	0
Net present value as at 31 Dec 2017	59,630	144,386	21,145	225,161
Currency translation	369	0	0	369
Changes in the scope of consolidation	-5,508	0	0	-5,508
Current service costs	336	6,598	1,492	8,426
Interest costs	588	1,664	249	2,501
Payments	-3,573	-10,044	-880	-14,496
Actuarial gains or losses arising from changes in financial assumptions	107	-7,058	-1,051	-8,002
Actuarial gains or losses arising from changes in demographic assumptions	1,611	-1,819	1,250	1,041
Net present value as at 31 Dec 2018	**53,561**	**133,726**	**22,205**	**209,492**

Net present value of plan assets

Euro thousand	Provision for pensions
Net present value of plan assets as at 1 Jan 2017	9,101
Currency translation	-685
Changes in the scope of consolidation	0
Return on plan assets	1,034
Contributions to plan assets	133
Payments	-978
Net present value of plan assets as at 31 Dec 2017	8,605
Currency translation	296
Changes in the scope of consolidation	-4,152
Return on plan assets	258
Contributions to plan assets	10
Payments	-3
Net present value of plan assets as at 31 Dec 2018	**5,014**

The provision for pensions is netted with the present value of plan assets. Employee benefit provisions reclassified to liabilities held for trading in the amount of euro 581 thousand (2017: 1,283 thousand) are included in all tables referring to employee benefits.

Contribution payments to plan assets are expected in the amount of euro -4 thousand in 2019 (2018: euro -4 thousand).

Euro thousand	Provision for pensions	Provision for severance payments	Provision for anniversary bonuses	Total
31 Dec 2017				
Long-term employee provisions	59,630	144,386	21,145	225,161
Net present value of plan assets	-8,605			-8,605
Net liability recognised in balance sheet	**51,025**	**144,386**	**21,145**	**216,556**
31 Dec 2018				
Long-term employee provisions	53,561	133,726	22,205	209,492
Net present value of plan assets	-5,014			-5,014
Net liability recognised in balance sheet	**48,546**	**133,726**	**22,205**	**204,478**

Historical information

Euro thousand	2018	2017	2016	2015	2014
Net present value of obligations	209,492	225,161	240,101	241,888	364,091
Net present value of plan assets	5,014	8,605	9,101	8,655	44,940

Composition of plan assets

	31 Dec 2018			31 Dec 2017		
Euro thousand	Plan assets - quoted	Plan assets- non-quoted	Plan assets - total	Plan assets - quoted	Plan assets - non-quoted	Plan assets - total
Bond issues regional administration bodies	343	0	343	301	0	301
Bond issues credit institutions	46	0	46	39	0	39
Other bond issues	3,194	0	3,194	3,958	44	4,002
Shares EU countries	90	0	90	95	0	95
Shares USA and Japan	154	0	154	56	0	56
Other shares	70	0	70	1,150	134	1,285
Derivatives	706	19	726	658	692	1,350
Real estate	270	60	330	402	798	1,200
Cash in hand	39	22	60	262	15	277
Total	**4,913**	**101**	**5,014**	**6,922**	**1,684**	**8,605**

The column Plan assets - quoted shows all plan assets with 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 2017		
Discount rate (0.75 % modification)	-17,498	20,189
Future wage and salary increases (0.50 % modification)	10,821	-9,946
Future pension increases (0.25 % modification)	1,590	-1,709
Future mortality (1 year modification)	3,022	-2,920
31 Dec 2018		
Discount rate (0.75 % modification)	-16,809	18,595
Future wage and salary increases (0.50 % modification)	9,597	-8,854
Future pension increases (0.25 % modification)	1,455	-1,396
Future mortality (1 year modification)	2,966	-2,877

As of 31 December 2018, the weighted average term of defined-benefit obligations for pensions was 12.0 years (2017: 12.2 years) and for severance payments 13.2 years (2017: 12.5 years).

Although 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 2018	31 Dec 2017
Deferred items	3,419	2,745
Other liabilities	121,932	120,008
Negative fair values of derivative instruments	383,499	386,113
Other liabilities	**508,850**	**508,866**

Other liabilities essentially consist of taxes and fiscal liabilities in the amount of euro 30,534 thousand (2017: 23,867 thousand), deferrals and trade payables in the amount of euro 24,102 thousand (2017: euro 32,266 thousand), liabilities to employees in the amount of euro 18,792 thousand (2017: euro 16,526 thousand) as well as auxiliary accounts of the banking business in the amount of euro 9,243 thousand (2017: euro 18,614 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 2018 Fair value hedge	31 Dec 2017 Fair value hedge
Exchange rate related transactions	19,613	20,273
Interest rate related transactions	271,595	280,419
Negative fair values of derivative instruments	**291,208**	**300,693**

33) Liabilities held for sale

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

Euro thousand	31 Dec 2018	31 Dec 2017
Amounts owed to credit institutions	2,207	5
Amounts owed to customers	530,231	91,900
Debts evidenced by certificates	0	1,820
Provisions	631	5,125
Tax liabilities	1,053	681
Other liabilities	10,299	4,152
Liabilities held for sale	**544,420**	**103,684**

34) Subordinated liabilities

Euro thousand	31 Dec 2018	31 Dec 2017
Subordinated capital	508,002	525,905
Supplementary capital	126,050	145,254
Subordinated liabilities	**634,052**	**671,159**

Subordinated liabilities are measured at amortised cost.

Breakdown by residual term

Euro thousand	31 Dec 2018	31 Dec 2017
Up to 3 months	1,027	4,865
Up to 1 year	35,404	27,678
Up to 5 years	78,308	97,596
More than 5 years	519,313	541,021
Subordinated liabilities	**634,052**	**671,159**

Cash inflow and cash outflow of subordinated liabilities

EUR Tsd	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**
Cash inflow	4,268
Cash outflow	-42,651
Non-cash changes	
Changes in the scope of consolidation	0
Others	1,276
Total non-cash changes	1,276
As at 31 Dec 2018	**634,052**

The issued open amount of every subordinated emission is less than 10 % of the total volume of subordinated liabilities. In subordinated liabilities with a residual term of more than five years a volume of euro 18,247 thousand (2017: euro 25,731 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 2020, 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 CRR, in the 2013 business year the Volksbanks began 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 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 in previous year amounting to euro -86,587 thousand less deferred tax assets 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 2018 was 0.43 % (2017: 0.24 %) 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 names; headquarters	**2018**	**2017**	**Assignment**
3V-Immobilien Errichtungs-GmbH; Vienna	< 0.001 %	< 0.001 %	Other companies
Gärtnerbank Immobilien GmbH; Vienna	< 0.001 %	< 0.001 %	Other companies
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Vienna	< 0.001 %	< 0.001 %	Other companies
VB Services für Banken Ges.m.b.H.; Vienna	1.110 %	1.110 %	Other companies
VB Verbund-Beteiligung Region Vienna eG; Vienna	9.490 %	9.580 %	Other companies
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	1.000 %	1.000 %	Other companies
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Vienna	0.005 %	0.005 %	Other companies

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

Additional information non-controlling interest

Euro thousand	Other companies 2018	2017
Assets		
Loans and receivables credit institutions (net)	43,615	42,914
Loans and receivables customers (net)	147	230
Financial investments	651	674
Other assets	71,959	76,280
Total assets	**116,372**	**120,099**
Liabilities and equity		
Amounts owed to credit institutions	50,243	54,564
Amounts owed to customers	0	11
Other liabilities	13,296	14,353
Equity	52,834	51,171
Total liabilities	**116,372**	**120,099**
Statement of comprehensive income		
Interest and similar income	67	105
Interest and similar expense	-1,919	-1,941
Net interest income	-1,852	-1,836
Rental income from investment property and operating lease	3,844	3,898
Risk provision	-1	0
Result before taxes	2,823	2,037
Income taxes	107	-90
Result after taxes	2,930	1,947
Other comprehensive income	170	130
Comprehensive income	3,100	2,077

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 2018	31 Dec 2017
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	771,417	744,999
Retained earnings	1,327,569	504,751
Accumulated other comprehensive income (and other reserves)	-266,297	471,734
Amount of capital instruments subject to phase out from CET1	9,811	11,529
Non-controlling interest	0	434
Common tier I capital before regulatory adjustments	1,842,499	1,733,447
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Goodwill (net of related tax liability)	0	-58
Intangible assets (net of related tax liability)	-998	-1,551
Value adjustments due to the requirement for prudent valuation	-1,885	-2,676
Regulatory adjustments - transitional provisions	0	-14,948
Unrealised gains (0 %; 2017: 20 %)	0	-19,255
Loss of the current financial year (0 %; 2017: 20 %)	0	3,985
Intangible assets (0 %; 2017: 20 %)	0	322
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Additional CET1 deductions pursuant to article 3 CRR	-78,702	-78,241
Total regulatory adjustments	-81,586	-97,475
Common equity tier I capital - CET1	**1,760,913**	**1,635,972**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	14,153	14,153
Additional tier I capital before regulatory adjustments	14,153	14,153
Additional tier I capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	0	-4,307
Loss of the current financial year (0 %; 2017: 20 %)	0	-3,985
Intangible assets (0 %; 2017: 20 %)	0	-322
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Total regulatory adjustments	0	-4,307
Additional tier I capital - AT1	**14,153**	**9,846**
Tier I capital (CET1 + AT1)	**1,775,066**	**1,645,818**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	477,369	499,078
Capital instruments subject to phase out from tier II	45,836	54,266
Tier II capital before regulatory adjustments	523,205	553,344
Tier II capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	0	0
Total regulatory adjustments	0	0
Tier II capital - T2	**523,205**	**553,344**
Own funds	**2,298,271**	**2,199,162**

Common equity tier I capital ratio (tier I)	12.08 %	12.36 %
Tier I capital ratio	12.18 %	12.43 %
Equity ratio	15.77 %	16.61 %
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 2018	31 Dec 2017
Risk weighted exposure amount - credit risk	12,301,455	11,699,539
Total risk exposure amount - settlement risk	33	77
Total risk exposure amount for position, foreign exchange and commodities risks	85,885	111,792
Total risk exposure amount for operational risk	1,288,285	1,368,575
Total risk exposure amount for credit valuation adjustment (cva)	55,996	59,658
Other risk exposure amount	845,173	0
Total risk exposure amount	**14,576,827**	**13,239,641**

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

Euro thousand	31 Dec 2018	31 Dec 2017
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	771,417	744,999
Retained earnings	1,327,569	504,751
Accumulated other comprehensive income (and other reserves)	-266,297	471,734
Common tier I capital before regulatory adjustments	1,832,688	1,721,483
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Goodwill (net of related tax liability)	0	-58
Intangible assets (net of related tax liability)	-998	-1,551
Value adjustments due to the requirement for prudent valuation	-1,885	-2,676
Additional CET1 deductions pursuant to article 3 CRR	-78,702	-88,579
Total regulatory adjustments	-81,586	-92,864
Common equity tier I capital - CET1	**1,751,102**	**1,628,620**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	14,153	14,153
Additional tier I capital before regulatory adjustments	14,153	14,153
Additional tier I capital: regulatory adjustments		
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**14,153**	**14,153**
Tier I capital (CET1 + AT1)	**1,765,255**	**1,642,773**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	483,501	506,163
Tier II capital before regulatory adjustments	483,501	506,163
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**483,501**	**506,163**
Own funds	**2,248,757**	**2,148,936**
Common equity tier I capital ratio (tier I)	12.01 %	12.33 %
Tier I capital ratio	12.11 %	12.43 %
Equity ratio	15.43 %	16.26 %
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 2018	31 Dec 2017
Risk weighted exposure amount - credit risk	12,301,455	11,673,697
Total risk exposure amount - settlement risk	33	77
Total risk exposure amount for position, foreign exchange and commodities risks	85,885	111,792
Total risk exposure amount for operational risk	1,288,285	1,368,575
Total risk exposure amount for credit valuation adjustment (cva)	55,996	59,658
Other risk exposure amount	845,173	0
Total risk exposure amount	**14,576,827**	**13,213,798**

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 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 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 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 2018, no substantial, practical or legal obstacles existed which would have prevented the transfer of equity or the repayment of liabilities between the parent institution and institutions subordinated to the former.

37) Financial assets and liabilities

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

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2018					
Liquid funds	1,731,644	0	0	1,731,644	1,731,644
Loans and receivables credit institutions (gross)	468,487	0	1,072	469,560	
Individual loan loss provision	0	0	0	0	
Loans and receivables credit institutions less individual loan loss provision	468,487	0	1,072	469,560	466,686
Loans and receivables customers (gross)	20,218,871	0	576,017	20,794,888	
Individual loan loss provision	-236,902	0	0	-236,902	
Loans and receivables customers less individual loan loss provision	19,981,969	0	576,017	20,557,986	20,790,003
Assets held for trading	0	0	56,312	56,312	56,312
Financial investments (gross)	1,963,148	390,155	115,602	2,468,905	
Individual loan loss provision	0	0	0	0	
Financial investments less individual loan loss provision	1,963,148	390,155	115,602	2,468,905	2,463,040
Participations	0	109,022	0	109,022	109,022
Derivative instruments	0	0	75,423	75,423	75,423
Financial assets held for sale	438,373			438,373	424,763
Financial assets total	**24,583,621**	**499,177**	**824,427**	**25,907,225**	**26,116,893**
Amounts owed to credit institutions	595,091	0	0	595,091	589,098
Amounts owed to customers	21,555,395	0	0	21,555,395	21,589,792
Debts evidenced by certificates	422,754	0	106,575	529,329	543,305
Liabilities held for trading	0	0	71,785	71,785	71,785
Derivative instruments	0	0	383,499	383,499	383,499
Subordinated liabilities	634,052	0	0	634,052	616,888
Financial liabilities held for sale	532,438			532,438	534,812
Financial liabilities total	**23,739,730**	**0**	**561,859**	**24,301,589**	**24,329,179**

Euro thousand	Amortised cost	Fair value through OCI	Fair value through profit or loss	Carrying amount - total	Fair value
31 Dec 2017					
Liquid funds	2,001,338	0	0	2,001,338	2,001,338
Loans and receivables credit institutions (gross)	494,889	0	0	494,889	
Individual loan loss provision	0	0	0	0	
Loans and receivables credit institutions less individual loan loss provision	494,889	0	0	494,889	501,713
Loans and receivables customers (gross)	19,768,453	0	0	19,768,453	
Individual loan loss provision	-282,447	0	0	-282,447	
Loans and receivables customers less individual loan loss provision	19,486,005	0	0	19,486,005	19,209,673
Assets held for trading	0	0	63,587	63,587	63,587
Financial investments	359,140	1,933,134	0	2,292,273	2,296,914
Participations	0	117,602	0	117,602	116,214
Derivative instruments	0	0	104,195	104,195	104,195
Financial assets held for sale	104,806	1,918	0	106,725	107,493
Financial assets total	**22,446,178**	**2,052,654**	**167,783**	**24,666,615**	**24,401,128**
Amounts owed to credit institutions	448,740	0	0	448,740	439,015
Amounts owed to customers	20,849,571	0	0	20,849,571	20,780,530
Debts evidenced by certificates	623,633	0	0	623,633	644,477
Liabilities held for trading	0	0	77,459	77,459	77,459
Derivative instruments	0	0	386,113	386,113	386,113
Subordinated liabilities	671,159	0	0	671,159	677,437
Financial liabilities held for sale	93,725	0	0	93,725	93,725
Financial liabilities total	**22,686,829**	**0**	**463,571**	**23,150,400**	**23,098,756**

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

Euro thousand	Level 1	Level 2	Level 3	Total
31 Dec 2018				
Loans and receivables credit institutions	0	0	1,072	1,072
Loans and receivables customers	0	0	576,017	576,017
Assets held for trading	4,703	51,609	0	56,312
Financial investments	399,139	31,517	75,101	505,757
Fair value through profit or loss	10,900	29,601	75,101	115,602
Fair value through OCI	388,238	1,917	0	390,155
Participations	0	0	107,543	107,543
Fair value through OCI - designated	0	0	107,543	107,543
Derivative instruments	0	75,423	0	75,423
Financial assets total	**403,842**	**158,550**	**759,734**	**1,322,125**
Debts evidenced by certificates	0	0	106,575	106,575
Liabilities held for trading	0	71,785	0	71,785
Derivative instruments	0	383,499	0	383,499
Subordinated liabilities	0	0	0	0
Financial liabilities total	**0**	**455,284**	**106,575**	**561,859**

Euro thousand	Level 1	Level 2	Level 3	Total
31 Dec 2017				
Loans and receivables credit institutions	0	0	0	0
Loans and receivables customers	0	0	0	0
Assets held for trading	8,320	55,267	0	63,587
Financial investments	1,797,444	60,799	74,890	1,933,134
Available for sale	1,797,444	60,799	74,890	1,933,134
Participations	0	0	116,214	116,214
Derivative instruments	0	104,195	0	104,195
Assets held for sale	0	0	1,918	1,918
Financial assets total	**1,805,765**	**220,262**	**193,022**	**2,219,049**
Debts evidenced by certificates	0	0	0	0
Liabilities held for trading	0	77,459	0	77,459
Derivative instruments	0	386,113	0	386,113
Financial liabilities total	**0**	**463,571**	**0**	**463,571**

Please refer to note 3) u) Participations and investments in companies measured at equity for a description of the valuation procedures used for participations. Due to immateriality participations in the amount of euro 1,478 thousand (2017: euro 1,388 thousand) are measured at cost as their fair value cannot be reliably determined.

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 2018, financial instruments with a carrying amount of euro 1,186 thousand (2017: euro 6.071 thousand), which were still measured at Level 2 market value as at 31 December 2017, were reclassified as Level 1 financial instruments due to an increase in trading activity. In 2018 as well as 2017 no reclassifications from Level 1 to Level 2 were made.

Development of Level 3 fair values of financial assets

Euro thousand	Loans and receivables credit institutions	Loans and receivables customers	Financial investments	Partici-pations	Financial assets total	Debts evidenced by certificates	Financial liabilities total
IFRS 9 adjustment	37,366	715,740	0	0	753,106	104,827	104,827
As at 1 Jan 2018	37,366	715,740	74,890	116,214	944,210	104,827	104,827
Changes in the scope of consolidation	-42,455	-38,689	0	-1,555	-82,700	0	0
Currency translation	1,326	1,891	0	0	3,217	0	0
Reallocation to level 3	0	0	0	319	319	0	0
Additions	7,534	51,143	208	870	59,755	1,325	1,325
Disposals	-430	-142,467	0	-732	-143,629	0	0
Valuation							
Through profit or loss	-2,268	-11,600	3	0	-13,865	-2,025	-2,025
Through OCI	0	0	0	-7,573	-7,573	2,449	2,449
As at 31 Dec 2018	**1,072**	**576,017**	**75,101**	**107,543**	**759,734**	**106,575**	**106,575**

Euro thousand	Financial investments	Partici-pations	Financial assets total
As at 1 Jan 2017	67,173	4,514	71,687
Changes in the scope of consolidation	-3,394	6,239	2,846
Currency translation	0	0	0
3	537	0	537
Additions	10,640	14,097	24,737
Disposals	-388	-41	-429
Valuation			
Through profit or loss	0	-1,976	-1,976
Through OCI	322	93,381	93,702
As at 31 Dec 2017	**74,890**	**116,214**	**191,104**

The valuations shown in the table above are included in the item income from financial investments (income statement) or fair value reserve (other comprehensive income). The valuations recorded in the income statement include holdings of financial assets and liabilities in the amount of euro -11,556 thousand (2017: euro -1,976 thousand) at the reporting date.

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

As at 31 December 2018 financial investments include participation certificates with a carrying amount of euro 75,101 thousand (2017: euro 74,890 thousand) which are allocated to level 3 of the fair value hierarchy. They are not traded on any active market and only allow for alternative measurement by means of unobservable input parameters.

Measurement is effected using the Hull-White one factor 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 2020 is assumed as the estimated final maturity. The extended redemption period results from the Managing Board's assessment that a redemption by the Volksbanks of the participation capital held by VB Regio as an asset is subject to approval by the ECB. Only after such approval will VB Regio be able to redeem its own participation certificates. Moreover, a valuation report is required for the redemption of participation certificates in each case.

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

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

31 Dec 2018 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-3,307
Change in markup +/- 100 BP	1,486	-1,461
Change in redemption - 5 %	0	-3,649

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

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

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

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

The sensitivity analyses for the fair values of loans and recaivables credit institutions and customers is described in note 14) Loans and receivables credit institutions and customers.

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

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

The fair value of financial instruments which are not measured at fair value is calculated solely for disclosure purposes within the notes. Therefore, it has no influence on the Group´s balance sheet or the Group´s statement of comprehensive income.

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

Euro thousand	Level 1	Level 2	Level 3	Fair value total	Carrying amount
31 Dec 2018					
Liquid funds	0	1,731,644	0	1,731,644	1,731,644
Loans and receivables credit institutions (gross)					468,487
Individual loan loss provision					0
Loans and receivables credit institutions less individual loan loss provision	0	0	465,614	465,614	468,487
Loans and receivables customers (gross)					20,218,871
Individual loan loss provision					-236,902
Loans and receivables customers less individual loan loss provision	0	0	20,213,986	20,213,986	19,981,969
Financial investments (gross)					1,963,148
Individual loan loss provision					0
Financial investments less individual loan loss provision	1,060,986	13,613	882,683	1,957,283	1,963,148
Financial assets held for sale	44,643	181,739	198,382	424,763	438,373
Financial assets total	**1,105,629**	**1,926,996**	**21,760,665**	**24,793,290**	**24,583,621**
Amounts owed to credit institutions	0	0	589,098	589,098	595,091
Amounts owed to customers	0	0	21,589,792	21,589,792	21,555,395
Debts evidenced by certificates	0	0	436,730	436,730	422,754
Subordinated liabilities	0	0	616,888	616,888	634,052
Financial liabilities held for sale	0	0	534,812	534,812	532,438
Financial liabilities total	**0**	**0**	**23,767,320**	**23,767,320**	**23,739,730**

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 receivables credit institutions (gross)					494,889
Individual loan loss provision					0
Loans to credit institutions less individual impairments	0	0	501,713	501,713	494,889
Loans and receivables customers (gross)					19,768,453
Individual loan loss provision					-282,447
Loans to customers less individual impairments	0	0	19,209,673	19,209,673	19,486,005
Debt 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**

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

For long-term financial instruments, fair value is calculated by discounting contractual cash flows. In 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 incurred or issued as at the reporting date.

Fair value hierarchy

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

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

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

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

38) Derivatives

Derivative financial instruments

2018 Euro thousand	Face value Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total	Fair Value 31 Dec 2018
Interest related transactions	439,702	111,457	1,671,701	2,935,927	5,158,787	-219,607
Caps & Floors	6,335	87,757	376,199	207,847	678,139	-501
Futures - interest related	7,200	0	35,000	0	42,200	0
Interest rate swaps	426,167	23,700	1,260,502	2,728,080	4,438,449	-219,107
Exchange rate related transactions	1,108,050	390,769	546,866	298,316	2,344,001	-95,793
Cross currency interest rate swaps	154,394	183,409	546,866	298,316	1,182,985	-94,341
FX swaps	168,727	15,545	0	0	184,272	-1,453
Forward exchange transactions	784,929	191,815	0	0	976,744	1
Other transactions	10,029	2,811	14,258	137,896	164,994	-12,851
Options	10,029	2,811	14,258	137,896	164,994	-12,851
Total	**1,557,782**	**505,037**	**2,232,824**	**3,372,139**	**7,667,782**	**-328,251**

2017 Euro thousand	Face value Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total	Fair Value 31 Dec 2017
Interest related transactions	130,144	184,238	2,024,094	2,590,076	4,928,553	-228,871
Caps & Floors	4,392	37,085	473,119	272,147	786,744	-878
Futures - interest related	4,800	0	35,000	0	39,800	0
Interest rate swaps	120,952	147,153	1,515,975	2,317,929	4,102,009	-227,993
Exchange rate related transactions	912,769	252,833	786,290	292,087	2,243,979	-65,959
Cross currency interest rate swaps	0	0	786,161	292,087	1,078,247	-70,295
FX swaps	253,990	8,338	0	0	262,329	-143
Forward exchange transactions	658,779	244,494	129	0	903,403	4,479
Other transactions	138,369	140,008	14,626	179,341	472,344	-9,279
Options	138,369	140,008	14,626	179,341	472,344	-9,279
Total	**1,181,283**	**577,079**	**2,825,010**	**3,061,504**	**7,644,875**	**-304,109**

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

39) Hedging

As at 1 January 2018, IFRS 9 was applied to hedge accounting within the Association. The strict 80 % - 125 % hedge effectiveness requirement has been removed by IFRS 9, yet it is still applied within the Association in order to detect any potential ineffectiveness and restore effectiveness by means of rebalancing a hedging relationship in time. The effectiveness is measured with the dollar offset method on a monthly basis, which compares the fair value changes in the hedged as well as in the hedging instrument. Also, as part of the IFRS 9 project, measuring the hedge effectiveness was insourced in the financial year 2018. The implementation for the whole Association started in 2018 and will be finished in 2019.

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

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

31 Dec 2018

Interest rate swaps	Up to 3 months	Up to 1 years	Up to 5 years	More than 5 years	Total
Loans and receivables customers	0	0	0	390,552	390,552
Financial investments	150,000	0	150,500	650,686	951,186
Debts evidenced by certificates	14,784	0	20,000	215,000	249,784

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

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

Euro thousand	Face value	Carrying amount assets	Carrying amount liabilities	Line item in the statement of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for the current year	Ineffectiveness recognised in profit or loss	Line item in the income statement that includes hedge ineffectiveness
31 Dec 2018							
Loans and receivables customers measured at amortised cost	390,552	0	3,576	Positive/negative fair values of derivative instruments	-3,205	526	Result from fair value hedge
Financial investments measured at amortised cost	709,686	0	254,299	Positive/negative fair values of derivative instruments	-1,750	-372	Result from fair value hedge
Financial investments measured at fair value through OCI	241,500	0	13,720	Positive/negative fair values of derivative instruments	10,045	-354	Result from fair value hedge
Debts evidenced by certificates - bonds measured at amortised cost	249,784	37,154	0	Positive/negative fair values of derivative instruments	-2,191	-925	Result from fair value hedge
Interest rate swaps total	**1,591,523**	**37,154**	**271,595**		**2,898**	**-1,125**	

The following table shows a breakdown of the corresponding hedged items

Euro thousand	Carrying amount assets	Carrying amount liabilities	Basis adjustment	Line item in the statement of financial position in which the hedged item is included	Changes in value used for calculating hedge ineffectiveness for the current year	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
31 Dec 2018						
Loans and Receivables customers measured at amortised cost	394,283	0	3,731	Loans and receivables customers	3,731	0
Financial investments measured at amortised cost	968,705	0	249,640	Financial investments	1,378	3,274
Financial investments measured at fair value through OCI	256,536	0	6,536	Financial investments	-10,398	0
Debts evidenced by certificates - bonds measured at amortised cost	0	278,386	28,386	Debts evidenced by certificates	1,266	19,501
Hedged items of interest rate swaps total	**1,619,524**	**278,386**	**288,293**		**-4,023**	**22,774**

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

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

The following table shows a breakdown of the corresponding hedged items

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

Euro thousand 31 Dec 2017	Interest rate risk
Financial assets	1,108,721
Financial liabilities	397,760

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

40) Assets and liabilities denominated in foreign currencies

At balance sheet date, assets denominated in foreign currencies totalled euro 1,422,272 thousand (2017: euro 1,652,635 thousand), whereas liabilities denominated in foreign currencies amounted euro 394,366 thousand (2017: euro 479,018 thousand).

41) Trust transactions

Euro thousand	31 Dec 2018	31 Dec 2017
Trust assets		
Loans and receivables credit institutions	0	47
Loans and receivables customers	63,889	110,312
Trust liabilities		
Amounts owed to credit institutions	0	5,087
Amounts owed to customers	63,889	105,272

42) Subordinated assets

Euro thousand	31 Dec 2018	31 Dec 2017
Loans and receivables customers	11,773	14,483
Financial investments	235	996

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

Euro thousand	31 Dec 2018	31 Dec 2017
Assets pledged as collateral		
Loans and receivables credit institutions	19,306	21,442
Loans and receivables customers	226,684	329,298
Financial investments	15,512	0
Liabilities for which assets have been pledged as collateral		
Amounts owed to credit institutions	245,990	333,517
Amounts owed to customers	15,512	17,223

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

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

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

The remaining loans and receivables 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.

44) Contingent liabilities and credit risks

Euro thousand	31 Dec 2018	31 Dec 2017
Contingent liabilities		
Liabilities arising from guarantees	972,418	1,039,243
Liabilities arising from assets pledged as collateral	0	8,909
Guaranteed letter of credit	1,629	1,743
Others (amounts guaranteed)	20,031	25,325
Commitments		
Unutilised loan commitments	3,222,469	3,009,122

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 15,530 thousand (2017: euro 17,839 thousand).

According to the Spin-off and Transfer Agreement dated 1 June 2015, VBW has resumed the central organisation and central institution function from ÖVAG (now immigon portfolioabbau ag, immigon). Following this spin-off, claims for damages were filed against immigon. VBW is a co-defendant in these proceedings 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 5.4 million. The relevant obligations underlying the claims for damages are attributed to immigon as stipulated in the Spin-off Agreement. Should VBW ever become subject to such claims, the Spin-off Agreement entitles VBW to an indemnification claim against immigon. Based on the press release of immigon published on 31 January 2019 of the certified financial statements as of 31 December 2018, 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.

45) Operating lease liabilities

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

Euro thousand	31 Dec 2018
Up to 3 months	1,394
Up to 1 year	4,993
Up to 5 years	22,074
More than 5 years	142,258
Operating lease liabilities	**170,719**

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

46) Repurchase transactions and other transferred assets

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

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

47) Related party disclosures

Euro thousand	Unconsolidated affiliates	Companies in which the Group has a participating interest	Companies measured at equity	Companies which exercise a significant influence on the parent as shareholders
31 Dec 2018				
Loans and receivables customers	40,043	13,187	7,131	0
Fixed-income securities	0	0	0	720,405
Amounts owed to customers	10,337	403	61,984	0
Provisions	0	3	6	0
Contingent liabilities arising from guarantees	1,623	0	17,947	0
Transactions	56,441	18,402	112,927	0
Administrative expenses	-1,649	-30,093	0	0
Other operating income	592	0	207	0
Other operating expenses	-674	0	0	0
31 Dec 2017				
Loans and receivables customers	49,057	15,902	26,662	0
Fixed-income securities	0	0	0	934,019
Amounts owed to customers	9,189	514	100,044	0
Provisions	0	11	10	0
Contingent liabilities arising from guarantees	1,642	0	16,535	0
Transactions	48,918	48,051	113,173	0
Administrative expenses	-2,617	-27,878	0	0
Other operating income	451	0	486	0
Other operating expenses	-583	0	0	0

Total related party transactions are measured as the average receivables and liabilities from/to credit institutions and customers. The calculation is based on the figures at the quarterly reporting dates during the period under review, which are summed 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 provided 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 2018	31 Dec 2017
Outstanding loans and receivables	1,467	1,516
Redemptions	367	428
Interest payments	10	13

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

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

Euro thousand	Covering loans	Coverage requirements debts evidenced by certificates	Surplus cover
31 Dec 2018			
Covered bonds			
Amortised cost	1,837,351	1,557,744	279,607
Fair value through profit or loss	98,653	83,640	15,013
Total	**1,936,004**	**1,641,384**	**294,620**
31 Dec 2017			
Covered bonds	2,021,282	1,280,304	740,978
Total	**2,021,282**	**1,280,304**	**740,978**

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

49) Branches

	31 Dec 2018	31 Dec 2017
Domestic	303	340
Foreign	1	3
Total number of branches	**304**	**343**

50) Events after the balance sheet date

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

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

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

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

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

The international rating agency Fitch has confirmed the long-term issuer rating for the Association of Volksbanks of level BBB on 5 February 2019.

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

On 1 October 2018 Volksbank Vorarlberg e Gen. signed the share purchase agreement regarding the sale of all participations in its subsidiary Volksbank AG Liechtenstein. The closing took place on 7 March 2019. The purchase price comprises a fixed portion in the amount of CHF 106,500 thousand and a variable portion derived from change in equity and possible substantial outflows of client funds.

51) Segment reporting

The Association has ten segments corresponding to its strategic business fields. The segments are a match to the eight regional banks and the specialist institution. In addition, the CO function of VBW is 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 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 and its subordinate entities 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. The regional banks and their subordinated companies are likewise recognised in the relevant segments.

Physicians

The segment Physicians comprise Österreichische Ärzte- und Apothekerbank AG as well as till October 2018 the 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.

1-12/2018

Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia
Net interest income	12,911	101,809	60,764	46,471	26,439
Risk provisions	3,881	851	-1,362	4,986	-2,121
Net fee and comission income	-3,259	57,553	28,798	25,106	14,250
Net trading income	821	218	-113	-67	51
Result from financial investments	6,591	3,850	-3	-1,048	-613
Other operating result	135,360	1,256	3,720	-972	2,562
General administrative expenses	-128,304	-142,252	-73,431	-58,866	-35,437
Restructuring result	243	-4,270	0	-273	-150
Result from companies measured at equity	0	5,509	-72	0	0
Result before taxes	**28,244**	**24,523**	**18,302**	**15,338**	**4,980**
Income taxes	1,320	-286	-4,505	-2,879	-1,723
Result after taxes	**29,564**	**24,237**	**13,798**	**12,459**	**3,258**
31 Dec 2018					
Total assets	**6,470,626**	**6,472,463**	**3,430,424**	**2,705,455**	**1,396,521**
Loans and receivables customers	290,565	5,172,007	2,775,869	2,258,889	1,129,798
Companies measured at equity	15	40,081	7,206	4,577	5,742
Amounts owed to customers	1,013,883	5,396,995	3,022,928	1,912,817	1,209,679
Debts evidenced by certificates, including subordinated liabilities	771,980	114,559	19,425	30,956	29,339

1-12/2017

Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia
Net interest income	25,748	96,999	59,095	48,927	26,201
Risk provision	2,020	378	-15,072	-12,342	-173
Net fee and comission income	-5,434	65,996	27,384	24,064	14,141
Net trading income	5,448	348	273	245	22
Result from financial investments	4,992	-2,512	503	-3,399	912
Other operating result	88,588	-1,968	-2,438	-8,290	-441
General administrative expenses	-119,297	-142,617	-70,235	-57,498	-33,617
Restructuring result	955	321	0	0	0
Result from companies measured at equity	0	-944	-6,677	0	0
Result before taxes	**3,021**	**16,001**	**-7,166**	**-8,294**	**7,045**
Income taxes	6,025	674	1,812	13,022	-1,972
Result after taxes	**9,046**	**16,674**	**-5,354**	**4,727**	**5,074**
31 Dec 2017					
Total assets	**6,044,699**	**6,254,739**	**3,197,705**	**2,644,534**	**1,330,709**
Loans and receivables customers	422,673	4,605,974	2,578,751	2,202,257	1,053,210
Companies measured at equity	15	40,729	7,204	2,746	2,452
Amounts owed to customers	623,141	5,512,578	2,809,406	1,812,234	1,162,417
Debts evidenced by certificates, including subordinated liabilities	792,958	126,052	35,477	40,535	38,852

Upper Austria	Salzburg	Tyrol	Vorarlberg	Physicians	Consolidation	Total
37,970	47,849	45,900	27,250	12,467	0	419,831
-2	-2,458	1,421	1,295	-179	0	6,313
23,306	24,169	31,228	26,504	5,981	-182	233,455
29	-10	313	-1,682	-161	-76	-678
-484	-1,205	150	-4,226	76	-6,164	-3,076
2,425	1,174	-209	10,137	129	-127,149	28,432
-57,258	-64,347	-62,463	-49,817	-20,911	124,927	-568,157
280	0	0	0	0	0	-4,170
0	0	0	0	0	6,087	11,524
6,266	**5,173**	**16,341**	**9,461**	**-2,597**	**-2,557**	**123,475**
339	298	-3,944	2,742	466	-105	-8,276
6,605	**5,471**	**12,397**	**12,203**	**-2,131**	**-2,662**	**115,199**
2,407,805	**2,769,063**	**3,285,802**	**2,422,891**	**948,394**	**-5,745,777**	**26,563,668**
1,800,235	2,163,461	2,713,376	1,538,755	734,176	-74,884	20,502,248
15,682	10,297	26	20	4,854	0	88,499
2,150,477	2,177,277	2,661,927	1,225,143	850,877	-66,607	21,555,395
25,134	58,313	57,860	66,436	16,151	-26,772	1,163,381

Upper Austria	Salzburg	Tyrol	Vorarlberg	Physicians	Consolidation	Total
38,194	48,740	46,489	29,214	11,876	323	431,806
-5,367	-7,477	-8,689	3,822	-2,514	0	-45,413
23,384	22,690	27,476	27,567	6,484	3,146	236,899
144	306	492	7,427	-343	0	14,362
973	1,404	-1,260	-2,028	1,007	-3,379	-2,787
7,719	1,399	-1,359	-2,246	-522	-83,291	-2,850
-53,162	-60,433	-56,435	-54,039	-20,094	81,885	-585,542
0	0	0	0	0	0	1,276
0	0	0	0	0	0	-7,621
11,884	**6,629**	**6,715**	**9,717**	**-4,105**	**-1,315**	**40,131**
7,686	-1,327	-5,266	-797	872	298	21,027
19,570	**5,302**	**1,449**	**8,920**	**-3,233**	**-1,018**	**61,157**
2,268,474	**2,633,853**	**3,103,616**	**2,199,041**	**891,715**	**-5,245,814**	**25,323,270**
1,694,236	2,099,743	2,574,993	1,541,924	690,924	-58,145	19,406,540
7,463	6,320	26	20	3,481	0	70,456
2,016,938	2,134,809	2,473,928	1,567,810	802,237	-65,926	20,849,571
31,814	60,829	93,184	77,485	23,414	-25,809	1,294,792

52) Risk report

General

Assuming and professionally managing the risks associated with the business activities is a core function of every bank. In its capacity as CO of the association of credit institutions under section 30a Austrian Banking Act, consisting of VBW and the affiliated banks of the Volksbank-Sector, VBW performs this central task for the Association of Volksbanks, so that the latter has in place administrative, accounting and control procedures for the recognition, assessment, management and monitoring of the risks associated with banking transactions and banking operations as well as of the remuneration strategy and practices (section 39 (2) Austrian Banking Act). The implementation of control within the Association of Volksbanks is effected through General, and, if necessary, Individual Instructions and corresponding working practice guidelines in the affiliated banks.

The following risks are classified as material within the Association of Volksbanks in the course of the risk inventory:

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

Current developments

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

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

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

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

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

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

Risk policy principles

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 Volksbanks has taken all required organisational precautions to meet the requirements regarding modern risk management. There is a clear separation between trading and back office. A central, independent risk controlling function has been established. At Managing Board level, the Chief Risk Officer (CRO) is the head of Risk Controlling. Within the Managing Board responsibilities of the CRO, there is a separation between risk controlling and operational credit risk management. Risk assessment, risk measurement and risk control are carried out according to the dual-control principle. For the purpose of avoiding conflicts of interest, these tasks are performed by different organisational units.

The business model requires risks to be identified, assessed, measured, aggregated and controlled effectively. Risks and capital are managed by means of a framework of principles, organisational structures as well as measuring and monitoring processes that are closely aligned with the activities of the departments and divisions. As a prerequisite and basis of solid risk management, the Risk Appetite Framework (RAF) for the Association of Volksbanks is continuously being developed, in order to define risk appetite and/or the level of risk tolerance (primarily by determining and verifying appropriate limits and controls) that the Association of Volksbanks is prepared to accept to achieve its defined goals. The framework is regularly verified and adjusted to any regulatory changes, changes of the market environment or the business model. The Association of Volksbanks aims to develop, by way of this framework, a disciplined and constructive control environment where all employees understand their role and responsibility.

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

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

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

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

Regulatory requirements

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

Pillar 2: Internal Capital & Liquidity Adequacy Assessment

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

Pillar 3: Disclosure

The requirements of Pillar 3 are met by publishing the qualitative and quantitative disclosure regulations pursuant to Regulation (EU) no. 575 / 2013 (CRR) and Directive 2013/36/EU (CRD IV) on the bank's own website under Volksbanken-Verbund / Verbund-Offenlegung.

Risk management across the Association

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

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

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

a) Internal Capital Adequacy Assessment Process

To ensure a sustainable, risk-adequate capital base, VBW, in its capacity as CO of the Association of Volksbanks, has set up an Internal Capital Adequacy Assessment Process (ICAAP) as a revolving control cycle, in line with international best practices. The ICAAP starts by identifying the material risks of the Association of Volksbanks, followed by a risk quantification and aggregation process, determination of risk-bearing capacity, limitation, and concludes with ongoing risk monitoring and the measures derived therefrom. Explanations regarding the ILAAP are presented in item d) Liquidity risk.

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

Risk inventory

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

Risk strategy

The risk strategy of 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 management of risks and ensures risk-bearing capacity within the Association of Volksbanks at all times. The risk strategy is prepared in parallel with business planning. The contents of the risk strategy and of the business planning of the Association of Volksbanks are linked up by incorporating the targets of the Risk Appetite Statement in GI Controlling – Planning and Reporting.

The local or individual risk strategies of the affiliated banks of the Association of Volksbanks are derived from the risk strategy of the Association and are 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 more detailed indicators helps the Managing Board of the CO to implement central strategic goals of the Association of Volksbanks, specifying the same in operational terms.

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

- Capital ratios (e.g. CET1 ratio, T1 ratio, TC ratio, RBC)
- Credit risk ratios (e.g. NPL ratio, coverage ratio, loans and receivables to foreign customers, net allocation ratio / risk provisions)
- Interest rate risk ratios (e.g. OeNB interest rate risk coefficient, PVBP, IRRBB ratio)
- Liquidity risk ratios (e.g. LCR, survival period)
- Ratios relating to operational risk (e.g. OpRisk losses in proportion to CET1, ICS implementation rate)
- Other risk-relevant ratios (e.g. CIR, LDR, leverage ratio)

Risk-bearing capacity statement

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

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

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

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

Under the going-concern perspective, the continued existence of orderly operations is meant to be ensured. Smaller risks that may occur with a certain probability should be absorbed without jeopardising current operations. Hidden reserves, the annual result achieved in the current business year, the target profit/loss for the coming 12 months, as well as those own funds that exceed the CET1 capital ratio of 8.25% as defined in the 2018 risk strategy are essentially recognised as internal capital. During risk quantification, a confidence level of 95% and a holding period of one year are applied. The aggregate bank risk limit is set at 100% of the available internal capital in the economic going-concern perspective.

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

Stress testing

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

Apart from these risk-type-specific stress tests and sensitivity analyses, bank internal stress tests are regularly carried out across risk types. The semi-annual internal stress test for the bank as a whole consists of scenario analyses, sensitivity analyses and the reverse stress test. In the scenario analyses, economic crisis scenarios are defined and the changed risk parameters for the individual risk categories and areas of business derived therefrom. Apart from the risk side, the effects of crisis scenarios on internal capital are also determined. Finally, in a stressed risk-bearing capacity analysis, the various effects of the crisis scenarios on risk-bearing capacity are summarised and analysed. Based on the findings of the bank-wide internal stress tests, recommended actions are defined and transposed into measures. For instance, the reporting framework is extended by new aspects, additional limits are defined, specific or high-risk industries monitored more closely, and planning targets for strategic risk indicators derived.

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

Risk reporting

The reporting framework implemented 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 overall risk report serves as a core element of the reporting framework. The overall risk report provides a summary of the situation and development of the RAS indicators, the utilisation of the risk-bearing capacity, addressing all significant risks and containing comprehensive qualitative and quantitative information, among others. The overall risk report provides the CO Managing Board with management-related information on a monthly basis and is sent to the Supervisory Board of VBW quarterly. Complementing the overall risk report, various risk-specific reports (e.g. analyses within credit risk regarding the development of individual sub-portfolios) are provided in addition to the reporting framework.

Recovery and resolution planning

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

b) Credit Risk

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

Credit risk management organisation

Within the Association of Volksbanks, the responsibilities associated with credit risk are taken care of by the Credit Risk Management function and certain subdivisions of the Risk Control Function. The departments Credit Risk Management

Retail Branches, Credit Risk Management Real Estate & Corporate Financing, Restructuring & Workout are responsible for operational credit risk management functions. The Risk Control Function is responsible for risk assessment, risk measurement and risk control as well as for credit risk reporting at portfolio level.

Operational credit risk management

Lending principles

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

Decision-making process

In all units of the Association of Volksbanks that generate credit risk, there is a strict separation of sales and risk management functions. All decisions in individual instances are taken strictly observing the dual-control principle, with clear processes having been established for the cooperation between the risk management units in the CO and the members of the Association of Volksbanks. For transactions involving large volumes, processes have been set up that ensure the involvement of operational CO credit 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 exposures and collaterals

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

Limits

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

Within the Association of Volksbanks, the group of connected clients (GcC) is used as the basis for limits in case of new lending and for current monitoring. As regards the limits, the requirements on the level of the Association of Volksbanks differ from those applicable to the individual banks. A review of the limits on individual transaction level takes place continuously within the credit risk management function of the affiliated bank and is monitored by the credit risk management function of VBW in its role as CO, using centralised analyses.

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

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

Intensified credit risk management

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

Early warning: During the early warning process, customers who might show an increased risk of default within the next few months are systematically identified on the basis of certain indicators. In this way, the Association of Volksbanks is put in a position to counteract potential defaults early on. The early identification of customers threatened by default is governed within a uniform early warning system throughout the Association.

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

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

Default identification: The process of default identification serves to recognise defaults in time. A customer is deemed defaulted if there is a default of performance of more than 90 days, pursuant to the CRR, and/or if complete settlement of the debt is considered unlikely without realising any collaterals. The Association has defined 13 possible types of default event that are used for the consistent classification of default events across the Association of Volksbanks. Among others, default identification also builds on the early warning and forbearance processes described above. Additionally, there are further (checking) processes, such as the analysis of expected cash flows within regular or event-driven exposure checks, that may trigger classification to a default category.

Problem Loan Management

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

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

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

Quantitative credit risk management and credit risk controlling

Measurement and control of credit risk

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

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

Rating systems

Across the Association, standardised models are applied to determine credit ratings (the VB rating family) and to determine the amount of loss in case of default. The expected probability of default of each customer is assessed via the VB rating family and expressed through the VB master scale, which comprises a total of 25 rating levels. The PD range used not only allows for a comparison of internal ratings with classifications by external rating agencies, but especially 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 a statistical simulation method. A refined Merton model, adjusted to internal requirements, is used for modelling the credit exposures in the loan portfolio in detail.

Concentrations

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

Counterparty default risk

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

Credit risk mitigation

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

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

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

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

Rating systems

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

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

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

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

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

Lifetime Probability of Default

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

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

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

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

Future-oriented information

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

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

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

Consideration of future-oriented information

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

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

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

The SME and Corporate model is applied to incorporate future-oriented information in risk assessments in the portfolio of externally rated big corporations. This extrapolation is effected because the Volksbank portfolio in this segment is below 0.5% of total exposures. The model used for the Other Exposures segment is a weighted combination of the models for SME and Corporate (80%), Private Customers (14%) and Countries (6%).

Definition of default and degradation

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

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

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

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

Further indicators for allocation to Stage 2 are:

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

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

Measurement of Expected Credit Loss (ECL)

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

Performing portfolio

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

The most important model parameters for ECL measurement are:

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

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

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

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

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

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

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

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

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

Defaulted receivables

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

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

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

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

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

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

Regulatory risk provision – NPL backstop

With effect from 30 June 2019, the supplement to the ECB guidance to banks on non-performing loans dated March 2018 stipulates criteria for a so-called statutory provisioning backstop for non-performing loans. It stipulates that a risk provision must be available in the full amount for the unsecured part of a loan after two years at the latest, and for the secured part after seven years at the latest. In line with the backstop logic (including supplementary letters of the supervisory authority regarding pre-existing loan portfolios), the risk provisions will develop differently in relation to exposures, depending on the time of default. The difference between economic risk provisions under IFRS 9 and regulatory risk provisions in line with the backstop must be recorded directly in equity.

Credit risk reporting

Credit risk reporting takes place monthly with the aim to provide a detailed presentation of the credit risk existing at a certain reporting date and to report the same to the entire Managing Board. Relevant reports are prepared for 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 overall risk report.

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

The following analyses are part of the monthly report:

- Portfolio distribution
- Development of new business
- Distribution of credit ratings
- Non-performing loans (NPL)
- Forbearance
- Credit risk concentrations
- Country group analysis
- Customer segments
- Distribution across industry sectors

Development of the credit risk-related portfolio in 2018

Definition: credit risk-related portfolio

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

- Liquid funds excl. cash in hand, since the latter does not include any credit risk
- Loans and receivables to credit institutions, gross
- Loans and receivables to customers, gross
- Assets held for trading: only fixed-income securities are included, but no positive market values from derivatives, as they do not include any credit risk in the narrower sense
- Financial investments: here, too, only fixed-income securities are included. Equities are excluded, as they do not include any credit risk in the narrower sense

- Contingent liabilities: liabilities arising from guarantees, contingencies and letters of credit are included, other liabilities are excluded
- Credit risks: include commitments not utilised yet

The following table shows the credit risk-related portfolio as at 31 December 2018 compared to the previous year. The relevant figure is the gross value before deduction of any impairments, collaterals or other credit risk mitigating securities.

Credit-risk-relevant portfolio

Euro thousand	31 Dec 2018	31 Dec 2017
Liquid funds	1,510,908	1,783,881
Loans and receivables credit institutions	469,560	494,889
At amortised cost	468,487	494,889
At fair value	1,072	0
Loans and receivables customers	20,794,888	19,768,453
At amortised cost	20,218,871	19,768,453
At fair value	576,017	0
Assets held for trading - fixed-income securities	4,657	8,320
At fair value	4,657	8,320
Financial investments - fixed-income securities	2,362,214	2,184,269
At amortised cost	1,963,148	359,140
At fair value	399,066	1,825,129
Contingent liabilities	974,048	1,049,895
Credit risks	3,222,469	3,009,122
Total	**29,338,743**	**28,298,828**

As at 31 December 2018, the total credit risk-related portfolio amounted to euro 29,338,743 thousand (2017: euro 28,298,828 thousand). Loans and receivables to customers constitute the biggest group of receivables, which corresponds to the business model of classic lending business with a focus on Private and SME customers. The loans and receivables to customers include receivables from finance leases in the amount of euro 171,911 thousand. Due to the low share of 0.8% of total loans and receivables to customers, the leasing portfolio is not presented separately. Loans and receivables to credit institutions and liquid funds are primarily used to manage liquidity and include a comparatively low credit risk. Financial investments primarily include securities from the Treasury portfolio that are also preferentially used to manage the liquidity of the entire Association of Volksbanks. The majority of credit risk-related securities are Austrian and European government debentures and covered bonds of European banks in the investment grade range. A securities portfolio with the main objective of generating profits from market trends is not aimed at within the Association of Volksbanks. As liquidity risk is controlled centrally by 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 receivables to customers.

***Development by customer segments*[1]**

The following tables show the distribution of the credit risk-related portfolio by balance sheet items and customer segments. As at 31 December 2018, the largest customer segment of the credit risk-relevant items is the SME segment with euro 13,218,355 thousand (2017: euro 12,994,962 thousand) that is internally broken down into SME Retail, SME and SME Corporate followed by the private customer segment.

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

Portoflio diveded by customer segments

31 Dec 2018 Euro thousand	Banks	Retail private	SME	Corporates	Public sector	Others	Total
Liquid funds	0	0	0	0	1,510,908	0	1,510,908
Loans and receivables credit institutions	469,560	0	0	0	0	0	469,560
At amortised cost	468,487	0	0	0	0	0	468,487
At fair value	1,072	0	0	0	0	0	1,072
Loans and receivables customers	0	8,273,868	10,737,074	516,844	285,507	981,596	20,794,888
At amortised cost	0	7,862,296	10,648,825	514,941	272,552	920,257	20,218,871
At fair value	0	411,572	88,249	1,902	12,956	61,338	576,017
Assets held for trading – fixed-income securities	4,021	0	0	636	0	0	4,657
At fair value	4,021	0	0	636	0	0	4,657
Financial investments – fixed-income securities	761,664	0	0	69,938	1,530,612	0	2,362,214
At amortised cost	723,225	0	0	68,455	1,171,468	0	1,963,148
At fair value	38,439	0	0	1,483	359,144	0	399,066
Contingent liabilities	14,161	115,432	801,695	38,891	371	3,498	974,048
Credit risks	1,559	940,840	1,679,586	207,201	185,345	207,937	3,222,469
Total	**1,250,966**	**9,330,139**	**13,218,355**	**833,509**	**3,512,743**	**1,193,031**	**29,338,743**

31 Dec 2017 Euro thousand	Banks	Retail private	SME	Corporates	Public sector	Others	Total
Liquid funds	0	0	0	0	1,783,881	0	1,783,881
Loans and receivables credit institutions	494,889	0	0	0	0	0	494,889
Loans and receivables customers	0	7,901,511	10,572,991	398,989	311,538	583,424	19,768,453
Assets held for trading – fixed-income securities	6,079	0	0	2,241	0	0	8,320
Financial investments – fixed-income securities	559,477	0	0	34,296	1,590,495	0	2,184,269
Contingent liabilities	6,034	116,871	869,006	49,096	755	8,134	1,049,895
Credit risks	5,595	926,241	1,552,965	132,932	216,792	174,596	3,009,122
Total	**1,072,074**	**8,944,623**	**12,994,962**	**617,554**	**3,903,461**	**766,154**	**28,298,828**

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 distribution by currencies

31 Dec 2018 Euro thousand	EUR	CHF	USD	GBP	Others	Total
Liquid funds	1,510,908	0	0	0	0	1,510,908
Loans and receivables credit institutions	447,412	2,331	15,747	1,417	2,653	469,560
At amortised cost	446,339	2,331	15,747	1,417	2,653	468,487
At fair value	1,072	0	0	0	0	1,072
Loans and receivables customers	19,668,535	1,066,549	7,733	44	52,027	20,794,888
At amortised cost	19,092,940	1,066,127	7,733	44	52,027	20,218,871
Thereof Retail private	7,121,891	718,605	1,330	0	20,470	7,862,296
Thereof SME	10,305,072	308,671	3,750	44	31,288	10,648,825
Thereof Corporates	504,066	7,953	2,653	0	270	514,941
Thereof Others	1,161,911	30,898	0	0	0	1,192,809
At fair value	575,595	422	0	0	0	576,017
Thereof Retail private	411,150	422	0	0	0	411,572
Thereof SME	88,249	0	0	0	0	88,249
Thereof Corporates	1,902	0	0	0	0	1,902
Thereof Others	74,294	0	0	0	0	74,294
Assets held for trading – fixed-income securities	4,657	0	0	0	0	4,657
At fair value	4,657	0	0	0	0	4,657
Financial investments – fixed-income securities	2,321,962	22,966	0	0	17,286	2,362,214
At amortised cost	1,945,862	0	0	0	17,286	1,963,148
Thereof Banks	723,225	0	0	0	0	723,225
Thereof Corporates	68,455	0	0	0	0	68,455
Thereof Public sector	1,154,182	0	0	0	17,286	1,171,468
Thereof Others	0	0	0	0	0	0
At fair value	376,100	22,966	0	0	0	399,066
Thereof Banks	38,439	0	0	0	0	38,439
Thereof Corporates	1,483	0	0	0	0	1,483
Thereof Public sector	336,178	22,966	0	0	0	359,144
Thereof Others	0	0	0	0	0	0
Contingent liabilities	968,596	3,990	1,397	0	64	974,048
Thereof Banks	14,161	0	0	0	0	14,161
Thereof Retail private	112,513	2,697	222	0	0	115,432
Thereof SME	799,856	885	954	0	0	801,695
Thereof Corporates	38,197	409	221	0	64	38,891
Thereof Others	3,869	0	0	0	0	3,869
Credit risks	3,175,886	35,492	4,140	387	6,564	3,222,469
Thereof Banks	1,450	109	0	0	0	1,559
Thereof Retail private	936,561	3,718	276	280	6	940,840
Thereof SME	1,674,333	1,738	2,141	69	1,305	1,679,586
Thereof Corporates	170,258	29,928	1,724	38	5,253	207,201
Thereof Others	393,283	0	0	0	0	393,283
Total	**28,097,955**	**1,131,328**	**29,017**	**1,848**	**78,595**	**29,338,743**

31 Dec 2017 Euro thousand	EUR	CHF	USD	GBP	Others	Total
Liquid funds	1,765,477	18,404	0	0	0	1,783,881
Loans and receivables credit institutions	464,674	10,116	4,081	865	15,153	494,889
Loans and receivables customers	18,392,689	1,285,155	24,232	2,270	64,107	19,768,453
Thereof Retail private	6,995,304	878,026	3,409	0	24,772	7,901,511
Thereof SME	10,163,015	366,942	3,963	4	39,067	10,572,991
Thereof Corporates	363,100	16,496	16,860	2,266	268	398,989
Thereof Others	871,270	23,692	0	0	0	894,962
Assets held for trading – fixed-income securities	8,320	0	0	0	0	8,320
Financial investments – fixed-income securities	2,108,550	57,154	0	0	18,565	2,184,269
Thereof Banks	524,799	34,679	0	0	0	559,477
Thereof Corporates	34,296	0	0	0	0	34,296
Thereof Public sector	1,549,455	22,475	0	0	18,565	1,590,495
Thereof Others	0	0	0	0	0	0
Contingent liabilities	1,041,126	6,530	2,181	37	22	1,049,895
Thereof Banks	6,034	0	0	0	0	6,034
Thereof Retail private	114,129	2,638	104	0	0	116,871
Thereof SME	866,216	923	1,845	0	22	869,006
Thereof Corporates	45,859	2,969	232	37	0	49,096
Thereof Others	8,888	0	0	0	0	8,888
Credit risks	2,991,604	7,331	7,237	578	2,372	3,009,122
Thereof Banks	5,595	0	0	0	0	5,595
Thereof Retail private	923,068	2,197	681	282	12	926,241
Thereof SME	1,547,360	1,673	3,205	0	727	1,552,965
Thereof Corporates	124,192	3,461	3,351	295	1,633	132,932
Thereof Others	391,389	0	0	0	0	391,389
Total	**26,772,440**	**1,384,689**	**37,731**	**3,750**	**100,219**	**28,298,828**

Development of repayment vehicle and foreign currency loans

As at 31 December 2018, the total borrowings under repayment vehicle and foreign currency loans amounted to euro 1,471,897 thousand (2017: euro 1,710,734 thousand).

Development by countries

The main business activity of the Association of Volksbanks focuses on the Austrian market. This is also evident from the following tables. At 31 December 2018, Austrian exposures accounted for 90.2 % of the credit risk-related portfolio (2017: 90.1 %).

Portfolio distribution by countries

31 Dec 2018 Euro thousand	Austria	Germany	Switzerland	Liechten- stein	EEA	EU CEE	Others	Total
Liquid funds	1,510,908	0	0	0	0	0	0	1,510,908
Loans and receivables credit institutions	23,708	140,599	20,225	0	233,566	492	50,968	469,560
At amortised cost	22,636	140,599	20,225	0	233,566	492	50,968	468,487
At fair value	1,072	0	0	0	0	0	0	1,072
Loans and receivables customers	19,742,669	706,723	75,745	20,245	99,000	123,467	27,038	20,794,888
At amortised cost	19,194,347	693,041	74,808	20,243	94,201	116,861	25,370	20,218,871
Thereof Retail private	7,515,446	219,580	23,368	4,712	35,284	50,696	13,210	7,862,296
Thereof SME	10,243,950	272,186	21,242	15,531	33,270	59,067	3,578	10,648,825
Thereof Corporates	452,411	30,199	0	0	25,647	4,482	2,202	514,941
Thereof Others	982,541	171,076	30,198	0	0	2,616	6,379	1,192,809
At fair value	548,322	13,683	937	2	4,799	6,606	1,668	576,017
Thereof Retail private	392,598	5,147	937	2	4,763	6,457	1,668	411,572
Thereof SME	85,050	3,014	0	0	36	149	0	88,249
Thereof Corporates	1,902	0	0	0	0	0	0	1,902
Thereof Others	68,772	5,521	0	0	0	0	0	74,294
Assets held for trading – fixed-income securities	4,657	0	0	0	0	0	0	4,657
At fair value	4,657	0	0	0	0	0	0	4,657
Financial investments – fixed-income securities	1,148,777	83,028	1,051	0	891,867	211,390	26,102	2,362,214
At amortised cost	884,523	69,891	1,051	0	851,043	131,583	25,057	1,963,148
Thereof Banks	262,689	62,111	1,051	0	392,964	0	4,410	723,225
Thereof Corporates	12,820	1,041	0	0	33,571	376	20,647	68,455
Thereof Public sector	609,014	6,739	0	0	424,508	131,207	0	1,171,468
Thereof Others	0	0	0	0	0	0	0	0
At fair value	264,253	13,137	0	0	40,824	79,807	1,045	399,066
Thereof Banks	5,807	11,060	0	0	17,417	3,111	1,045	38,439
Thereof Corporates	1,483	0	0	0	0	0	0	1,483
Thereof Public sector	256,963	2,077	0	0	23,408	76,696	0	359,144
Thereof Others	0	0	0	0	0	0	0	0
Contingent liabilities	958,031	9,142	1,051	2,483	346	628	2,367	974,048
Thereof Banks	14,031	130	0	0	0	0	0	14,161
Thereof Retail private	110,557	1,163	711	443	275	437	1,845	115,432
Thereof SME	794,368	6,970	122	21	23	192	0	801,695
Thereof Corporates	35,423	662	217	2,019	48	0	521	38,891
Thereof Others	3,651	217	0	0	0	0	0	3,869
Credit risks	3,060,733	96,664	5,018	29,768	9,981	3,313	16,991	3,222,469
Thereof Banks	1,450	0	109	0	0	0	0	1,559
Thereof Retail private	912,851	13,095	3,545	714	8,160	1,130	1,345	940,840
Thereof SME	1,625,721	49,162	612	60	1,821	2,184	27	1,679,586
Thereof Corporates	156,044	5,791	752	28,994	0	0	15,619	207,201
Thereof Others	364,667	28,616	0	0	0	0	0	393,283
Total	**26,449,483**	**1,036,157**	**103,091**	**52,496**	**1,234,760**	**339,291**	**123,465**	**29,338,743**

31 Dec 2018 Euro thousand	Austria	Germany	Switzerland	Liechten- stein	EEA	EU CEE	Others	Gesamt
Liquid funds	1,765,477	0	18,404	0	0	0	0	1,783,881
Loans and receivables credit institutions	27,896	124,653	41,322	0	255,992	1,074	43,952	494,889
Loans and receivables customers	18,635,368	683,814	85,830	88,742	88,596	137,766	48,336	19,768,453
Thereof Retail private	7,449,141	233,069	29,699	60,796	41,096	66,349	21,361	7,901,511
Thereof SME	10,152,963	283,878	24,417	12,975	30,418	64,727	3,614	10,572,991
Thereof Corporates	316,691	21,456	8,228	14,971	17,082	4,489	16,071	398,989
Thereof Others	716,572	145,411	23,487	0	0	2,202	7,291	894,962
Assets held for trading – fixed-income securities	8,320	0	0	0	0	0	0	8,320
Financial investments – fixed-income securities	1,122,200	96,033	1,611	0	670,731	237,639	56,055	2,184,269
Thereof Banks	162,855	87,028	1,611	0	295,180	3,037	9,766	559,477
Thereof Corporates	11,451	0	0	0	8,603	387	13,856	34,296
Thereof Public sector	947,893	9,005	0	0	366,949	234,216	32,433	1,590,495
Thereof Others	0	0	0	0	0	0	0	0
Contingent liabilities	1,027,759	12,302	4,191	2,498	226	582	2,337	1,049,895
Thereof Banks	5,914	120	0	0	0	0	0	6,034
Thereof Retail private	111,322	1,374	1,483	434	188	161	1,909	116,871
Thereof SME	859,511	7,264	234	1,571	5	421	0	869,006
Thereof Corporates	44,926	741	2,474	493	34	0	428	49,096
Thereof Others	6,085	2,803	0	0	0	0	0	8,888
Credit risks	2,905,077	74,815	4,556	8,848	4,452	3,612	7,760	3,009,122
Thereof Banks	5,595	0	0	0	0	0	0	5,595
Thereof Retail private	905,580	13,071	2,197	1,723	982	850	1,838	926,241
Thereof SME	1,515,084	30,407	856	328	3,421	2,761	110	1,552,965
Thereof Corporates	119,504	567	253	6,797	50	1	5,760	132,932
Thereof Others	359,315	30,771	1,250	0	0	0	53	391,389
Total	**25,492,096**	**991,617**	**155,914**	**100,089**	**1,019,998**	**380,673**	**158,441**	**28,298,828**

Development by sectors[2]

The most important sector within loans and receivables to customers of the Association of Volksbanks are private households with 39.8 % as at 31 December 2018 (2017: 41.0 %). As at 31 December 2018, the largest commercial sector within the Association of Volksbanks is the real estate sector. It accounts for a share of 25.6 % (2017: 23.1 %). As at 31 December 2018, the largest commercial sector within loans and receivables to customers in the SME segment is the real estate sector, accounting for 39.53 % (2017: 37.21 %), followed by the tourism sector with a share of 13.56 % (2017: 12.55 %). As at 31 December 2018, the largest commercial sector within loans and receivables to customers in the Corporate segment is again the real estate sector, accounting for 36.38 % (2017: 22.33 %).

[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 distribution by sectors

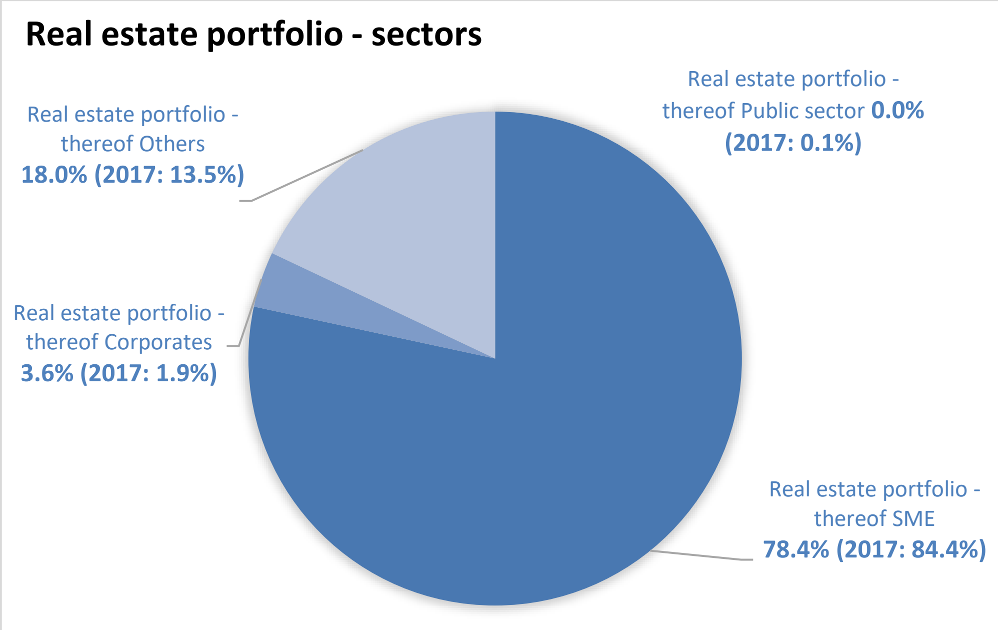
31 Dec 2018 Euro thousand	Private households	Financial services incl. banks	Public authorities	Real estate	Construction industry
Liquid funds	0	0	1,510,908	0	0
Loans and receivables credit institutions	0	469,560	0	0	0
At amortised cost	0	468,487	0	0	0
At fair value	0	1,072	0	0	0
Loans and receivables customers	8,273,863	225,855	285,507	5,324,390	666,118
At amortised cost	7,862,291	221,464	272,552	5,242,800	661,174
At fair value	411,572	4,391	12,956	81,590	4,945
Assets held for trading – fixed-income securities	0	4,021	0	356	0
At amortised cost	0	0	0	0	0
At fair value	0	4,021	0	356	0
Financial investments – fixed-income securities	0	781,651	1,530,612	0	0
At amortised cost	0	743,212	1,171,468	0	0
At fair value	0	38,439	359,144	0	0
Contingent liabilities	115,089	188,764	371	49,687	116,987
Credit risks	938,344	62,507	185,345	683,157	251,282
Total	**9,327,296**	**1,732,358**	**3,512,743**	**6,057,590**	**1,034,387**

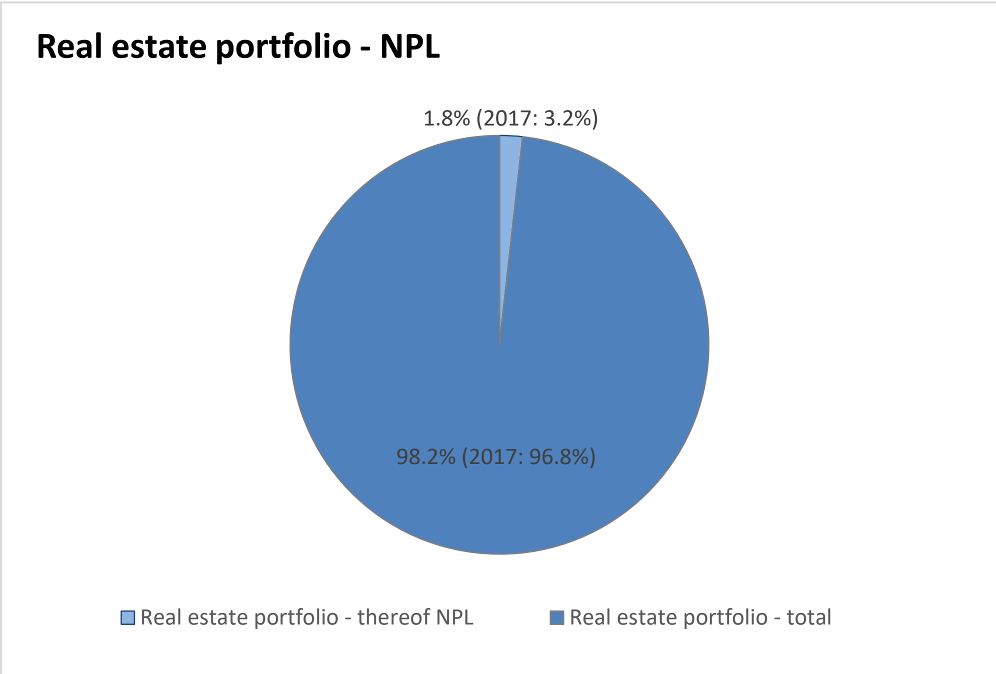
31 Dec 2018 Euro thousand	Tourism	Trade and repairs	Physicians/ healthcare	Food/ agriculture and forestry	Others	Total
Liquid funds	0	0	0	0	0	1,510,908
Loans and receivables credit institutions	0	0	0	0	0	469,560
At amortised cost	0	0	0	0	0	468,487
At fair value	0	0	0	0	0	1,072
Loans and receivables customers	1,504,299	1,008,034	819,453	640,794	2,046,573	20,794,888
At amortised cost	1,484,356	996,513	816,951	622,834	2,037,937	20,218,871
At fair value	19,943	11,521	2,502	17,961	8,636	576,017
Assets held for trading – fixed-income securities	0	0	0	0	280	4,657
At fair value	0	0	0	0	280	4,657
Financial investments – fixed-income securities	0	0	0	14,148	35,803	2,362,214
At amortised cost	0	0	0	14,148	34,320	1,963,148
At fair value	0	0	0	0	1,483	399,066
Contingent liabilities	147,861	76,327	10,644	14,962	253,355	974,048
Credit risks	158,863	242,166	94,618	92,783	513,404	3,222,469
Total	**1,811,023**	**1,326,527**	**924,715**	**762,687**	**2,849,415**	**29,338,743**

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 credit institutions	0	494,889	0	0	0
Loans and receivables customers	8,096,237	256,380	351,444	4,564,326	672,019
Assets held for trading – fixed-income securities	0	6,079	0	0	0
Financial investments – fixed-income securities	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 repairs	Physicians/ healthcare	Food/ agriculture and forestry	Others	Total
Liquid funds	0	0	0	0	0	1,783,881
Loans and receivables credit institutions	0	0	0	0	0	494,889
Loans and receivables customers	1,345,360	990,977	761,415	622,583	2,107,712	19,768,453
Assets held for trading – fixed-income securities	0	0	0	0	2,241	8,320
Financial investments – fixed-income securities	0	0	0	0	33,809	2,184,269
Contingent liabilities	151,837	87,188	21,340	16,655	164,616	1,049,895
Credit risks	114,034	238,418	92,102	104,035	479,542	3,009,122
Total	**1,611,231**	**1,316,582**	**874,858**	**743,273**	**2,787,919**	**28,298,828**

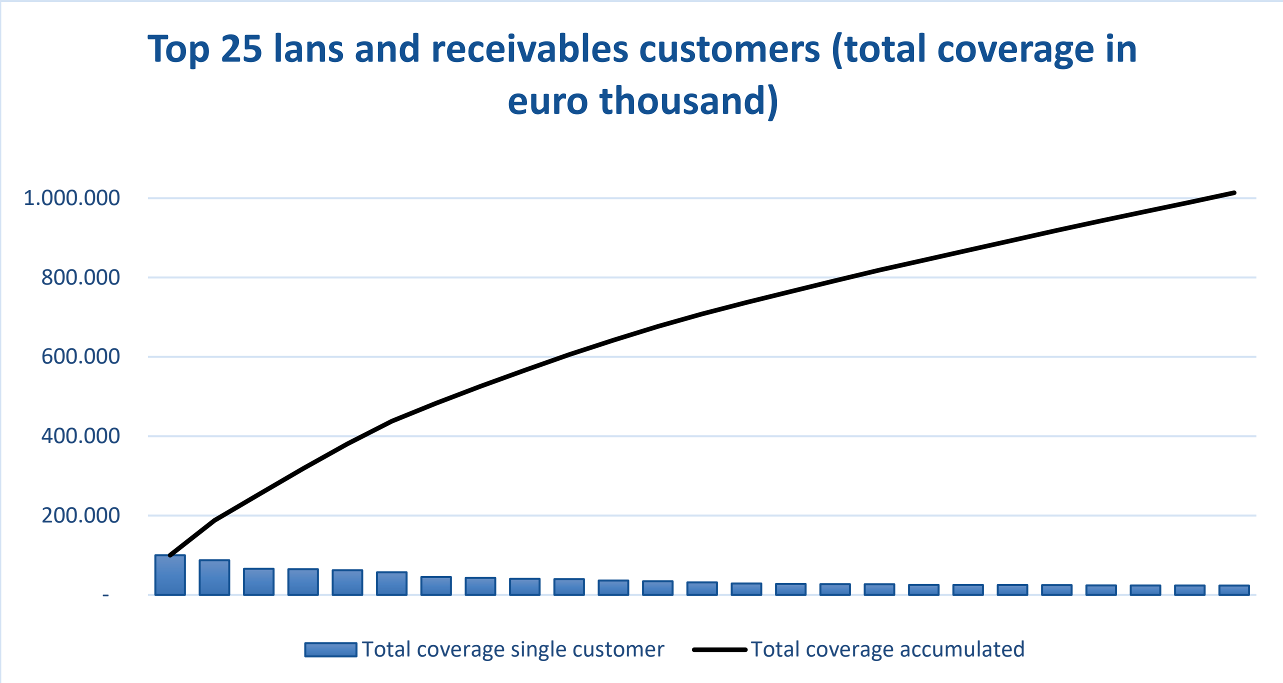
The following charts show the distribution of the real estate portfolio by segments, and the proportion of non-performing loans within the real estate portfolio. The major part of the real estate portfolio is found in the SME segment, with 78.4 % (2017: 84.4 %); at 1.8 % (2017: 3.2 %), the NPL ratio in the real estate portfolio is below the NPL ratio of the internal risk control of the Association of Volksbanks of 2.68 % (2017: 3.66 %), as at 31 December 2018.





Presentation of the Top 25 loans and receivables to customers

The following chart shows the Top 25 loans and receivables to customers within the Association of Volksbanks as at 31 December 2018 with the total exposure per individual customer as well as the cumulative total exposure of euro 1,013,674 thousand and reflects the business model of the Association with a focus on small-volume private and SME customers. The Top 25 loans and receivables to customers correspond to some 4.0 % of total loans and receivables to customers within the Association (Top no. 1 customer: 0.4 % of total loans and receivables to customers). The values are shown in line with the internal risk perspective, i.e. loans and receivables to customers as well as credit risks and contingent liabilities to customers excluding internal transactions within the Association and the portion of the Association's guarantee that is not allocated to VBW.



Development by ratings

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

Portfolio distribution by ratings

31 Dec 2018 Euro thousand	Risk category 1 (1A - 1E)	2 (2A - 2E)	3 (3A - 3E)	4 (4A - 4E)	5 (5A - 5E)	6 (NR)	Total
Liquid funds	1,510,908	0	0	0	0	0	1,510,908
Loans and receivables credit institutions	259,180	200,725	9,505	150	0	0	469,560
At amortised cost	259,180	199,732	9,426	150	0	0	468,487
At fair value	0	994	79	0	0	0	1,072
Loans and receivables customers	717,611	5,549,283	12,312,223	1,558,569	650,064	7,138	20,794,888
At amortised cost	681,746	5,257,569	12,101,808	1,537,641	633,016	7,091	20,218,871
Thereof Retail private	344,623	4,026,197	2,973,623	335,005	179,995	2,854	7,862,296
Thereof SME	87,569	951,035	7,982,713	1,180,687	442,713	4,109	10,648,825
Thereof Corporates	29,549	147,077	324,512	8,533	5,152	119	514,941
Thereof Others	220,006	133,260	820,960	13,416	5,157	10	1,192,809
At fair value	35,865	291,714	210,415	20,928	17,049	46	576,017
Thereof Retail private	23,958	267,925	92,986	14,145	12,512	46	411,572
Thereof SME	595	22,074	55,800	6,106	3,673	1	88,249
Thereof Corporates	0	1,213	689	0	0	0	1,902
Thereof Others	11,312	501	60,940	677	864	0	74,294
Assets held for trading - fixed-income securities	0	4,491	166	0	0	0	4,657
At fair value	0	4,491	166	0	0	0	4,657
Financial investments - fixed-income securities	1,424,085	928,477	9,648	0	3	0	2,362,214
At amortised cost	1,087,373	866,230	9,545	0	0	0	1,963,148
Thereof Banks	276,671	437,009	9,545	0	0	0	723,225
Thereof Corporates	20,200	48,255	0	0	0	0	68,455
Thereof Public sector	790,502	380,966	0	0	0	0	1,171,468
Thereof Others	0	0	0	0	0	0	0
At fair value	336,713	62,247	103	0	3	0	399,066
Thereof Banks	21,625	16,814	0	0	0	0	38,439
Thereof Corporates	0	1,376	103	0	3	0	1,483
Thereof Public sector	315,088	44,056	0	0	0	0	359,144
Thereof Others	0	0	0	0	0	0	0
Contingent liabilities	7,936	150,455	704,277	67,987	14,031	29,362	974,048
Thereof Banks	122	6,060	7,979	0	0	0	14,161
Thereof Retail private	5,690	29,102	77,440	2,699	141	360	115,432
Thereof SME	1,774	110,526	582,068	64,576	13,835	28,915	801,695
Thereof Corporates	0	3,994	34,093	662	55	87	38,891
Thereof Others	349	773	2,697	50	0	0	3,869
Credit risks	474,563	663,031	1,941,778	127,187	8,072	7,838	3,222,469
Thereof Banks	0	1,559	0	0	0	0	1,559
Thereof Retail private	282,606	314,447	324,717	13,542	538	4,989	940,840
Thereof SME	6,551	254,950	1,301,387	107,453	7,487	1,758	1,679,586
Thereof Corporates	6,207	83,069	112,715	4,235	5	968	207,201
Thereof Others	179,198	9,005	202,959	1,956	42	123	393,283
Total	**4,394,282**	**7,496,463**	**14,977,596**	**1,753,894**	**672,171**	**44,337**	**29,338,743**

31 Dec 2017 Euro thousand	Risk category 1 (1A - 1E)	2 (2A - 2E)	3 (3A - 3E)	4 (4A - 4E)	5 (5A - 5E)	6 (NR)	Total
Liquid funds	1,783,881	0	0	0	0	0	1,783,881
Loans and receivables credit institutions	148,530	255,560	65,574	25,225	0	0	494,889
Loans and receivables customers	340,088	5,536,283	10,927,391	2,112,791	839,100	12,800	19,768,453
Thereof Retail private	14,262	4,503,495	2,730,895	413,927	232,919	6,013	7,901,511
Thereof SME	45,172	799,709	7,481,885	1,651,117	588,651	6,457	10,572,991
Thereof Corporates	22,097	112,344	235,253	22,090	6,955	251	398,989
Thereof Others	258,556	120,735	479,359	25,658	10,575	80	894,962
Assets held for trading - fixed-income securities	0	0	8,320	0	0	0	8,320
Financial investments - fixed-income securities	1,379,512	741,576	62,158	988	10	25	2,184,268
Thereof Banks	188,332	358,397	12,749	0	0	0	559,477
Thereof Corporates	11,778	20,191	1,307	984	10	25	34,296
Thereof Public sector	1,179,402	362,987	48,102	4	0	0	1,590,495
Thereof Others	0	0	0	0	0	0	0
Contingent liabilities	2,976	118,421	784,890	92,777	22,010	28,821	1,049,895
Thereof Banks	554	5,480	0	0	0	0	6,034
Thereof Retail private	1,786	34,090	73,064	6,580	466	885	116,871
Thereof SME	92	68,360	668,056	84,686	20,001	27,811	869,006
Thereof Corporates	0	9,509	36,897	1,028	1,543	119	49,096
Thereof Others	544	982	6,873	484	0	6	8,888
Credit risks	293,081	779,565	1,727,672	184,668	11,644	12,492	3,009,122
Thereof Banks	245	0	5,350	0	0	0	5,595
Thereof Retail private	81,369	513,310	304,555	18,842	1,490	6,675	926,241
Thereof SME	1,309	215,850	1,161,779	159,471	10,070	4,487	1,552,965
Thereof Corporates	257	39,576	90,398	1,460	84	1,157	132,932
Thereof Others	209,902	10,829	165,590	4,895	0	173	391,389
Total	**3,948,067**	**7,431,405**	**13,576,006**	**2,416,449**	**872,764**	**54,137**	**28,298,828**

Portfolio distribution by ratings and stages

31 Dec 2018 Euro thousand	Risk category 1 (1A - 1E)	2 (2A - 2E)	3 (3A - 3E)	4 (4A - 4E)	5 (5A - 5E)	6 (NR)	Total
Liquid funds	1,510,908	0	0	0	0	0	1,510,908
Loans and receivables credit institutions	259,180	200,725	9,505	150	0	0	469,560
At amortised cost	259,180	199,732	9,426	150	0	0	468,487
Thereof Stage 1	259,180	199,617	9,412	150	0	0	468,359
Thereof Stage 2	0	114	14	0	0	0	129
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	0	994	79	0	0	0	1,072
Loans and receivables customers	717,611	5,549,283	12,312,223	1,558,569	650,064	7,138	20,794,888
At amortised cost	681,746	5,257,569	12,101,808	1,537,641	633,016	7,091	20,218,871
Thereof Stage 1	680,687	5,212,927	10,970,753	683,043	0	2,408	17,549,818
Thereof Stage 2	1,059	44,643	1,131,055	854,597	0	4,684	2,036,037
Thereof Stage 3	0	0	0	0	633,016	0	633,016
At fair value	35,865	291,714	210,415	20,928	17,049	46	576,017
Assets held for trading – fixed-income securities	0	4,491	166	0	0	0	4,657
At fair value	0	4,491	166	0	0	0	4,657
Financial investments – fixed-income securities	1,424,085	928,477	9,648	0	3	0	2,362,214
At amortised cost	1,087,373	866,230	9,545	0	0	0	1,963,148
Thereof Stage 1	1,087,373	866,230	9,545	0	0	0	1,963,148
Thereof Stage 2	0	0	0	0	0	0	0
Thereof Stage 3	0	0	0	0	0	0	0
At fair value	336,713	62,247	103	0	3	0	399,066
Contingent liabilities	7,936	150,455	704,277	67,987	14,031	29,362	974,048
Thereof Stage 1	7,856	147,499	597,238	35,879	0	29,305	817,777
Thereof Stage 2	80	2,956	107,039	32,108	0	56	142,240
Thereof Stage 3	0	0	0	0	14,031	0	14,031
Credit risks	474,563	663,031	1,941,778	127,187	8,072	7,838	3,222,469
Thereof Stage 1	471,090	649,797	1,798,297	84,428	0	3,914	3,007,526
Thereof Stage 2	3,473	13,234	143,481	42,759	0	3,924	206,871
Thereof Stage 3	0	0	0	0	8,072	0	8,072
Total	**4,394,282**	**7,496,463**	**14,977,596**	**1,753,894**	**672,171**	**44,337**	**29,338,743**

31 Dec 2017 Euro thousand	Risk category 1 (1A - 1E)	2 (2A - 2E)	3 (3A - 3E)	4 (4A - 4E)	5 (5A - 5E)	6 (NR)	Total
Liquid funds	1,783,881	0	0	0	0	0	1,783,881
Loans and receivables credit institutions	148,530	255,560	65,574	25,225	0	0	494,889
Loans and receivables customers	340,088	5,536,283	10,927,391	2,112,791	839,100	12,800	19,768,453
Assets held for trading – fixed-income securities	0	0	8,320	0	0	0	8,320
Financial investments – fixed-income securities	1,379,512	741,576	62,158	988	10	25	2,184,268
Contingent liabilities	2,976	118,421	784,890	92,777	22,010	28,821	1,049,895
Credit risks	293,081	779,565	1,727,672	184,668	11,644	12,492	3,009,122
Total	**3,948,067**	**7,431,405**	**13,576,006**	**2,416,449**	**872,764**	**54,137**	**28,298,828**

Effects from contract amendments

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

Euro thousand	31 Dec 2018
Gross carrying amount before modification	178,765
Net modification gain/loss	1,162
Gross carrying amount at 31 Dec 2018 of loans and receivables where allowance has changed to 12-months measurement during period	8,105

Development of NPL portfolio

Receivables are considered defaulted if there is a default of payment of more than 90 days, pursuant to the CRR, and/or if it is unlikely that the borrower is going to meet its loan obligations in full without recourse to certain measures, such as the liquidation of any collateral (if available). The defaulted loans or NPLs are allocated to risk category 5 within the Association of Volksbanks. Internal control is effected according to the NPL ratio for balance sheet and off-balance sheet loans and receivables to customers. While defaults are monitored for the remaining types of receivables as well, in the past they have been of minor importance for the purpose of control. As at 31 December 2018, the NPL ratio within internal risk control amounted to 2.68 % for the Association (2017: 3.66 %).

The NPL coverage ratio through risk provisions or Coverage Ratio I for internal reporting amounts to 35.68 % for the Association as at 31 December 2018 (2017: 37.4 %).

The NPL coverage ratio through risk provisions or Coverage Ratio III for internal reporting amounts to 103.3 % for the Association as at 31 December 2018 (2017: 101.6 %).

These ratios under the internal risk perspective exclusively refer to loans and receivables to customers as well as credit risks and contingent liabilities to customers. The values shown in the following table reflect the balance sheet perspective, i.e. they also include balance sheet nettings within loans and receivables to customers (e.g. syndicated deposits with third-party banks). Moreover, from a balance sheet perspective, the loans and receivables to customers of Volksbank Liechtenstein are already included in the balance sheet item assets held for sale, while they are still included in loans and receivables to customers within the internal risk perspective. For this reason, these figures are different from the values presented in the following table.

Portfolio distribution NPL portfolio

31 Dec 2018 Euro thousand	Loan volume - total	NPL	NPL ratio	Risk provisions for NPL	Risk provisions for NPL – thereof individually assessed	Risk provisions for NPL – thereof collectively assessed
Liquid funds	1,510,908	0	0.00 %	0	0	0
Loans and receivables credit institutions	469,560	0	0.00 %	0	0	0
At amortised cost	468,487	0	0.00 %	0	0	0
At fair value	1,072	0	0.00 %	0	0	0
Loans and receivables customers	20,794,888	650,064	3.13 %	236,902	119,493	117,409
At amortised cost	20,218,871	633,016	3.13 %	236,902	119,493	117,409
Thereof Retail private	7,862,296	179,995	2.29 %	63,317	6,363	56,954
Thereof SME	10,648,825	442,713	4.16 %	164,891	106,948	57,943
Thereof Corporates	514,941	5,152	1.00 %	4,258	3,522	736
Thereof Others	1,192,809	5,157	0.43 %	4,437	2,660	1,777
At fair value	576,017	17,049	2.96 %	0	0	0
Thereof Retail private	411,572	12,512	3.04 %	0	0	0
Thereof SME	88,249	3,673	4.16 %	0	0	0
Thereof Corporates	1,902	0	0.00 %	0	0	0
Thereof Others	74,294	864	1.16 %	0	0	0
Assets held for trading – fixed-income securities	4,657	0	0.00 %	0	0	0
At fair value	4,657	0	0.00 %	0	0	0
Financial investments – fixed-income securities	2,362,214	3	0.00 %	0	0	0
At amortised cost	1,963,148	0	0.00 %	0	0	0
At fair value	399,066	3	0.00 %	0	0	0
Contingent liabilities	974,048	14,031	1.44 %	6,956	3,733	3,223
Credit risks	3,222,469	8,072	0.25 %	2,415	1,231	1,184
Total	**29,338,743**	**672,171**	**2.29 %**	**246,273**	**124,457**	**121,816**
Loans and receivables customers, contingent liabilities, credit risks	24,991,404	672,168	2.69 %	246,273	124,457	121,816
Liquid funds, loans and receivables credit institutions and customers	22,775,355	650,064	2.85 %	236,902	119,493	117,409

31 Dec 2018 Euro thousand	NPL coverage ratio (Loan loss allowance)	Collateral for NPL	NPL coverage ratio (Loan loss allowance + collateral)
Liquid funds	0.00 %	0	0.00 %
Loans and receivables credit institutions	0.00 %	0	0.00 %
At amortised costs	0.00 %	0	0.00 %
At fair value	0.00 %	0	0.00 %
Loans and receivables customers	36.44 %	448,076	105.37 %
At amortised costs	37.42 %	430,971	105.51 %
Thereof Retail private	35.18 %	124,432	104.31 %
Thereof SME	37.25 %	300,287	105.07 %
Thereof Corporates	82.65 %	1,640	114.48 %
Thereof Others	86.04 %	4,612	175.49 %
At fair value	0.00 %	17,105	100.33 %
Thereof Retail private	0.00 %	13,263	106.00 %
Thereof SME	0.00 %	3,842	104.61 %
Thereof Corporates	0.00 %	0	0.00 %
Thereof Others	0.00 %	0	0.00 %
Assets held for trading - fixed-income securities	0.00 %	0	0.00 %
At amortised costs	0.00 %	0	0.00 %
At fair value	0.00 %	0	0.00 %
Financial investments - fixed-income securities	0.00 %	0	0.00 %
At amortised costs	0.00 %	0	0.00 %
At fair value	0.00 %	0	0.00 %
Contingent liabilities	49.58 %	8,253	108.40 %
Credit risks	29.92 %	0	29.92 %
Total	**36.64 %**	**456,329**	**104.53 %**
Loans and receivables customers, contingent liabilities, credit risks	36.64 %	456,329	104.53 %
Liquid funds, loans and receivables credit institutions and customers	36.44 %	448,076	105.37 %

31 Dec 2017 Euro thousand	Loan volume - total	NPL	NPL Ratio	Risk provisions for NPL
Liquid funds	1,783,881	0	0.00 %	0
Loans and receivables credit institutions	494,889	0	0.00 %	0
Loans and receivables customers	19,768,453	839,100	4.24 %	312,842
Thereof Retail private	7,901,511	232,919	2.95 %	73,428
Thereof SME	10,572,991	588,651	5.57 %	223,647
Thereof Corporates	398,989	6,955	1.74 %	5,679
Thereof Others	894,962	10,575	1.18 %	10,088
Assets held for trading – fixed-income securities	8,320	0	0.00 %	0
Financial investments – fixed-income securities	2,184,269	10	0.00 %	0
Contingent liabilities	1,049,895	22,010	2.10 %	10,152
Credit risks	3,009,122	11,644	0.39 %	3,030
Total	**28,298,828**	**872,764**	**3.08 %**	**326,024**
Loans and receivables customers, contingent liabilities, credit risks	23,827,470	872,754	3.66 %	326,024
Liquid funds, loans and receivables credit institutions and customers	22,047,222	839,100	3.81 %	312,842

31 Dec 2017 Euro thousand	NPL coverage ratio (Loan loss allowance)	Collateral for NPL	NPL coverage ratio (Loan loss allowance + collateral)
Liquid funds	0.00 %	0	0.00 %
Loans and receivables credit institutions	0.00 %	0	0.00 %
Loans and receivables customers	37.28 %	549,411	102.76 %
Thereof Retail private	31.53 %	167,037	103.24 %
Thereof SME	37.99 %	377,926	102.20 %
Thereof Corporates	81.65 %	2,357	115.54 %
Thereof Others	95.40 %	2,091	116.00 %
Assets held for trading - fixed-income securities	0.00 %	0	0.00 %
Financial investments - fixed-income securities	0.00 %	0	0.00 %
Contingent liabilities	46.13 %	11,013	96.16 %
Credit risks	26.02 %	0	26.02 %
Total	**37.36 %**	**560,424**	**101.57 %**
Loans and receivables customers, contingent liabilities, credit risks	37.36 %	560,424	101.57 %
Liquid funds, loans and receivables credit institutions and customers	37.28 %	549,411	102.76 %

The following table shows the development of NPL holdings in the business year. The NPL portfolio as at 1 January 2018 takes account of the effect of transition from IAS 39 to IFRS 9 in the amount of euro -12,938 thousand compared to the portfolio as at 31 December 2017.

Development NPL portfolio

Euro thousand	Total
NPL as at 1 Jan 2017	1,035,793
Classified as impaired during the year	247,865
Transferred to not-impaired during the year	-38,930
Account coverage and write off - NPL	-298,655
Net repayments and other movements	-73,318
NPL as at 31 Dec 2017	872,754
Transition effect IFRS 9	-12,983
NPL as at 1 January 2018	859,771
Classified as impaired during the year	148,699
Transferred to not-impaired during the year	-73,187
Account coverage and write off - NPL	-189,996
Net repayments and other movements	-73,119
NPL as at 31 Dec 2018	**672,168**

The other portfolio changes in the 2017 business year include the decrease of the carrying amount of NPL holdings from the sale of Volksbank Switzerland in the amount of euro 22,227 thousand. The other portfolio changes in the 2018 business year include the decrease of the carrying amount of NPL holdings from the sale of Volksbank Liechtenstein in the amount of euro 2,507 thousand.

Development forbearance portfolio

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

With respect to customer loans, forbearance was agreed for a total carrying amount of euro 380,016 thousand (2017: euro 524,521 thousand) for financial reasons. This amount relates to performing forborne credit exposures in the amount of euro 169,905 thousand (2017: euro 239,997 thousand) and non-performing forborne credit exposures in the amount of euro 210,111 thousand (2017: euro 284,524 thousand).

Development of overdue positions

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

31 Dec 2018 Euro thousand	Not past due	1-30 days past due	31-90 days past due	91-180 days past due	181-365 days past due	More than 365 days past due	Total
Liquid funds	1,510,908	0	0	0	0	0	1,510,908
Loans and receivables credit institutions	462,382	7,178	0	0	0	0	469,560
At amortised cost	462,122	6,366	0	0	0	0	468,487
At fair value	260	812	0	0	0	0	1,072
Loans and receivables customers	20,018,785	432,504	64,923	31,217	46,755	200,704	20,794,888
At amortised cost	19,462,710	422,344	62,824	29,890	46,268	194,836	20,218,871
Thereof Retail private	7,685,403	64,090	10,353	7,868	13,281	81,301	7,862,296
Thereof SME	10,133,538	308,809	41,314	20,499	32,271	112,393	10,648,825
Thereof Corporates	484,604	28,713	23	1	715	885	514,941
Thereof Others	1,159,165	20,732	11,133	1,522	0	256	1,192,809
At fair value	556,075	10,160	2,099	1,327	488	5,868	576,017
Thereof Retail private	401,516	3,592	570	1,039	414	4,441	411,572
Thereof SME	81,327	4,925	208	288	73	1,428	88,249
Thereof Corporates	1,902	0	0	0	0	0	1,902
Thereof Others	71,329	1,643	1,321	0	0	0	74,294
Assets held for trading – fixed-income securities	4,657	0	0	0	0	0	4,657
At fair value	4,657	0	0	0	0	0	4,657
Financial investments – fixed-income securities	2,362,214	0	0	0	0	0	2,362,214
At amortised cost	1,963,148	0	0	0	0	0	1,963,148
At fair value	399,066	0	0	0	0	0	399,066
Contingent liabilities	974,048	0	0	0	0	0	974,048
Credit risks	3,222,469	0	0	0	0	0	3,222,469
Total	**28,555,462**	**439,681**	**64,923**	**31,217**	**46,755**	**200,704**	**29,338,743**

31 Dec 2017 Euro thousand	Not past due	1-30 days past due	31-90 days past due	91-180 days past due	181-365 days past due	More than 365 days past due	Total
Liquid funds	1,783,881	0	0	0	0	0	1,783,881
Loans and receivables credit institutions	488,216	6,067	606	0	0	0	494,889
Loans and receivables customers	19,112,944	231,538	82,203	32,161	54,087	255,521	19,768,453
Thereof Retail private	7,727,805	39,227	12,587	8,196	16,043	97,653	7,901,511
Thereof SME	10,127,621	185,530	51,522	23,922	38,043	146,353	10,572,991
Thereof Corporates	378,067	1,845	18,095	43	0	939	398,989
Thereof Others	879,451	4,936	0	0	0	10,575	894,962
Assets held for trading – fixed-income securities	8,320	0	0	0	0	0	8,320
Financial investments – fixed-income securities	2,184,269	0	0	0	0	0	2,184,269
Contingent liabilities	1,049,895	0	0	0	0	0	1,049,895
Credit risks	3,009,122	0	0	0	0	0	3,009,122
Total	**27,636,647**	**237,605**	**82,809**	**32,161**	**54,087**	**255,521**	**28,298,828**

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

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

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

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

Overdue loans and receivables to customers

31 Dec 2018 Euro thousand	Loans and receivables customers (gross)	Collaterals	NPL	Collateral for NPL	NPL not impaired
At amortised cost					
Not past due	19,462,710	16,249,818	339,265	255,355	33,025
Past due	756,161	497,115	293,750	175,615	9,338
1-30 days past due	422,344	295,261	12,474	8,680	10
31-90 days past due	62,824	42,926	11,408	9,060	2,002
91-180 days past due	29,890	20,223	29,130	19,521	1,479
181-365 days past due	46,268	28,282	46,229	28,246	438
More than 365 days past due	194,836	110,422	194,509	110,108	5,409
At fair value					
Not past due	556,075	482,738	8,460	8,031	8,460
Past due	19,942	18,830	8,589	9,074	8,589
1-30 days past due	10,160	8,981	697	776	697
31-90 days past due	2,099	1,750	209	200	209
91-180 days past due	1,327	1,382	1,327	1,382	1,327
181-365 days past due	488	484	488	484	488
More than 365 days past due	5,868	6,233	5,868	6,233	5,868
Total	**20,794,888**	**17,248,500**	**650,064**	**448,076**	**59,411**

31 Dec 2018 Euro thousand	Collateral for NPL not impaired	NPL impaired	Collateral for NPL impaired	Receivables impaired
At amortised cost				
Not past due	31,535	306,241	223,820	125,587
Past due	8,244	284,413	167,371	111,315
1-30 days past due	10	12,464	8,670	4,440
31-90 days past due	1,982	9,406	7,077	6,761
91-180 days past due	1,462	27,651	18,059	8,936
181-365 days past due	172	45,791	28,074	13,912
More than 365 days past due	4,617	189,100	105,491	77,265
At fair value				
Not past due	8,031	0	0	0
Past due	9,074	0	0	0
1-30 days past due	776	0	0	0
31-90 days past due	200	0	0	0
91-180 days past due	1,382	0	0	0
181-365 days past due	484	0	0	0
More than 365 days past due	6,233	0	0	0
Total	**56,885**	**590,653**	**391,192**	**236,902**

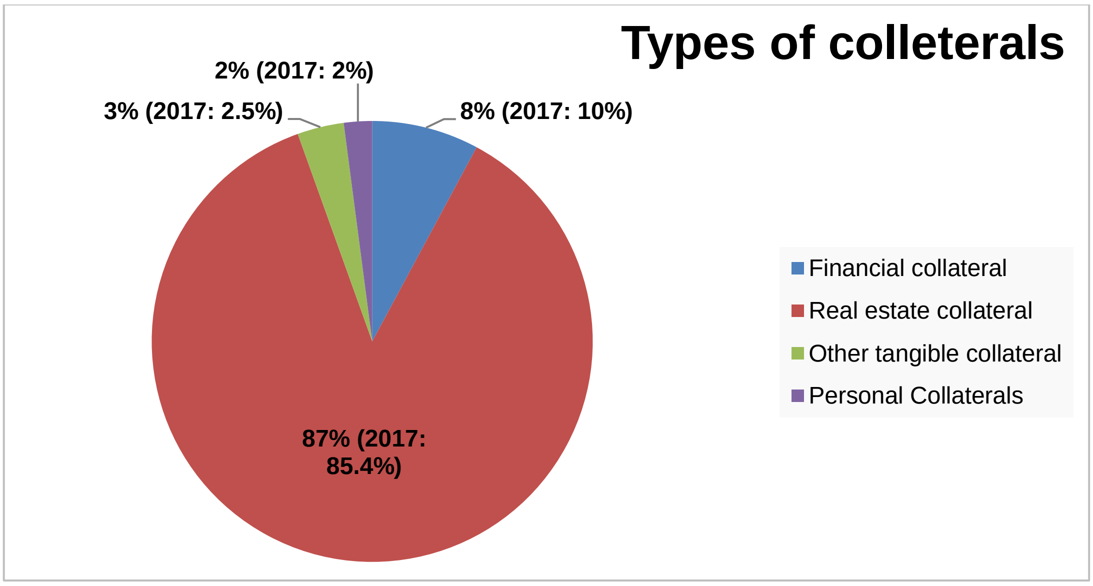
31 Dec 2017 Euro thousand	Loans and receivables customers (gross)	Collaterals	NPL	Collateral for NPL	NPL not impaired
Not past due	19,112,943	15,618,729	456,542	321,960	50,264
Past due	655,510	400,910	382,558	227,451	39,721
1-30 days past due	231,538	138,336	18,335	13,431	430
31-90 days past due	82,203	62,884	22,454	14,836	4,555
91-180 days past due	32,161	22,871	32,161	22,511	5,873
181-365 days past due	54,087	34,290	54,087	34,156	3,348
More than 365 days past due	255,521	142,529	255,521	142,517	25,515
Total	**19,768,453**	**16,019,639**	**839,100**	**549,411**	**89,985**

31 Dec 2017 Euro thousand	Collateral for NPL not impaired	NPL impaired	Collateral for NPL impaired	Receivables impaired
At amortised cost				
Not past due	44,242	406,278	277,718	157,147
Past due	36,374	342,837	191,077	155,695
1-30 days past due	428	17,905	13,003	5,734
31-90 days past due	4,273	17,899	10,563	9,082
91-180 days past due	5,661	26,288	16,849	9,359
181-365 days past due	3,160	50,739	30,997	22,088
More than 365 days past due	22,852	230,006	119,665	109,432
Total	**80,616**	**749,115**	**468,795**	**312,842**

Development of the collaterals portfolio

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

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



31 Dec 2018 Euro thousand	Loan volume - total	Allowable collateral amount - total	Real estate collaterals	Financial collaterals	Personal collaterals	Other collaterals	Loan loss allow-ances	Provi-sions
Liquid funds	1,510,908	0	0	0	0	0	0	0
Loans and receivables credit institutions	469,560	363,519	0	0	42,148	321,371	69	0
At amortised cost	468,487	362,868	0	0	41,497	321,371	69	0
At fair value	1,072	651	0	0	651	0	0	0
Loans and receivables customers	20,794,888	17,248,500	15,319,816	1,330,697	315,798	282,189	292,640	0
At amortised cost	20,218,871	16,746,933	14,859,314	1,297,174	311,846	278,599	292,640	0
Thereof Retail private	7,862,296	6,800,911	6,216,007	556,194	15,943	12,767	79,161	0
Thereof SME	10,648,825	8,683,605	7,525,008	696,384	252,789	209,424	198,584	0
Thereof Corporates	514,941	333,870	242,745	19,876	22,293	48,955	4,799	0
Thereof Others	1,192,809	928,547	875,554	24,720	20,820	7,453	10,096	0
At fair value	576,017	501,568	460,503	33,523	3,952	3,590	0	0
Thereof Retail private	411,572	346,890	317,845	28,693	45	307	0	0
Thereof SME	88,249	92,696	84,341	4,638	433	3,283	0	0
Thereof Corporates	1,902	2,013	1,890	0	123	0	0	0
Thereof Others	74,294	59,969	56,426	192	3,351	0	0	0
Assets held for trading – fixed-income securities	4,657	0	0	0	0	0	0	0
At fair value	4,657	0	0	0	0	0	0	0
Financial investments	2,362,214	0	0	0	0	0	474	0
At amortised cost	1,963,148	0	0	0	0	0	474	0
At fair value	399,066	0	0	0	0	0	0	0
Contingent liabilities	974,048	356,730	252,255	80,122	13,785	10,568	0	10,009
Credit risks	3,222,469	0	0	0	0	0	0	5,520
Total	**29,338,743**	**17,968,750**	**15,572,072**	**1,410,819**	**371,731**	**614,128**	**293,183**	**15,529**

31 Dec 2017 Euro thousand	Loan volume - total	Allowable collateral amount - total	Real estate collaterals	Financial collaterals	Personal collaterals	Other tangible collate-rals	Loan loss allow-ances	Provi-sions
Liquid funds	1,783,881	0	0	0	0	0	0	0
Loans and receivables credit institutions	494,889	378,367	3,495	232	58,754	315,885	41	0
Loans and receivables customers	19,768,453	16,019,638	14,042,695	1,603,100	271,703	102,140	361,913	0
Thereof Retail private	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	875,600	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
Assets held for trading – fixed-income securities	8,320	0	0	0	0	0	0	0
Financial investments	2,184,269	0	0	0	0	0	0	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	**28,298,828**	**16,751,223**	**14,309,175**	**1,679,768**	**341,412**	**420,867**	**361,954**	**17,839**

Acquisition of real estate collaterals

Within the Association, real estate collaterals were only acquired in individual instances. Currently, this instrument is not applied any longer, existing assets will be disposed of in full.

Development of the netting positions

The following tables show the netting positions within the portfolio of the Association

31 Dec 2018
Euro thousand

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

31 Dec 2017
Euro thousand

Derivatives	**Assets**	**Liabilities**	**Net values**
Banking book	69,407	-88,133	-18,726
Trading book	68,568	-346,331	-277,764
Cash collaterals	**Pledged**	**Received**	**Net values**
Banking book	345,513	-47,709	297,804
Total			**1,314**

c) Market risk

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

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

Interest rate risk in the banking book

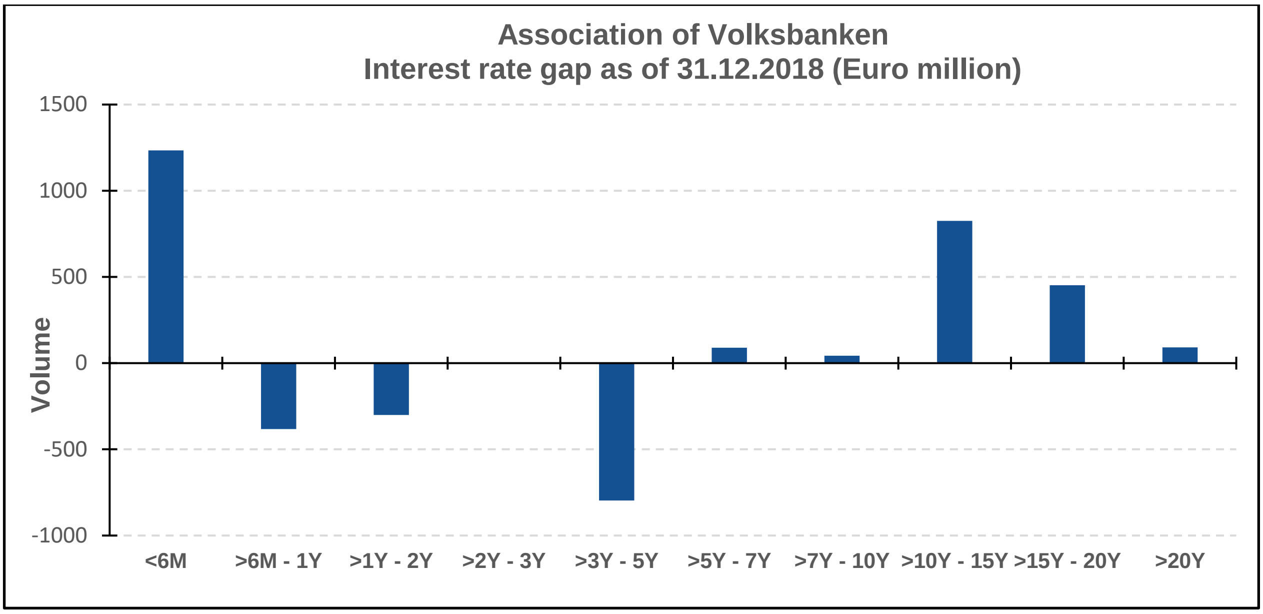
Interest rate risks emerge primarily through term transformation, which arises from deviations of fixed interest rate periods between assets and liabilities. Term transformation is a source of income for the bank in the form of a structural contribution.

The interest rate risk in the banking book comprises all interest-bearing transactions reported and not reported in the balance sheet, except for transactions in the trading book. The interest rate risk position associated with the retail business of the Association of Volksbanks mainly arises from variable index-linked lending business and variable-interest deposits (in the form of sight and savings deposits), as well as from implicit floors, in both the assets and the liabilities side retail business. In lending business, this is associated with a shift from index-linked positions towards fixed-interest positions, as increasingly fixed-interest loans are granted within new business. By controlling the growth of fixed-interest volumes, the gradual development of a rolling fixed-interest position is ensured. Other decisive factors are bond positions of the bank's own portfolio, own issues and the interest-rate swaps used to control the interest rate position. At the end of 2018, the Association of Volksbanks reports a relatively low positive term transformation. As at 31 December 2018, the present-value interest rate risk (regulatory interest rate risk statistics according to the OeNB standard procedure, interest rate risk coefficient) amounted to 3.8% of own funds, which is clearly below the regulatory limit of 20%. The interest rate sensitivity in the form of the present value of a basis point (PVBP) was around euro -2.0 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 through the risk strategy. The ALCO is the central body for the management of interest rate risks. It is convened monthly at the CO or ad hoc as required. The Asset Liability Management (ALM) function 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 function in cooperation with Risk Controlling and the local ALCOs of the affiliated banks. The aim is to create a structural contribution by way of positive term transformation. Effects on both income and present value are considered in managing the interest rate position. Interest rate risk reporting within the ALCO is taken care of by the Market and Liquidity Risk department of the CO.

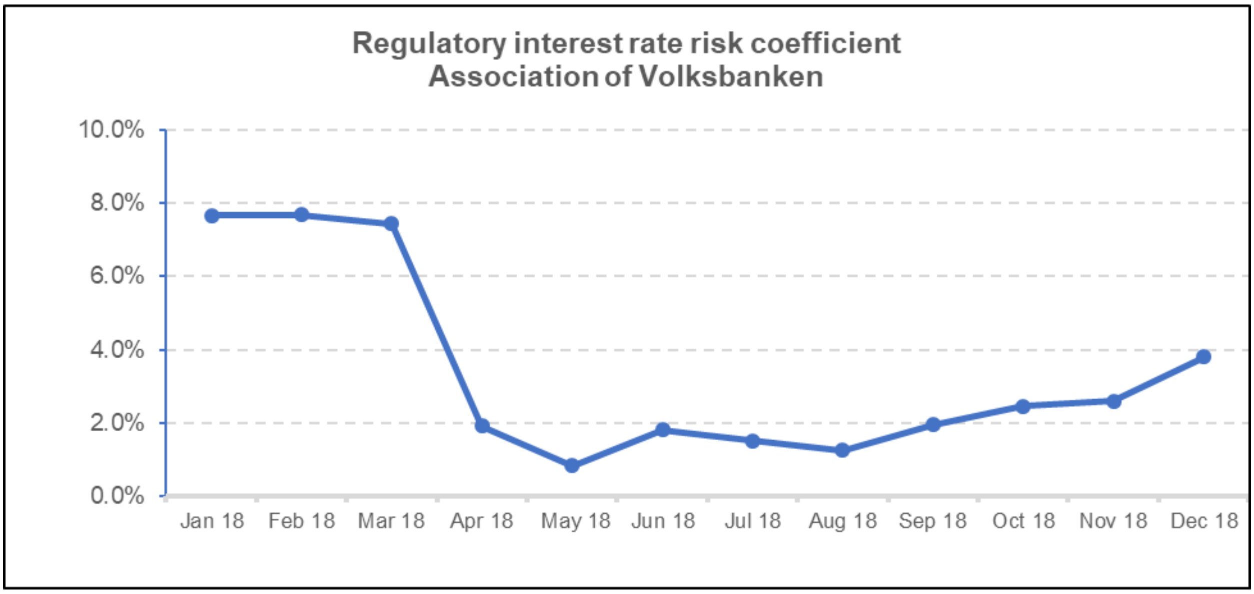
Present-value risk measurement and limitation are mainly effected on the basis of interest rate gaps (net position of the contractual or modelled fixed interest rates per maturity band), an interest rate book VaR based on historical simulations, the interest rate sensitivity in the form of a PVBP, and regulatory interest rate statistics. Period-based risk measurement is implemented in the form of a net interest income simulation. In the process, the effects on net interest income of the next 12 months are calculated for five potentially unfavourable scenarios. For 2019, net interest income decreases by euro 187 million in the least favourable scenario (a marked interest rate reduction (parallel 200 BP)). The results of the net interest income simulation and the interest rate book VaR are taken into account in the ICAAP within the scope of the risk-bearing capacity statement.

In both perspectives (present value and periodic), positions without fixed interest rates (e.g. in the form of sight and savings deposits, current account facilities) are included consistently in the risk measurement process by assuming replication and/or rolling. The assumptions are determined on the basis of statistical analyses, supplemented by expert opinions. Modelling aims to describe the development of customer interest rates depending on market interest rates. This is done on the basis of historically observed correlations (minimising the volatility of the margin compared to a combination of reference interest rates). Due to the high proportion of positions without fixed interest rates within the balance sheet, replication modelling has a significant impact on the measurement of interest rate risk. Since the key date of April 2018, revised replication assumptions have been applied, which have led to a prolongation of fixed interest rates of liabilities on average. This has caused a reduction of term transformation at all banks of the Association of Volksbanks.



Interest rate gap of the Association of Volksbanks as at 31.12.2018

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



Regulatory intereset rate risk coefficient of the Association of Volksbanks in 2018

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

Concentration risk

No concentration risks exist within interest rate risk.

Credit spread risk

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

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

Risk measurement is mainly effected via credit spread VaR and the sensitivity to any increase in credit spreads by 100 bps. The calculation of the credit spread VaR is based on a historical simulation for a 99.9% confidence level and a holding period of 1 year. In the process, the portfolio is divided into 30 risk clusters, depending on credit rating, branch of industry, type of product and seniority. The plausibility and reliability of the VaR indicators are reviewed by way of reverse comparisons (backtesting) and validated in a group independent from the modelling department on a recurring basis.

The risk ratios for the 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)

31 Dec 2018 Euro thousand	Credit spread value at risk	100 basis points-shift
Section 30a of the Austrian Banking Act - Association of Volksbanks	185,477	-163,196

31 Dec 2017 Euro thousand	Credit spread value at risk	100 basis points-shift
Section 30a of the Austrian Banking Act - Association of Volksbanks	121,895	-149,315

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

Concentration risk

Concentration risks can only arise on the level of issuers or risk clusters in the sense of similar issuers. Within credit spread risk, risk clusters are monitored. As at 31 December 2018, within the securities portfolio, the biggest concentrations currently exist in the Republic of Austria risk cluster with 35 % and in covered bonds with 28 %. Concentrations with individual issuers are limited by the issuer lines within credit risk.

Portfolio distribution by credit rating

Euro thousand	31 Dec 2018	31 Dec 2017
Risk category 1 (1A - 1E)	1,964,574	1,779,296
Risk category 2 (2A - 2E)	459,469	341,106
Risk category 3 (3A - 3E)	6,576	88,820
Risk category 4 (4A - 4E)	0	1,262
Risk category 5 (5A - 5E)	0	2
Risk category 6 (NR)	0	10
Total	**2,430,620**	**2,210,496**

Top 10 risk cluster within the securities portfolio in the banking book

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

Top 10 balance sheet exposures in the public sector

31 Dec 2018 Euro thousand	Amortised cost Carrying amount	Fair value through OCI Carrying amount	Fair value through profit or loss Carrying amount	Total Carrying amount
Sovereigns Austria	602,714	248,757	1,015	852,486
Covered EUR AAA	620,846	10,455	0	631,301
Sovereigns Italy	156,346	0	0	156,346
Other Sovereigns EUR AA	51,121	31,315	26,821	109,257
Sovereigns Poland	63,906	35,632	0	99,538
Sovereigns Belgium	62,843	0	0	62,843
Other Sovereigns EUR A	26,993	34,688	0	61,681
Sovereigns Portugal	56,251	0	0	56,251
Covered EUR AA	50,836	0	0	50,836
Sovereigns Spain	50,477	0	0	50,477
Total	**1,742,332**	**360,847**	**27,836**	**2,131,015**

31 Dec 2017 Euro thousand	Amortised cost Carrying amount	Fair value through OCI Carrying amount	Fair value through profit or loss Carrying amount	Total Carrying amount
Sovereigns Austria	14,541	920,910	27,203	962,654
Covered EUR AAA	161,258	284,824	0	446,082
Sovereigns Italy	20,000	116,057	0	136,057
Sovereigns Poland	0	97,284	0	97,284
Other sovereigns EUR A	0	76,523	0	76,523
Other sovereigns EUR AA	41,809	29,832	0	71,641
Sovereigns Belgium	10,699	54,399	0	65,098
Sovereigns Portugal	0	48,102	0	48,102
Sovereigns Spain	0	42,105	0	42,105
Sovereigns France	40,074	0	0	40,074
Total	**288,380**	**1,670,036**	**27,203**	**1,985,620**

Portfolio structure according to IFRS 9 categories

31 Dec 2018

Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	1,983,523	28,258	0	2,011,780
Fair value through OCI	380,565	0	0	380,565
Fair value through profit or loss	9,351	0	28,923	38,274
Total	**2,373,439**	**28,258**	**28,923**	**2,430,620**

31 Dec 2017

Euro thousand	Bond	Syndicated loan & SSD	Fund & Equity	Total
Amortised cost	350,319	26,637	0	376,956
Fair value through OCI	1,804,193	0	0	1,804,193
Fair value through profit or loss	0	0	29,347	29,347
Total	**2,154,513**	**26,637**	**29,347**	**2,210,496**

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 affiliated banks do not keep any trading book. The main responsibilities of the Risk Controlling function include determination of the limit structure based on the allocated economic capital and the daily review of the limits, the administration of the front-office systems, and the development of the systems and models. The limit structure reflects the risk and Treasury strategy. The regulatory capital adequacy requirements of the trading book are calculated by means of the standard approach – the Association of Volksbanks does not use any internal model for market risk in the trading book.

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

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

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

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

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

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

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

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

Foreign exchange risk (open FX positions)

The foreign exchange risk from open FX positions is of 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.

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

Euro thousand 31 Dec 2018	FX Value at Risk
Section 30a of the Austrian Banking Act - Association of Volksbanks	715

Euro thousand 31 Dec 2017	FX Value at Risk
Section 30a of the Austrian Banking Act - Association of Volksbanks	540

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

Currency Euro thousand	31 Dec 2018	31 Dec 2017
CHF	3,094	2,956
USD	1,569	-2,506
CZK	-205	373
JPY	108	-346
GBP	77	78
Others	345	855
Total	**4,988**	**1,411**

Other valuation risks (IFRS fair value change)

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

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

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

31 Dec 2018 Euro thousand	Market liquidity costs +10 basis points	Interest rate sensitivity +10 basis points
Fair value through profit or loss - loans and receivables	-2,663	-320

d) Liquidity risk

As the CO of the Association of Volksbanks, VBW is responsible for liquidity management across the entire Association and acts as lender of last resort for the affiliated banks. The affiliated banks cover their refinancing requirements and invest their excess liquidity via VBW.

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

Both operational, short-term liquidity management and medium- to long-term liquidity management are performed in a centralised manner at VBW for the Association, in the Treasury division, through the Liquidity Management department. The monitoring and limitation of liquidity risk across the Association, as well as the methodological requirements regarding risk measurement are performed or stipulated by the Market and Liquidity Risk Controlling department at VBW.

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

The risk measurement and limitation of illiquidity risk is effected through the regulatory indicators LCR and NSFR, the survival period from internal liquidity stress testing, and through additional operational indicators.

The LCR aims to ensure the short-term financial solvency of banks under stressed conditions over a short-term horizon of 30 calendar days. The calculation of the LCR takes place weekly and at the end of the month in the Market and Liquidity Risk Controlling department.

The NSFR limits the liquidity term transformation by determining a minimum of stable refinancing, depending on the liquidity characteristics of the assets and other (off-balance sheet) operations of a bank. Currently, calculation takes place weekly and on the last day of each quarter in the Market and Liquidity Risk Controlling department within the Association.

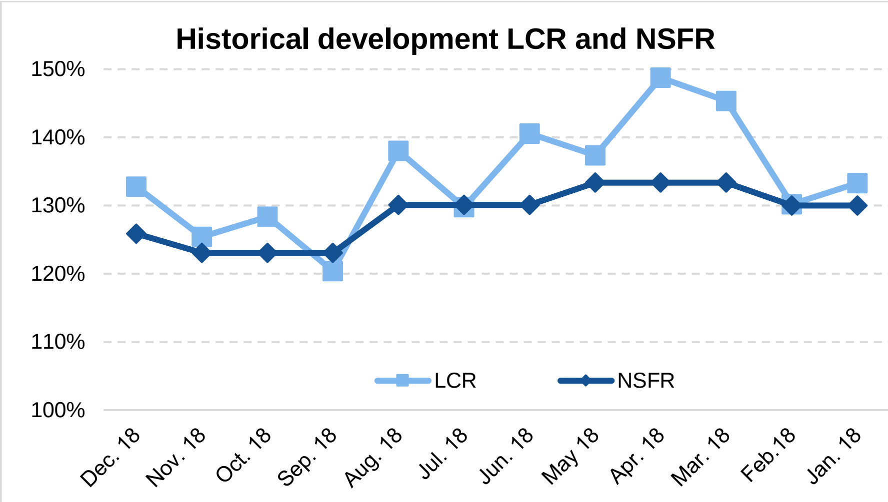
The survival period is the period during which, under a given stress scenario, the liquidity buffer held is sufficient to cover cumulated net liquidity outflows. Currently, five stress scenarios of varying degrees of severity are calculated. The scenario assumptions include a crisis of the Volksbank-Sector, a national banking crisis and pan-European stressed market conditions. The least favourable of the scenarios calculated is applied to the survival period.

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

Regulatory liquidity ratios LCR, NSFR and survival period in 2018

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

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



LCR and NSFR development of the Association of Volksbanks as at 31 December 2018

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

Concentration risk

Due to diversified funding through customer deposits, concentration risk is not material. The only risk clusters exist at customer level. Accordingly, the largest deposits at customer level are monitored both in risk controlling and also within operational liquidity management. Generally, they amount to less than 1% of total assets. There are only a few temporary exceptions with a few major accounts for implementing payment transactions or balancing liquidity peaks. These deposits are regularly monitored and reported on within the scope of liquidity risk management.

Operational liquidity management

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

- Cash management (settlement of all transactions of the Association as well as disposition of the banking connections maintained by VBW)
- Collateral management: ECB-eligible collaterals of the Association (bonds and credit claims) and underlying stock management for covered bonds
- Issue planning
- Daily liquidity forecast for the following 31 days, and weekly for the following 12 months
- Monitoring of refinancing positions of the Association of Volksbanks, and the control system put into effect by VBW as CO with the approval under section 30a Austrian Banking Act, for the affiliated banks – among others liquidity reports, refinancing management, utilisation of collaterals, early warning system
- Compliance with minimum reserve regulations for the Association of Volksbanks
- Reporting to the CO Managing Board and to the ALCO

e) Operational risk

The Association of Volksbanks defines operational risk as the risk of losses due to the inadequacy or failure of internal procedures (processes), people, systems or to external events, and the associated legal risks. The reputational, conduct, model, IT and security risks are closely associated with operational risk and are actively taken into account. The calculation of regulatory capital adequacy requirements is effected using the standard approach. As of 1 January 2018, an internal method based on loss data and scenarios is used for the economic perspective.

Organisation

Within the Association of Volksbanks, line management is responsible for the management of operational risks (OpRisk Management). It is supported in this function by centrally and decentrally based experts from the spheres of operational risk and internal control system. The aim is to optimise processes in order to reduce the probability of the occurrence of operational risks and/or to reduce the effect of operational losses. Moreover, close cooperation with security, safety and insurance management allows for optimal, comprehensive control of operational risks.

Methods for the management of operational risks

Within the scope of operational risk management, both quantitative and qualitative methods are used. Quantitative elements comprise – for instance – the execution of risk analyses, the performance of stress tests, 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 including analysis of causes, the implementation of uniform ICS checks, as well as in the analysis of the risk reports.

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

Operational risk management and risk controlling function

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

- The primary aim of the entire OpRisk Management system is to optimise processes to decrease the likelihood of incidents occurring and/or the impact of operational losses.
- Incidents are documented fully and in a sufficiently transparent manner via an electronic platform to enable third-party experts to benefit from the documentation. Operational incidents are recorded in a uniform manner across the

Association. The resulting transparency with respect to the occurrence of incidents allows for risk assessment to be derived from historical facts.

- The methods, systems and processes in OpRisk Management are defined by the CO and must be complied with by the respective banks.
- The appropriateness of the risk control and monitoring measures and other risk-minimising measures is assessed on an on-going basis, but at least once a year, and reported to the Managing Board. Measures for risk control comprise, for instance, awareness-building measures/training events, the monitoring of the OpRisk indicators, maintaining the confidentiality, availability and integrity of customer and corporate data, as well as business continuity planning, but also – in particular – the adequate separation of responsibilities, as well as observance of the dual-control principle. Operational (residual) risks that cannot be avoided, reduced or transferred must be accepted formally and demonstrably by the management.
- The efficiency of OpRisk Management is confirmed through periodic and independent internal audits.

Internal control system

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

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

f) Other risks

In terms of other risks, the Association of Volksbanks is confronted with strategic, reputational, equity, direct real estate, as well as business risks.

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

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

The Association of Volksbanks 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.

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

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

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

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

53) Fully consolidated companies[1)]

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
3V-Immobilien Errichtungs-GmbH; Vienna	HD	100.00 %	100.00 %	35
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; Vienna	HD	100.00 %	100.00 %	35
GB IMMOBILIEN Verwaltungs- und Verwertungs-GmbH; Vienna	HD	100.00 %	100.00 %	35
Realitäten Beteiligungs-GmbH; Schärding	HO	100.00 %	100.00 %	500
VB Aktivmanagement GmbH; Klagenfurt	HO	100.00 %	100.00 %	35
VB Kärnten Leasing GmbH; Ferlach	FI	100.00 %	100.00 %	634
VB Rückzahlungsgesellschaft mbH; Vienna	HO	100.00 %	100.00 %	35
VB Services für Banken Ges.m.b.H.; Vienna	HD	98.89 %	98.89 %	327
VB Verbund-Beteiligung Region Vienna eG; Vienna	HO	90.51 %	90.51 %	3,853
VB-Immobilienverwaltungs- und -vermittlungs GmbH; Klagenfurt	HD	100.00 %	100.00 %	73
VOBA Vermietungs- und Verpachtungsges.m.b.H.; Baden	HD	99.00 %	99.00 %	36
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
VVB Immo GmbH & Co KG; Rankweil	HD	100.00 %	100.00 %	10
VVG Vermietung von Wirtschaftsgütern Gesellschaft m.b.H.; Vienna	FI	100.00 %	100.00 %	872

1) All fully consolidated companies are under control

54) Companies measured at equity

Company names and headquarters	Type*	Equity interest	Share in voting rights	Nominal capital in euro thousand
VB Verbund-Beteiligung eG; Vienna	HO	77.58 %	77.58 %	51,918
VB Wien Beteiligung eG; Vienna	HO	44.58 %	44.58 %	24,251

55) Companies included

Company names and headquarters	Type*	Nominal capital in euro thousand
Österreichische Ärzte- und Apothekerbank AG; Vienna	KI	15,482
VB-Beteiligung GmbH in Liqu.; Klagenfurt	HO	100
Volksbank Kärnten eG; Klagenfurt	KI	34,676
Volksbank Niederösterreich AG; St. Pölten	KI	27,203
Volksbank Oberösterreich AG; Wels	KI	21,192
Volksbank Salzburg eG; Salzburg	KI	13,220
Volksbank Steiermark AG; Graz	KI	69,504
Volksbank Tirol AG; Innsbruck	KI	20,430
VOLKSBANK VORARLBERG e. Gen.; Rankweil	KI	1,230
VOLKSBANK WIEN AG; Wien	KI	137,547

56) 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; Vienna	HO	99.59 %	99.59 %	256
Atlas Bauträger GmbH; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	36
Atlas Beteiligungsgesellschaft mbH.; Feldkirchen (Ktn.)	SO	65.00 %	65.00 %	87
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; Judenburg	HD	100.00 %	100.00 %	35
Immo-Contract Baden Maklergesellschaft m.b.H.; Baden	SO	93.51 %	93.51 %	175
IMMO-CONTRACT St. Pölten Maklergesellschaft m.b.H.; St. Pölten	SO	95.00 %	95.00 %	73
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 in Liqu.; Graz	HD	100.00 %	100.00 %	35
REALCONSTANT Liegenschaftsverwertungs-Ges.m.b.H.; St. Pölten	SO	99.90 %	99.90 %	73
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 in Liqu.; Graz	HD	100.00 %	100.00 %	35
UVB-Holding GmbH; Vienna	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 NÖ GmbH; Krems an der Donau	SO	100.00 %	100.00 %	727
VB Buchführung GmbH; Ferlach	SO	100.00 %	100.00 %	36
VB ManagementBeratung GmbH; Vienna	SO	100.00 %	100.00 %	36
VB Real Estate Leasing Ismene GmbH in Liqu.; Graz	FI	100.00 %	100.00 %	36
VB Real Estate Leasing Viribus GmbH in Liqu.; Graz	FI	100.00 %	100.00 %	36
VB Realitäten Gesellschaft m.b.H.; Ferlach	SO	100.00 %	100.00 %	36
VBKA-Holding GmbH; Vienna	SO	100.00 %	100.00 %	35
VBKS Leasing d.o.o.; Kranj	HD	100.00 %	100.00 %	542
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; Vienna	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, 20 March 2019

Gerald Fleischmann
Chairman of the Managing Board

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

Rainer Borns
Deputy Chairman of the Managing Board

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

Thomas Uher
Deputy Chairman of the Managing Board

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

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 2018, and the consolidated Statement of Comprehensive Income, consolidated Statement of Changes in Equity and consolidated Statement of Cash Flows for the year then ended, and the Notes to the consolidated Financial Statements.

In our opinion, the consolidated Financial Statements of the Banking Association present fairly, in all material respects, the consolidated Financial Position of the Banking Association as of 31 December 2018, 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 2018.

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 („AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the „Banking Association's Auditor´s Responsibilities" section of our report. We are independent of the audited Banking Association in accordance with Austrian company law, 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 2018 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 judgment, 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 of the Banking Association as a whole, however, we do not provide a separate opinion thereon.

Valuation of loans to and receivables from customers at amortised cost

Risk for the consolidated Financial Statements

Loans to and receivables from customers at amortised cost represent a significant item in the consolidated Statement of Financial Position. As of 31 December 2018, the carrying amount of loans to and receivables from customers at amortised cost amounts to EUR 20,218.9 million, accounting for 76.12 % of total assets of EUR 26,563.7 million. The loan loss provisions for these loans to and receivables from customers at amortised cost amount to EUR 292.6 million.

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

AUDITOR'S REPORT

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

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

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

On a sample basis, we evaluated whether evidence of credit default exists. Sampling was performed risk-oriented, by particularly taking into account rating levels with higher default risk and based on random samples as well as statistical sampling methods. In case of identified events of default, we assessed the Banking Association's estimates regarding the amount and timing of future cash flows and whether the assumptions were appropriate.

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

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

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

Recognition of deferred tax assets on tax loss carryforwards
Risk for the consolidated Financial Statements
Based on future expected taxable income, the Bank Association recognized deferred tax assets on tax loss carryforwards amounting to EUR 62.4 million as of 31 December 2018.

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

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

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

AUDITOR'S REPORT

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

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

Responsibilities of Management and 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 Framework of Rules for the preparation of the consolidated financial statements of the Banking Association 2018 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 objectives are to obtain reasonable assurance about whether the consolidated Financial Statements of the Banking Association as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated Financial Statements of the Banking Association.

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

Moreover:
- We identify and assess the risks of material misstatement in the consolidated Financial Statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banking Association's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banking Association'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 Association to cease to continue as a going concern.

AUDITOR'S REPORT

- 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 Banking Association

In accordance with Austrian company law, 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 company law 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 Banking Association´s management report.

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 Banking Association´s management report 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.

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.

AUDITOR'S REPORT

Additional Information in accordance with Article 10 AP Regulation

At the Annual General Meeting dated 18 May 2017, we were elected as Banking Association´s auditors. We were appointed by the Supervisory Board on 1 June 2017. We have been the auditors of the Banking Association´s consolidated Financial Statements from the year ended 31 December 2015 without interruption.

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

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP Regulation) and that we have ensured our independence throughout the course of the audit, from the audited 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, 20 March 2019

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Walter Reiffenstuhl
Wirtschaftsprüfer
(Austrian Chartered Accountant)

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

TERMINOLOGY AND IMPRINT

TERMINOLOGY

Association of Volksbanks
The Association of Volksbanks includes the primary banks as well as VBVM (Volksbank Vertriebs- und Marketing eG).

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

Primary banks
8 regional Volksbanks, 1 specialist bank (Österreichische Ärzte- und Apothekerbank AG)

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

Austrian Cooperative Association
Within the Association of Volksbanks, auditing and the representation of interests are effected by Österreichischer Genossenschaftsverband (Schulze-Delitzsch) [Austrian Cooperative Association] – ÖGV in brief. Moreover, since the beginning of 2019, pursuant to the BWG, the ÖGV has been responsible for the early warning of risks regarding its members, together with Einlagensicherung Austria.

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.