VOLKSBANK

HALF-YEAR MANAGEMENT REPORT

ASSOCIATION OF VOLKSBANKS

AS AT 30 JUNE 2019

KEY FIGURES OF THE ASSOCIATION OF VOLKSBANKS

Euro million	30 Jun 2019	31 Dec 2018	31 Dec 2017
Balance sheet			
Total assets	**26,666**	**26,564**	**25,323**
Loans and receivables customers	**20,877**	**20,502**	**19,407**
Amounts owed to customers	**21,233**	**21,555**	**20,850**
Debts evidenced by certificates	**1,012**	**529**	**624**
Subordinated liabilities	**609**	**634**	**671**
Own funds according to Basel III for the association of Volksbanks			
Common equity tier 1 capital (CET1)	1,864	1,761	1,636
Additional tier 1 capital (AT1)	234	14	10
Tier 1 capital (T1)	**2,098**	**1,775**	**1,646**
Tier 2 capital (T2)	518	523	553
Own funds	**2,617**	**2,298**	**2,199**
Risk weighted exposure amount - credit risk	13,185	12,301	11,700
Total risk exposure amount settlement risk	0	0	0
Total risk exposure amount market risk	88	86	112
Total risk exposure amount operational risk	1,262	1,288	1,369
Total risk for credit valuation adjustment	44	56	60
Other risk exposure amount	44	845	0
Total risk exposure amount	**14,624**	**14,577**	**13,240**
Common equity tier 1 capital ratio[1)]	**12.75 %**	**12.08 %**	**12.36 %**
Tier 1 capital ratio[1)]	**14.35 %**	**12.18 %**	**12.43 %**
Equity ratio[1)]	**17.89 %**	**15.77 %**	**16.61 %**
Income statement	**1-6/2019**	**1-6/2018**	**1-6/2017**
Net interest income	210.7	216.8	203.6
Risk provision	4.3	-4.3	9.0
Net fee and commission income	115.1	116.0	130.0
Net trading income	-1.6	-0.4	9.4
Result from financial investments	24.6	-8.2	-0.5
Other operating result	51.3	12.1	0.3
General administrative expenses	-275.6	-294.4	-308.8
Restructuring result	0.0	-0.2	0.0
Result from companies measured at equity	0.1	1.5	-0.4
Result for the period before taxes	**128.9**	**38.8**	**42.6**
Income taxes	-7.2	1.0	-5.0
Result for the period after taxes	**121.7**	**39.8**	**37.6**
Result attributable to non-controlling interest	0.0	0.0	0.0
Result of the group for the period	**121.7**	**39.8**	**37.6**
Key ratios[2)]			
Operating cost-income-ratio	**82.6 %**	**88.9 %**	**89.4 %**
ROE before taxes	**12.8 %**	**4.4 %**	**5.0 %**
ROE after taxes	**7.7 %**	**4.5 %**	**4.4 %**
ROE consolidated net income	**12.1 %**	**4.5 %**	**4.4 %**
Net interest margin	**1.6 %**	**1.7 %**	**1.6 %**
NPL ratio	**2.5 %**	**3.1 %**	**4.1 %**
Leverage ratio	**7.6 %**	**6.1 %**	**6.1 %**
Net stable funding ratio	**127.2 %**	**133.4 %**	**130.0 %**
Loan deposit ratio	**95.6 %**	**93.7 %**	**92.0 %**
Coverage ratio I	**37.1 %**	**34.9 %**	**32.9 %**
Coverage ratio III	**103.8 %**	**101.3 %**	**96.4 %**
Resources	**1-6/2019**	**1-6/2018**	**1-6/2017**
Staff average	**3,672**	**3,977**	**4,257**
Thereof domestic	3,659	3,936	4,193
Thereof abroad	13	41	64
	30 Jun 2019	**31 Dec 2018**	**31 Dec 2017**
Staff at end of period	**3,593**	**3,778**	**4,129**
Thereof domestic	3,593	3,740	4,068
Thereof abroad	0	38	61
Number of sales outlets	**279**	**304**	**343**
Thereof domestic	279	303	340
Thereof abroad	0	1	3
Number of customers	**1,093,436**	**1,109,145**	**1,133,431**

1) Equity ratios are displayed 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 net interest margin shows the net interest income in relation to total assets. 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 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.

TABLE OF CONTENTS

HALF-YEAR REPORT

In order to improve readability, any role descriptions in this report that are used only in the masculine form apply analogously to the feminine form.
English translation by All Languages Alice Rabl GmbH.

HALF-YEAR MANAGEMENT REPORT FOR THE FIRST HALF OF 2019

Report on the business development and economic situation

Business development

The members of the Austrian Association of Volksbanks 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.

At the end of February, VBW issued a 7-year covered bond totalling euro 500 million with an 0.375 % fixed coupon and a rating of Aaa by Moody's. The issue was met with great interest on the part of institutional investors and was oversubscribed some 3.2 times by more than 70 investors. Hence, VBW maintained its successful presence on the capital market, at the same time consolidating the stable liquidity position of the Association.

The closing of the successful sale of Volksbank AG Liechtenstein by Volksbank Vorarlberg e.Gen. took place early in March 2019, further strengthening the capital ratio of the Association.

Early in April, VBW successfully managed to place another new issue on the market. The total volume of the issue, which was offered to institutional investors exclusively, was euro 220 million, the interest rate 7.75 % p.a. for the first 5 years. This contributes to further consolidating the capital base of VBW and of the Association.

Economic environment

In the first half of 2019, the development of the Austrian economy was less dynamic than in the relevant period of the previous year. According to calculations by the Austrian Institute of Economic Research (WIFO), the gross domestic product grew by 0.4 % Q/Q in the first quarter and by 0.3 % Q/Q in the second quarter. Hence, economic output has grown by 1.7 % Y/Y in real terms in the second quarter. The corresponding quarterly growth rates adjusted for season and workdays in compliance with Eurostat requirements amounted to 0.4 % Q/Q and 0.2 % Q/Q.

All GDP components increased. In both quarters, private consumption increased by 0.5 % Q/Q. Gross capital investments were somewhat slackening, but equally achieved a growth rate of 0.5 % Q/Q (Q1: 0.8 %) in the second quarter. Government spending, on the other hand, showed a somewhat restrained development with growth rates of 0.2 % Q/Q and 0.3 % Q/Q. At 1.1 % Q/Q, accommodation and gastronomy services were the GDP components that showed the strongest growth in both quarters. While losing some of its momentum, foreign trade showed a dynamic development as well: With 0.9 % Q/Q in the first quarter and 0.5 % in the second, exports grew at a faster pace overall than imports (+0.7 % Q/Q and +0.4 % Q/Q).

Broken down by economic sectors, manufacturing expanded by 0.1 % Q/Q in the first quarter, but shrank by 0.1 % Q/Q in the second quarter; construction achieved quarterly growth rates of 0.5 % Q/Q and 0.3 % in the first two quarters; the trade sector was doing similarly well in the first half of the year (0.3 % Q/Q and 0.4 % Q/Q) as in the first half of the previous year (0.4 % Q/Q in Q1 and Q2).

The basically favourable economic situation resulted in an increase in employment and a decrease in unemployment in all nine Austrian federal provinces. Manufacturing and construction mostly showed a solid development.

Vorarlberg achieved top levels in manufacturing in the first quarter, while construction showed a negative development. Equally, the number of overnight stays declined more rapidly overall in the first three months than the Austrian average. The already low unemployment rate decreased even further. At 4.8 %, the rate of unemployment was far below the Austrian average in June (national method of calculation).

Manufacturing showed an inconspicuous development in Tyrol, compared to other federal provinces. Construction, on the other hand, reported highly dynamic growth in the first quarter; tourism did not manage to keep up with the federal average. The unemployment rate dropped to 3.1 %, hence the lowest among all Austrian federal provinces.

Economic activity in Salzburg did not show any significant deviations from the national trend, only the construction sector had an output value that was clearly below average. The unemployment rate dropped to 3.6 %, which is the second lowest value among all Austrian federal provinces.

In the first quarter, Upper Austria was one of only three federal provinces reporting an increase in overnight stays. In the retail sector and in manufacturing, growth rates in Upper Austria were more or less average. As regards the unemployment rate, Upper Austria achieved an acceptable 4.4 % in July.

Styria registered top levels in manufacturing in the first quarter, and also the construction sector grew at an above-average rate in this federal province, while tourism was average. At 5.3 %, the rate of unemployment continued to be mid-table within Austria.

It is only in construction that Carinthia was clearly below the Austrian average; in manufacturing, retail and in tourism, the federal province nearly achieved the levels reported for all of Austria. At 6.8 % in June, the federal province continued to show one of the highest unemployment rates, second only to Vienna, despite an extremely positive development.

In the first quarter, the Lower Austrian retail and manufacturing sectors were within the Austrian average. As opposed to most other federal provinces, Lower Austria managed to achieve an increase in overnight stays. Equally, the construction sector reported a more dynamic development than in other federal provinces. The regional unemployment rate dropped to 6.7 %.

Within Austria overall, Vienna came in first in terms of the development of overnight stays; construction reported above-average growth as well. Only the output value in manufacturing could not keep up with the dynamic federal trend. At 11.1 % in July, the unemployment rate still was the highest among Austrian federal provinces by far.

In terms of growth in the construction sector, Burgenland ranked first among all Austrian federal provinces; the same applies to growth in the retail sector. While the increase in overnight stays was close to average, Burgenland ranked only last but one in manufacturing. The unemployment rate dropped to 6.4 %.

Residential property prices have shown a very dynamic development. According to OeNB data, real estate prices all over Austria were higher by 5.0 % in the first quarter of 2019 than one year before, and by 7.3 % in the second quarter of 2019. Within Austria, the development in Vienna was more dynamic than in the rest of Austria. Overall, prices in Vienna have increased by 5.5 % Y/Y in Q1 and by 9.8 % in Q2, with single-family homes increasing in price by only 2.3 % and 4.5 %, respectively; new apartments (+5.1 % Y/Y and 8.8 % Y/Y, respectively) and pre-owned apartments (+5,8 % Y/Y and 10.4 % Y/Y, respectively) showed markedly higher price increases. Outside Vienna, there was an overall increase by 4.1 % Y/Y in the first and by 3.8 % in the second quarter. The prices of single-family homes rose by 5.4 % Y/Y and by 1.0 %, new freehold flats by 1.6 % Y/Y and 2.5 % Y/Y, respectively, and pre-owned freehold flats by 4.6 % Y/Y and 7.3 % Y/Y, respectively.

Austria's unemployment rate showed a decreasing trend in the first half of 2019. According to international calculation methods (Eurostat), it went down from 4.7 % in January to 4.5 % in June. Starting from markedly higher values, the unemployment rate registered a declining trend in the euro zone as well, falling from 7.8 % in January to 7.5 % in June.

With levels between 1.7 % and 1.4 %, during the first six months of the year, the Austrian inflation rate according to the Harmonised Index of Consumer Prices (HICP) slightly exceeded the rate of price increases in the entire euro zone. In the common currency zone, they varied between 1.7 % (April) and 1.2 % (May).

The European Central Bank (ECB) left the key interest rate unchanged in the first half of 2019. The main refinancing rate continued to be 0.00 %, the interest rate for the prime refinancing facility 0.25 % and the deposit rate -0.40 %. The securities purchasing programme was ceased at the end of 2018. For the second half of the year, the central bank has announced a new edition of the targeted longer-term refinancing operations (TLTRO III).

Throughout the first half of the year, the three-month Euribor was constantly between -0.35 % and -0.30 %. In Austria, the yields in the 10-year maturity range varied between -0.06 % and 0.53 % and ended the first half of the year at a new record low of -0.057 %. In Germany, the 10-year yield was between -0.34 % and 0.28 %. At the end of June it reached -0.329 %.

Result of the Association for the first half of 2019

The result of the Association before taxes amounts to euro 129 million (1-6/2018: euro 39 million). The result of the Association after taxes and minority shares amounts to euro 122 million (1-6/2018: euro 40 million).

The net interest income for the first half of 2019 amounts to euro 211 million, and hence is below the income for the comparative period (1-6/2018: euro 217 million) by euro 6 million. The decrease is essentially due to the recognition of market-induced adjustments to loan agreements euro 3 million, lower interest income from bonds euro 2 million, and interest expenses from rights of use under branch leases euro 1.5 million.

At euro +4 million in the reporting period, the risk provision item has improved by euro 8 million against the comparative period (euro -4 million). This effect essentially results from higher releases of individual and portfolio loan loss provisions.

The net fee and commission income in the reporting period amounts to euro 115 million, a slight decrease by euro 1 million compared to the previous period (1-6/2018: euro 116 million). The decrease is essentially due to lower fee and commission income from securities business euro -5 million, foreign notes and coins, and precious metals business euro -2 million, as well as from checking account business and payment transactions euro -1 million; a major part of that decrease was offset by an increase in net fee and commission income in lending business by euro 7 million.

Net trading income in the first half of 2019 amounts to euro -2 million, a decrease by euro 1 million as compared to the previous period (euro -0.4 million). The decline is due to measurement results of trading book derivatives that are used for hedging banking book items.

The result from financial investments for the reporting period amounts to euro 25 million, thus exceeding the comparative period (1-6/2018: euro -8 million) by euro 33 million. The valuation of SPPI-non-compliant loans results in an improvement by euro 27 million in the reporting period, with an opposing effect affecting the valuation of debts evidenced by securities, which decreased by euro -6 million. Additionally, valuations of derivatives, including realisation proceeds of an interest-rate derivative of euro 8 million as well as realisation proceeds of a disagio of an item in loans and receivables to customers of euro 4 million, are included.

The other operating result for the first half of 2019 amounts to euro 51 million (1-6/2018: euro 12 million). Income of euro 44 million is included from the sale of VB Liechtenstein in the first quarter of 2019. Moreover, proceeds from the sale of tangible/intangible assets in the amount of euro 5 million were realised and provisions for interest claims from entrepreneur loans with floors were released in the amount of euro 2 million. In the previous year, the position included an allocation to interest claims from entrepreneur loans with floors in the amount of euro -8 million. Moreover, in the comparative period, income amounting to euro 15 million is included from the sale of VB Switzerland.

General administrative expenses of euro 276 million (1-6/2018: euro 294 million) constitute a decrease of euro 19 million compared to the previous year. By comparison with the end of 2018, the headcount decreased by 185 employees from a staff of 3,778 and now amounts to 3,593 employees. This decrease coincided with a reduction of staff costs by euro 7 million from 167 million in the comparative period to euro 160 million in the reporting period. In the sphere of administrative expenses, costs were reduced in almost all areas. Apart from the positive effect within administrative expenses for business premises, due to cancellation of leasing expenses in the amount of euro 5 million in the course of first-time application of the leasing standard (IFRS 16), substantial decreases were equally achieved in other expenses by euro 7 million, IT expenses by euro 4.2 million, and legal, auditing and consultancy expenses by euro 2.8 million. An opposing effect of the first-time application of the leasing standard (IFRS 16) was reported on depreciation of tangible assets (rights of use) in the amount of euro -4 million.

Due to the tax planning of the next four years, it was possible, in the reporting period, to recognise deferred tax assets for part of the tax loss carried forward. For tax loss carried forward in the amount of euro 219 million (31 December 2018: euro 261 million), no deferred tax assets are recognised. Deferred tax is recognised for the remaining valuation differences, especially in connection with the valuation of financial instruments.

Financial position

As at 30 June 2019, total assets amount to euro 26.7 billion, an increase by euro 0.1 billion compared to the end of 2018 (euro 26.6 billion), essentially due to the increase in loans and receivables to customers.

Compared to the end of the previous period (euro 0.5 billion), loans and receivables to credit institutions in the amount of euro 0.5 billion have remained stable.

As at 30 June 2019, loans and receivables to customers, less risk provisions, amount to euro 20.9 billion and have increased by euro 0.4 billion compared to the end of the previous year (euro 20.5 billion).

Financial investments of euro 2.6 billion have increased compared to the previous year (euro 2.5 billion), mainly because of investments in bonds.

The increase in tangible assets by 0.1 billion is primarily due to the capitalisation of rights of use under branch leases.

Amounts owed to credit institutions in the amount of euro 0.5 billion have slightly decreased compared to the end of 2018 (euro 0.6 billion).

Amounts owed to customers in the amount of euro 21.2 billion have decreased by euro 0.3 billion compared to the end of 2018 (euro 21.6 billion). The decrease results from lower savings and other deposits.

As at 30 June 2019, debts evidenced by securities amount to euro 1 billion and, due to the issue of the euro 500 million covered bond, have increased compared to 31 December 2018 (euro 0.5 billion).

In the reporting period, the equity positions (including company shares and non-controlling shares) increased by euro 347 million and amount to euro 2.2 billion as at 30 June 2019. The increase results from the AT1 issue in the amount of euro 220 million and the result of the reporting period amounting to euro 122 million. Moreover, the disposal of VB Liechtenstein results in a decrease of the currency reserve by euro 13 million. The valuation of investments in OCI, without any effect on profit or loss, amounts to euro 17 million for the reporting period, after deduction of deferred taxes.

Financial performance indicators

As at 30 June 2019, the regulatory own funds of the Association's group of credit institutions amount to euro 2.6 billion (31 December 2018: euro 2.3 billion). As at 30 June 2019, the aggregate risk amount was euro 14.6 billion (31 December 2018: euro 14.6 billion). The CET 1 ratio in relation to total risk amounts to 12.8 % (31 December 2018: 12.1 %), the equity ratio in relation to total risk is 17.9 % (31 December 2018: 15.8 %). Regulatory own funds, aggregate risk amount and the key indicators calculated therefrom were determined in accordance with the CRR (EU Regulation No. 575/2013). For more detailed information, please refer to the Notes.

Performance indicators	1-6/2019	1-6/2018	1-6/2017
Return on Equity before taxes	12.8 %	4.4 %	5.0 %
Return on Equity after taxes	12.1 %	4.5 %	4.4 %
Cost-income ratio	82.6 %	88.9 %	89.4 %

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

The ROE after taxes is determined as the quotient of result after taxes extrapolated to one year and the mean value of own funds 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 the Association, the cost-income ratio was defined as early warning indicator for the Bankensanierungs- und Abwicklungsgesetz (BaSAG, Act on the Reorganisation and Liquidation of Banks).

Related party transactions

For details on transactions with related parties, please refer to the information contained in the Notes.

Report on the company’s future development and risks

Future development of the company

Economic environment

According to the economic forecast of the WIFO published late in June, the Austrian economy is expected to grow by 1.7 % this year, employment is going to increase noticeably, and unemployment is going to decrease slightly. According to WIFO, and in compliance with the Eurostat definition, it will be 4.6 % on annual average. In the current year, Austria’s inflation rate is expected to reach 1.6 %, according to WIFO. However, this growth is expected to slow down around the turn of the year, as is also suggested by leading indicators such as the Purchasing Managers’ Index calculated by IHS Markit/Bank Austria. Since March, this index has been below the limit of growth and has further decreased until July.

According to the interim forecast of the EU Commission published in July, economic growth in the euro zone is likely to amount to 1.2 % in the current year, and the average inflation rate will probably amount to 1.3 %. In the next year, too, economists still expect levels of 1.3 % and, hence, that the target inflation rate of a little under 2 % will not be achieved.

According to the ECB’s Forward Guidance, key interest rate hikes are not on the agenda in the euro zone until and including the first half of 2020. Rather, the wording of the Forward Guidance with interest rates at the “present level or lower” is again such that even interest rate cuts are possible; and this was swiftly anticipated then by market interest rates. In this context, a staggering of the deposit rate is going to be considered. Additionally, the ECB intends to check the possibility of new net securities purchases and is going to carry out the new longer-term refinancing operations in seven quarterly tranches with a term of two years each from September onwards.

As for returns, they might decline even further – in the event of a new securities purchase programme or an even lower, staggered deposit rate. An abrupt global rise in interest rates would constitute a potential source of risk, especially for the real estate market, while for the financial industry any prolonged persistence of interest rates below zero per cent is associated with a yield risk.

One important element of uncertainty are global protectionist tendencies that have already manifested themselves in import duties on steel and aluminium being introduced by the United States and corresponding retaliation tariffs by the European Union. Additionally, the USA are caught in a trade conflict with China, which has resulted in customs duties being introduced and expanded. Even though the parties are still negotiating, an expansion, in the sense of increasing trade barriers to China or the trade conflict spreading to other countries or political spheres, cannot be excluded. Another source of risk is Great Britain’s impending exit from the EU. Especially an exit that is not accompanied by further agreements (Hard Brexit) might cause economic turmoil both in the European Union and in Great Britain, with increasingly negative effects to be expected also within the Austrian economy, especially with a view to industrial activity, as would have to be expected from any persistent or expanding trade conflict.

As always, geopolitical conflicts may also potentially harm the currently moderate economic outlook even further. This includes, among others, tensions between the United States and Iran – sanctions imposed by the USA have already entered into force – and tensions between the United States and Turkey.

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 ratio (non-performing loans) of not more than 3 %, as well as a return on equity (ROE) of 8 %.

In spite of persistently high investments in the systems, higher costs to improve data quality and in spite of the still high regulatory cost, the Association of Volksbanks intends to achieve an annual result in the low three-digit million euro range. Despite planned growth, the CET 1 capital ratio is intended to remain above at around 12.25 % within the Association of Volksbanks.

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

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 risk of price changes, default, liquidity and cash flow risks, please refer to the information contained in the Notes to the 2018 annual report of the Association.

FINANCIAL STATEMENTS

HALF-YEAR REPORT

Condensed statement of comprehensive income

INCOME STATEMENT	1-6/2019 Euro thousand	1-6/2018 Euro thousand	Changes Euro thousand	%
Interest and similar income	263,683	267,935	-4,252	-1.59 %
thereof using the effective interest method	252,554	255,055	-2,501	-0.98 %
Interest and similar expenses	-53,015	-51,155	-1,861	3.64 %
Net interest income	210,667	216,780	-6,112	-2.82 %
Risk provision	4,266	-4,269	8,535	-199.93 %
Fee and commission income	130,316	133,370	-3,054	-2.29 %
Fee and commission expenses	-15,261	-17,395	2,133	-12.26 %
Net fee and commission income	115,054	115,975	-921	-0.79 %
Net trading income	-1,571	-403	-1,168	> 200.00 %
Result from financial investments	24,572	-8,185	32,757	< -200.00 %
Other operating result	51,342	12,058	39,284	> 200.00 %
General administrative expenses	-275,552	-294,420	18,868	-6.41 %
Restructuring result	0	-225	225	-100.00 %
Result from companies measured at equity	135	1,523	-1,387	-91.11 %
Result for the period before taxes	**128,914**	**38,833**	**90,081**	**> 200.00 %**
Income taxes	-7,194	964	-8,158	< -200.00 %
Result for the period after taxes	**121,720**	**39,798**	**81,922**	**> 200.00 %**
Result attributable to shareholders of the parent company (Consolidated net result)	**121,715**	**39,787**	**81,928**	**> 200.00 %**
thereof from continued operation	121,715	39,787	81,928	> 200.00 %
Result attributable to non-controlling interest	5	11	-6	-53.10 %
thereof from continued operation	5	11	-6	-53.10 %

Other comprehensive income

	1-6/2019 Euro thousand	1-6/2018 Euro thousand	Changes Euro thousand	%
Result for the period after taxes	**121,720**	**39,798**	**81,922**	**> 200.00 %**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation of obligation of defined benefit plans (including deferred taxes)	0	-1,525	1,525	-100.00 %
Fair value reserve - equity instruments (including deferred taxes)	17,039	-4,683	21,722	< -200.00 %
Revaluation of own credit risk (including deferred taxes)	490	-1,918	2,408	-125.54 %
Total items that will not be reclassified to profit or loss	17,529	-8,126	25,655	< -200.00 %
Items that may be reclassified to profit or loss				
Currency reserve	-12,498	-5,609	-6,889	122.81 %
Fair value reserve - debt instruments (including deferred taxes)				
Change in fair value	71	-1,770	1,841	-103.99 %
Net amount transferred to profit or loss	1	131	-130	-99.58 %
Change in deferred taxes arising from untaxed reserve	2,450	458	1,992	> 200.00 %
Change from companies measured at equity	602	-1,203	1,805	-150.04 %
Total items that may be reclassified to profit or loss	**-9,375**	**-7,994**	**-1,381**	**17.28 %**
Other comprehensive income total	**8,154**	**-16,120**	**24,273**	**-150.58 %**
Comprehensive income	**129,874**	**23,678**	**106,196**	**> 200.00 %**
Comprehensive income attributable to shareholders of the parent company	**129,869**	**23,667**	**106,201**	**> 200.00 %**
Comprehensive income attributable to non-controlling interest	5	11	-6	-53.10 %

Condensed statement of financial position as at 30 June 2019

	30 Jun 2019	31 Dec 2018	Changes	
	Euro thousand	Euro thousand	Euro thousand	%
ASSETS				
Liquid funds	1,599,767	1,731,644	-131,876	-7.62 %
Loans and receivables credit institutions	514,764	469,491	45,274	9.64 %
Loans and receivables customers	20,877,421	20,502,248	375,173	1.83 %
Assets held for trading	57,685	56,312	1,372	2.44 %
Financial investments	2,558,252	2,468,431	89,820	3.64 %
Investment property	45,805	47,097	-1,292	-2.74 %
Companies measured at equity	89,236	88,499	737	0.83 %
Participations	129,794	109,022	20,772	19.05 %
Intangible assets	3,057	998	2,059	> 200.00 %
Tangible assets	466,074	327,245	138,829	42.42 %
Tax assets	101,552	100,333	1,220	1.22 %
Current taxes	8,766	7,570	1,196	15.80 %
Deferred taxes	92,786	92,762	24	0.03 %
Other assets	168,279	153,166	15,113	9.87 %
Assets held for sale	54,455	509,183	-454,728	-89.31 %
TOTAL ASSETS	**26,666,142**	**26,563,668**	**102,474**	**0.39 %**
LIABILITIES				
Amounts owed to credit institutions	512,601	595,091	-82,491	-13.86 %
Amounts owed to customers	21,233,465	21,555,395	-321,930	-1.49 %
Debts evidenced by certificates	1,012,368	529,329	483,038	91.25 %
Lease liabillities	158,995	0	158,995	100.00 %
Liabilities held for trading	79,764	71,785	7,979	11.11 %
Provisions	244,795	250,120	-5,325	-2.13 %
Tax liabilities	16,654	19,626	-2,971	-15.14 %
Current taxes	2,639	8,705	-6,066	-69.69 %
Deferred taxes	14,015	10,920	3,095	28.34 %
Other liabilities	595,983	508,850	87,132	17.12 %
Liabilities held for sale	0	544,420	-544,420	-100.00 %
Subordinated liabilities	609,330	634,052	-24,722	-3.90 %
Total nominal value cooperative capital shares	4,117	4,249	-132	-3.10 %
Subscribed capital	517,581	299,844	217,737	72.62 %
Reserves	1,678,344	1,548,743	129,601	8.37 %
Non-controlling interest	2,146	2,164	-19	-0.86 %
TOTAL LIABILITIES	**26,666,142**	**26,563,668**	**102,474**	**0.39 %**

Condensed 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 2018	**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		39,787	39,787	11	39,798		39,798
Change in deferred taxes arising from untaxed reserve		458	458		458		458
Revaluation of obligation of defined benefit plans (including deferred taxes)		-1,525	-1,525		-1,525		-1,525
Currency reserve		-5,609	-5,609		-5,609		-5,609
Fair value reserve - equity instruments (including deferred taxes)		-4,683	-4,683		-4,683		-4,683
Fair value reserve - debt instruments (including deferred taxes)		-1,639	-1,639		-1,639		-1,639
Own credit risk reserve (including deferred taxes)		-1,918	-1,918		-1,918		-1,918
Change from companies measured at equity		-1,203	-1,203		-1,203		-1,203
Comprehensive income	0	23,667	23,667	11	23,678	0	23,678
Dividends paid		-6,268	-6,268	-16	-6,284		-6,284
Changes scope of consolidation	4,802	-8,258	-3,456		-3,456	-30	-3,486
Change in cooperative capital and participation capital	0	0	0		0	259	259
Reclassification fair value reserve due to sale							
Change due to reclassifications shown under non-controlling interest, capital increases and deconsolidation		28	28	-19	9	3	12
As at 30 June 2018	**293,442**	**1,479,687**	**1,773,128**	**2,147**	**1,775,275**	**4,242**	**1,779,517**
As at 1 January 2019	**299,844**	**1,548,743**	**1,848,587**	**2,164**	**1,850,751**	**4,249**	**1,855,000**
Consolidated net income		121,715	121,715	5	121,720		121,720
Change in deferred taxes arising from untaxed reserve		2,450	2,450	0	2,450		2,450
Currency reserve		-12,498	-12,498	0	-12,498		-12,498
Fair value reserve - equity instruments (including deferred taxes)		17,039	17,039	0	17,039		17,039
Fair value reserve - debt instruments (including deferred taxes)		71	71	0	71		71
Own credit risk reserve (including deferred taxes)		490	490	0	490		490
Change from companies measured at equity		602	602		602		602
Comprehensive income	0	129,869	129,869	5	129,874	0	129,874
Dividends paid		-264	-264	-16	-280		-280
Changes in base amount regulation	1	0	1		1	-1	0
Changes scope of consolidation	-5	0	-5	0	-5	1	-5
Change in cooperative capital and participation capital	0	0	0		0	-133	-133
Additional tier 1 capital	217,741	0	217,741		217,741	0	217,741
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	-4	-4	-7	-11	1	-10
As at 30 June 2019	**517,581**	**1,678,344**	**2,195,925**	**2,146**	**2,198,070**	**4,117**	**2,202,188**

thereof obtained in reserves:

Euro thousand	30/06/2019	30/06/2018
Currency reserve	0	10,921
thereof through profit or loss	0	23
Fair value reserve	-689,084	-702,907
thereof deferred taxes	229,695	234,302
Own credit risk reserve	3,012	2,441
thereof deferred taxes	-1,004	-814

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.

Condensed cash flow statement

In euro thousand	1-6/2019	1-6/2018
Cash and cash equivalents at the end of previous period (= liquid funds)	1,893,054	1,990,348
Cash flow from operating activities	-30,127	323,635
Cash flow from investing activities	-480,355	-218,092
Cash flow from financing activities	192,504	-24,090
Effect of currency translation	4,363	844
Cash and cash equivalents at the end of period	1,579,439	2,072,644

Details to cash and cash equivalents are shown in note 5).

Condensed Notes to the Financial Statements for the period from 1 January to 30 June 2019

1) General Information

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

The Association of Volksbanks is required to comply with the regulatory provisions of Parts Two to Eight of Regulation (EU) No 575/2013 and section 39a of the Austrian Banking Act, on the basis of the consolidated financial position (section 30a (7) of the Austrian Banking Act). By letter dated 29 June 2016, the ECB granted unlimited approval of the Association of Volksbanks.

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

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

The interim financial statements do not contain all information required for full annual financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2018. The accounting policies, estimates and assumptions on which these financial statements are based are the same as those used in the preparation of the consolidated financial statements as at 31 December 2018, with the exception of changes and amendments that are explained in note 1a) and 3) Accounting principles.

These condensed consolidated interim financial statements have been reviewed by the statutory auditor.

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

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. Regarding the exceptions to the application of individual IFRS we refer to the 2018 Association financial statements.

2) Presentation and changes in the scope of consolidation

On 1 October 2018 Volksbank Vorarlberg e. Gen. signed the share purchase agreement regarding the sale of all participations in its subsidiary Volksbank AG in Liechtenstein. The closing took place on 7 March 2019.

Deconsolidation result VB Liechtenstein

Euro thousand	
Assets proportional	660,718
Liabilities proportional	602,071
Currency reserve proportional	13,366
Disposal of net assets proportional	**-45,282**
Revenues proportional	89,230
Deconsolidation result	**43,948**

On 13 June 2019 the deregistration due to liquidation of VB-Beteiligung GmbH in Liqu. was entered in the Companies' Register. Hence the company was deconsolidated at this point. As the company was no subordinated entity and there was 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.

Participation right of the federal government

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

Distributions of RZG based on the federal government's participation right are subject to the 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. Overall, therefore, if the disposition event occurs, up to 33 % plus 1 share of the VBW shares may transfer to the (legal and beneficial) ownership of the federal government, and the latter would be able to freely dispose of these holding of shares (subject to the pre-emptive right granted). In case that the pre-emptive right granted by the federal government is exercised by a purchaser nominated by VBW and that a minimum threshold for the sum of the distributions in respect of the federal government's participation right and of the creditable amounts is missed again, the shareholders of VBW have undertaken to transfer to the federal government additional ordinary shares of VBW in the amount of the VBW shares previously transferred to the federal government and acquired by the purchaser nominated by VBW, with immediate unrestricted power of disposition of the federal government.

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

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

3) Accounting principles

As at 1 January 2019 the regulations of accounting standard IFRS 16 – Leases took effect. Further details regarding initial application of IFRS 16 are illustrated below. Amendments to standard or interpretations have no impact on the interim financial statements of the Association.

Initially applied standards and interpretations

Standard	Content	Mandatory application	Significant effects on the Association
New standards and interpretations			
IFRS 16	Leases	As of BY 2019	Yes
IFRIC 23	Uncertainties over income tax treatments	As of BY 2019	No
Amendments to standards and interpretations			
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
Annual improvements of the IFRS (cycle 2015-2017)		As of BY 2019	No

Standards and interpretations to be applied in future

Standard	Content	Mandatory application	Significant effects on the Association
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
Revising of the Conceptual Framework		As of BY 2020	No

BY – business year

IFRS 16 – Leases: In January 2016, the IASB published IFRS 16; application of this standard is mandatory for the first time with effect from 1 January 2019. The primary effects of the new standard are on the accounting of contracts of the lessee that are designated as operating lease. The standard provides for essential leases to be reported in the balance sheet of the lessee. Both an asset (right of use) and a leasing liability (contractual leasing payments) are entered in the balance sheet on the assets and the liabilities side, respectively.

On the provision date of the lease, a right of use and the leasing liability are posted in the balance sheet. The amount of recognition of the rights of use constitutes the present value of the leases. The present value was determined on the basis of the contractual leasing payments, the respective residual terms and the incremental borrowing rate. For existing leases, an assessment is effected regularly as to whether any essential parameters have changed and if this has any effect on the amount of the leasing payments. If, for instance, any adjustments to the rental index occur, the leasing liability will be assessed anew. The newly determined present value will increase or reduce the original liability. As a rule, any such adjustments must be effected in the same amount with respect to the right of use. No variable leasing payments that are not linked to any index or interest rate were identified within the Association.

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. Moreover, use was made of the 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 as compared to IAS 17, except for more comprehensive information in the notes, and therefore no adjustments to the values are required.

Upon initial application of IFRS 16 as at 1 January 2019, rights of use in the amount of euro 162.3 million were posted as assets; correspondingly, leasing liabilities were recognised in the same amount. The rights of use primarily relate to buildings as well as parking and are reported in tangible assets.

In the statement of comprehensive income, in the first half of 2019, a higher burden of expenditure was incurred due to the splitting of leasing expenses into interest and depreciation, compared to linear distribution of expenses, in the amount of euro 0.6 million.

The following table shows the transition of lease coomitments to lease liabilities as at 1 January 2019.

Euro thousand	
Operating lease commitments as at 31 Dec 2018	228,171
Recognition exemption for leases of low-value assets	-2,876
Recognition exemption for short-term leases	-951
Discounting	-53,626
Discounted operating lease commitments as at 31 Dec 2018	**170,719**
Adjustments	-8,467
Lease liabilities as at 1 Jan 2019	**162,252**

In the previous year finance leases were reported in the operating lease commitments. The amount is shown within the adjustments.

The weighted average incremental borrowing rate for all lease liabilities to be recognized amounts to 2.03 % as at 1 January 2019.

4) Notes to the income statement

Net interest income

Euro thousand	1-6/2019	1-6/2018
Interest and similar income from	263,683	267,935
Credit and money market transactions with credit institutions	2,535	2,796
Credit and money market transactions with customers	231,798	234,298
Fixed-income securities	22,569	24,373
Derivative instruments	6,781	6,468
Interest and similar expenses for	-53,015	-51,155
Liquid funds	-3,420	-3,956
Deposits from credit institutions (including central banks)	-2,274	-1,349
Deposits from customers	-9,572	-13,500
Debts evidenced by certificates	-8,132	-8,216
Subordinated liabilities	-8,679	-8,995
Derivative instruments	-15,971	-15,138
Lease liabillities	-1,537	0
Valuation result - modification	-3,440	0
Valuation result - derecognition	11	0
Net interest income	**210,667**	**216,780**

Net interest income according to IFRS 9 categories

Euro thousand	1-6/2019	1-6/2018
Interest and similar income from	263,683	267,935
Financial assets measured at amortised cost	248,786	248,235
Financial assets measured at fair value through OCI	3,768	6,820
Financial assets measured at fair value through profit or loss - obligatory	4,347	6,411
Derivative instruments	6,781	6,468
Interest and similar expenses for	-53,015	-51,155
Financial liabilities measured at amortised cost	-32,066	-34,437
Financial liabilities measured at fair value through profit or loss - designated	-1,548	-1,580
Derivative instruments	-15,971	-15,138
Valuation result - modification	-3,440	0
Valuation result - derecognition	11	0
Net interest income	**210,667**	**216,780**

Due to the trend of money market interest rates towards negative reference rates, interest income of euro 1,332 thousand (1-6/2018: euro 1,293 thousand) and interest expenses of euro -4,201 thousand (1-6/2018: euro -4,628 thousand) were realised in the first half of 2019. Negative interest income is reported in interest expenses and negative interest expenses are reported in interest income, so that all results are shown gross.

Interest and similar income from financial assets measured at amortised cost and measured at fair value through OCI in the amount of euro 252,554 thousand (1-6/2018: euro 255,055 thousand) is calculated by using the effective interest rate method.

Risk provision

Euro thousand	1-6/2019	1-6/2018
Changes in risk provision	931	-5,230
Changes in provision for risks	1,268	784
Direct write-offs of loans and receivables	-1,589	-4,978
Income from loans and receivables previously written off	4,514	5,155
Valuation result modification / derecognition	-859	0
Risk provision	**4,266**	**-4,269**

Net fee and commission income

Euro thousand	1-6/2019	1-6/2018
Fee and commission income	130,316	133,370
Lending business	10,746	5,966
Securities and custody business	36,513	41,413
Payment transactions	58,908	59,633
Foreign exchange, foreign notes and coins and precious metals transactions	1,005	2,563
Financial guarantees	3,781	4,619
Other services	19,363	19,175
Fee and commission expenses	-15,261	-17,395
Lending business	-3,854	-6,383
Securities and custody business	-4,955	-4,209
Payment transactions	-5,943	-5,702
Foreign exchange, foreign notes and coins and precious metals transactions	-1	0
Financial guarantees	-152	-343
Other services	-357	-758
Net fee and commission income	**115,054**	**115,975**

Net fee and commission income includes management fees for trust agreements in the amount of euro 94 thousand (1-6/2018: euro 110 thousand).

Net trading income

Euro thousand	1-6/2019	1-6/2018
Equity related transactions	16	32
Exchange rate related transactions	2,194	418
Interest rate related transactions	-3,781	-854
Net trading income	**-1,571**	**-403**

Result from financial investments

Euro thousand	1-6/2019	1-6/2018
Result from financial investments measured at fair value through profit or loss	19,428	-11,278
Valuation of financial investments measured at fair value through profit or loss - obligatory	8,212	-18,502
Loans and receivables credit institutions and customers	7,495	-19,410
Securities	614	1,348
Investment property	103	-440
Valuation financial investments measured at fair value through profit or loss - designated	-4,908	1,077
Debts evidenced by certificates	-4,908	1,077
Income from equities and other variable-yield securities	663	675
Result from other derivative instruments	15,460	5,473
Result from financial investments measured at amortised cost	4,913	10
Realised gains from disposal	4,913	10
Result from financial investments measured at fair value through OCI	1,935	2,461
Realised gains from disposal	1	25
Realised losses from disposal	-1	-155
Income from participations	1,935	2,592
Result from fair value hedge	-3,457	-1,528
Valuation of underlying instruments	81,409	-5,495
Valuation of derivatives	-84,865	3,967
Rental income from investment property and operating lease	1,753	2,150
Result from financial investments	**24,572**	**-8,185**

Other operating result

Euro thousand	1-6/2019	1-6/2018
Other operating income	17,012	18,182
Other operating expenses	-7,393	-19,308
Deconsolidation result from consolidated affiliates	43,948	15,302
Taxes and levies on banking business	-2,226	-2,061
Impairment of goodwill	0	-58
Other operating result	**51,342**	**12,058**

Other operating income includes income from cost allocation in the amount of euro 2,923 thousand (1-6/2018: euro 3,010 thousand) and income from the sale of tangible and intangible assets in the amount of euro 8,231 thousand (1-6/2018: euro 5,418 thousand).

Other operating expenses include costs of external companies that are passed on in the amount of euro -2,132 thousand (1-6/2018: euro -836 thousand) as well as expenses from the disposal of tangible and intangible assets in the amount of euro -3,751 thousand (1-6/2016: euro -1,664 thousand).

Other taxes include the bank levy in the amount of euro -1,480 thousand (1-6/2018: euro -1,389 thousand).

General administrative expenses

Euro thousand	1-6/2019	1-6/2018
Staff expenses	-159,982	-166,703
Wages and salaries	-118,882	-120,540
Expenses for statutory social security	-31,581	-32,573
Fringe benefits	-2,076	-2,283
Expenses for retirement benefits	-3,610	-1,721
Allocation to provision for severance payments and pension funds	-3,834	-9,586
Administrative expenses	-100,616	-114,915
Office space expenses	-9,316	-11,862
Office supplies and communication expenses	-3,555	-3,315
Advertising, PR and promotional expenses	-7,789	-7,733
Legal, advisory and consulting expenses	-15,935	-18,773
IT expenses	-36,220	-40,462
Contribution to the deposit guarantee	-12,918	-12,294
Sundry administrative expenses (including training expenses for staff)	-14,883	-20,476
Depreciation and reversal of impairment	-14,953	-12,801
Depreciation	-11,286	-12,801
Impairment/reversal of impairment	-44	0
Right of use - lease depreciation	-3,596	0
Right of use - lease impairment	-27	0
General administrative expenses	**-275,552**	**-294,420**

Income taxes

Due to the tax planning of the next four years, deferred tax assets were recognised in respect of some tax losses carried forward in the period under review. For tax losses carried forward in the amount of euro 219 million (2018: euro 261 million), no deferred tax assets were recognised.

5) Notes to the consolidated statement of financial positions

Liquid funds

Euro thousand	30 Jun 2019	31 Dec 2018
Cash in hand	182,670	220,736
Balances with central banks	1,417,097	1,510,908
Liquid funds	**1,599,767**	**1,731,644**

Transition from liquid funds to cash and cash equivalents

Euro thousand	30 Jun 2019	31 Dec 2018
Liquid funds	1,599,767	1,731,644
Restricted cash and cash equivalents	-20,328	-20,328
Cash and cash equivalents	**1,579,439**	**1,711,316**

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 second half of 2016. 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.

Loans and receivables to credit institutions and customers

Euro thousand	30 Jun 2019	31 Dec 2018
Loans and receivables credit institutions		
Amortised cost	513,932	468,487
Fair value through profit or loss	904	1,072
Gross carrying amount	514,836	469,560
Risk provisions	-72	-69
Net carrying amount	**514,764**	**469,491**
Loans and receivables customers		
Amortised cost	20,629,567	20,218,871
Fair value through profit or loss	530,358	576,017
Gross carrying amount	21,159,925	20,794,888
Risk provisions	-282,504	-292,640
Net carrying amount	**20,877,421**	**20,502,248**
Loans and receivables credit institutions and customers	**21,392,185**	**20,971,738**

Sensitivity analysis

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

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

Loans and receivables credit institutions
30 Jun 2019

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	1	-1
Change in risk markup +/- 100 bp	15	-14
Change in rating 1 stage down / up	0	-1
Change in rating 2 stages down / up	0	-1

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
30 Jun 2019

Euro thousand	Positive change in fair value	Negative change in fair value
Change in risk markup +/- 10 bp	2,536	-2,511
Change in risk markup +/- 100 bp	26,574	-24,012
Change in rating 1 stage down / up	571	-1,902
Change in rating 2 stages down / up	2,563	-4,334

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

Risk provision

The following table shows the development of risk provisions for loans to and receivables from credit institutions as well as from customers including finance lease, financial instruments measured at amortised cost and financial instruments measured at fair value through OCI.

Euro thousand	Loan loss provision - Stage 1	Loan loss provision - Stage 2	Loan loss provision - Stage 3	Purchased originated or credit-impaired	Total
As at 1 Jan 2018	22,466	33,223	275,172	0	330,860
Increases due to origination and acquisition	3,212	742	4,320	0	8,274
Decreases due to derecognition	-2,674	-3,344	-14,488	0	-20,505
Changes due to change in credit risk	-434	9,346	5,651	0	14,562
Decrease in allowance account due to write-offs	0	0	-12,578	0	-12,578
Other adjustments	43	51	4,936	0	5,030
As at 30 Jun 2018	**22,613**	**40,017**	**263,013**	**0**	**325,644**
As at 1 Jan 2019	21,648	34,664	236,902	0	293,214
Increases due to origination and acquisition	2,591	679	2,997	0	6,267
Decreases due to derecognition	-1,299	-2,601	-7,357	0	-11,257
Changes due to change in credit risk	-2,271	1,121	6,420	0	5,270
Thereof transfer to stage 1	12,250	-12,120	-129	0	
Thereof transfer to stage 2	7,641	-6,939	-702	0	
Thereof transfer to stage 3	-161	-767	928	0	
Decrease in allowance account due to write-offs	0	0	-10,600	0	-10,600
Other adjustments	20	41	151	0	212
As at 30 Jun 2019	**20,689**	**33,903**	**228,513**	**0**	**283,105**

Assets held for trading

Euro thousand	30 Jun 2019	31 Dec 2018
Fixed-income securities	1,317	4,657
Equities and other variable-yield securities	0	46
Positive fair values of derivative instruments	56,367	51,609
Exchange rate related transactions	26	26
Interest rate related transactions	56,342	51,583
Assets held for trading	**57,685**	**56,312**

VBW as the CO maintains a trading book. The volume of the trading book as at 30 Jun 2019 amounts to euro 3,212,098 thousand (2018: euro 3,560,190 thousand).

Financial investments

Euro thousand	30 Jun 2019	31 Dec 2018
Financial investments		
Amortised cost	2,271,240	1,963,148
Fair value through OCI	175,959	390,155
Fair value through profit or loss	111,564	115,602
Gross carrying amount	2,558,762	2,468,905
Risk provision	-511	-474
Net carrying amount	**2,558,252**	**2,468,431**

Participations

Euro thousand	30 Jun 2019	31 Dec 2018
Investments in unconsolidated affiliates	14,657	16,393
Investments in companies with participating interest	6,853	6,876
Investments in other companies	108,284	85,752
Participations	**129,794**	**109,022**

Sensitivity analysis

Participations measured by using the DCF method

Euro thousand		Interest rate		
30 Jun 2019		**-0.50 %**	**Actual**	**0.50 %**
	-10.00 %	18,334	17,332	16,463
Income component	**Actual**	20,170	**19,058**	18,073
	10.00 %	22,007	20,782	19,700

31 Dec 2018		**-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

Participations measured by net assets

Euro thousand	Proportional market value		
30 Jun 2019	**If assumption is decreased**	**Actual**	**If assumptions is increased**
Net assets (10 % change)	12,198	**13,553**	14,909

31 Dec 2018	**If assumption is decreased**	**Actual**	**If assumptions is increased**
Net assets (10 % change)	13,467	**14,963**	16,460

Participations measured based on external appraisals

Euro thousand			
30/06/2019	**Lower band**	**Actual**	**Upper band**
Proportional market value	80,493	**89,426**	98,361

31/12/2018	**Lower band**	**Actual**	**Upper band**
Proportional market value	59,194	**65,778**	72,329

Other assets

Euro thousand	30 Jun 2019	31 Dec 2018
Deferred items	5,767	2,553
Other receivables and assets	75,933	75,189
Positive fair values of derivative instruments	86,580	75,423
Other assets	**168,279**	**153,166**

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	30 Jun 2019	31 Dec 2018
Liquid funds	0	181,739
Loans and receivables credit institutions	0	104,997
Loans and receivables customers	0	107,004
Financial investments	0	44,633
Investment property	566	2,503
Intangible assets	0	204
Tangible assets	53,493	58,121
Other assets	396	9,982
Assets held for sale	**54,455**	**509,183**

Amounts owed to credit institutions

Euro thousand	30 Jun 2019	31 Dec 2018
Central banks	182,264	310,342
Other credit institutions	330,336	284,750
Amounts owed to credit institutions	**512,601**	**595,091**

Amounts owed to credit institutions are measured at amortised cost.

Amounts owed to customers

Euro thousand	30 Jun 2019	31 Dec 2018
Savings deposits	8,493,161	8,750,205
Other deposits	12,740,304	12,805,190
Amounts owed to customers	**21,233,465**	**21,555,395**

Amounts owed to customers are measured at amortised cost.

Debts evidenced by certificates

Euro thousand	30 Jun 2019	31 Dec 2018
Bonds	946,141	447,984
Amortised cost	835,518	341,409
Fair value through profit or loss - designated	110,623	106,575
Medium-term notes	43,777	57,236
Others	22,450	24,110
Debts evidenced by certificates	**1,012,368**	**529,329**

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

Liabilities held for trading

Euro thousand	30 Jun 2019	31 Dec 2018
Negative fair values of derivative instruments		
Exchange rate related transactions	2	4
Interest rate related transactions	79,762	71,781
Liabilities held for trading	**79,764**	**71,785**

Provisions

Euro thousand	30 Jun 2019	31 Dec 2018
Provisions for post-employment benefits	203,430	203,897
Provisions for off-balance and other risks	14,237	15,530
Stage 1	2,424	2,856
Stage 2	3,336	3,304
Stage 3	8,477	9,370
Other provisions	27,127	30,693
Provisions	**244,795**	**250,120**

Other liabilities

Euro thousand	30 Jun 2019	31 Dec 2018
Deferred items	1,324	3,419
Other liabilities	147,441	121,932
Negative fair values of derivative instruments	447,218	383,499
Other liabilities	**595,983**	**508,850**

Liabilities held for sale

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

Euro thousand	30 Jun 2019	31 Dec 2018
Amounts owed to credit institutions	0	2,207
Amounts owed to customers	0	530,231
Provisions	0	631
Tax liabilities	0	1,053
Other liabilities	0	10,299
Liabilities held for sale	**0**	**544,420**

Subordinated liabilities

Euro thousand	30 Jun 2019	31 Dec 2018
Subordinated capital	506,584	508,002
Supplementary capital	102,747	126,050
Subordinated liabilities	**609,330**	**634,052**

The subordinated liabilities are measured at cost.

Equity

In April 2019 VBW issued additional tier 1 capital (AT1 emission) with an issue volume of euro 220 million. These notes are perpetual and have no scheduled maturity date. The coupon has been set at 7.75 % p.a. for the first five years - paid on a semi-annual basis. The rate will be subsequently reset every five years. In addition, VBW may, at its sole discretion, redeem the notes, but not before five years after the date of their issuance, on specified call redemption dates. On account of their terms and conditions, the additional tier 1 capital has been qualified as equity in accordance with IAS 32.

6) Own funds

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

Euro thousand	30 Jun 2019	31 Dec 2018
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	765,709	771,417
Retained earnings	1,437,330	1,327,569
Accumulated other comprehensive income (and other reserves)	-246,325	-266,297
Amount of capital instruments subject to phase out from CET1	7,358	9,811
Common tier I capital before regulatory adjustments	1,964,072	1,842,499
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Intangible assets (net of related tax liability)	-3,057	-998
Value adjustments due to the requirement for prudent valuation	-1,663	-1,885
Regulatory adjustments - transitional provisions	0	0
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Additional CET 1 deductions pursuant to article 3 CRR	-95,370	-78,702
Total regulatory adjustments	-100,091	-81,586
Common equity tier I capital - CET1	**1,863,982**	**1,760,913**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	234,153	14,153
Additional tier I capital before regulatory adjustments	234,153	14,153
Additional tier I capital: regulatory adjustments		
Regulatory adjustments - transitional provisions	0	0
Qualifying AT1 deductions that exceeds the AT1 capital of the institution	0	0
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**234,153**	**14,153**
Tier I capital (CET1 + AT1)	**2,098,135**	**1,775,066**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	473,533	477,369
Capital instruments subject to phase out from tier II	44,911	45,836
Tier II capital before regulatory adjustments	518,444	523,205
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**518,444**	**523,205**
Own funds	**2,616,579**	**2,298,271**
Common equity tier I capital ratio (tier I)	12.75 %	12.08 %
Tier I capital ratio	14.35 %	12.18 %
Equity ratio	17.89 %	15.77 %
each in relation to total risk exposure amount		

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

Euro thousand	30 Jun 2019	31 Dec 2018
Risk weighted exposure amount - credit risk	13,185,104	12,301,455
Total risk exposure amount - settlement risk	12	33
Total risk exposure amount for position, foreign exchange and commodities risks	88,133	85,885
Total risk exposure amount for operational risk	1,262,082	1,288,285
Total risk exposure amount for credit valuation adjustment (cva)	44,380	55,996
Other risk exposure amount	44,014	845,173
Total risk exposure amount	**14,623,726**	**14,576,827**

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

Euro thousand	30 Jun 2019	31 Dec 2018
Common tier I capital: Instruments and reserves		
Capital instruments including share premium accounts	765,709	771,417
Retained earnings	1,437,330	1,327,569
Accumulated other comprehensive income (and other reserves)	-246,325	-266,297
Common tier I capital before regulatory adjustments	1,956,714	1,832,688
Common tier I capital: regulatory adjustments		
Regulatory value adjustments	0	0
Intangible assets (net of related tax liability)	-3,057	-998
Value adjustments due to the requirement for prudent valuation	-1,663	-1,885
Additional CET 1 deductions pursuant to article 3 CRR	-95,370	-78,702
Total regulatory adjustments	-100,091	-81,586
Common equity tier I capital - CET1	**1,856,623**	**1,751,102**
Additional tier I capital: instruments		
Capital instruments including share premium accounts	234,153	14,153
Additional tier I capital before regulatory adjustments	234,153	14,153
Additional tier I capital: regulatory adjustments		
Total regulatory adjustments	0	0
Additional tier I capital - AT1	**234,153**	**14,153**
Tier I capital (CET1 + AT1)	**2,090,776**	**1,765,255**
Tier II capital - instruments and provisions		
Capital instruments including share premium accounts	478,225	483,501
Tier II capital before regulatory adjustments	478,225	483,501
Tier II capital: regulatory adjustments		
Total regulatory adjustments	0	0
Tier II capital - T2	**478,225**	**483,501**
Own funds	**2,569,001**	**2,248,757**
Common equity tier I capital ratio (tier I)	12.70 %	12.01 %
Tier I capital ratio	14.30 %	12.11 %
Equity ratio	17.57 %	15.43 %
each in relation to total risk exposure amount		

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

Euro thousand	30 Jun 2019	31 Dec 2018
Risk weighted exposure amount - credit risk	13,185,104	12,301,455
Total risk exposure amount - settlement risk	12	33
Total risk exposure amount for position, foreign exchange and commodities risks	88,133	85,885
Total risk exposure amount for operational risk	1,262,082	1,288,285
Total risk exposure amount for credit valuation adjustment (cva)	44,380	55,996
Other risk exposure amount	44,014	845,173
Total risk exposure amount	**14,623,726**	**14,576,827**

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

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

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

In the first half of 2019, 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.

7) 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
30 Jun 2019					
Liquid funds	1,599,767	0	0	1,599,767	1,599,767
Loans and receivables credit institutions (gross)	513,932	0	904	514,836	
Individual loan loss provision	0	0	0	0	
Loans and receivables credit institutions less individual loan loss provision	513,932	0	904	514,836	500,013
Loans and receivables customers (gross)	20,629,567	0	530,358	21,159,925	
Individual loan loss provision	-228,513	0	0	-228,513	
Loans and receivables customers less individual loan loss provision	20,401,054	0	530,358	20,931,411	21,523,865
Assets held for trading	0	0	57,685	57,685	57,685
Financial investments (gross)	2,271,240	175,959	111,564	2,558,762	
Individual loan loss provision	0	0	0	0	
Financial investments less individual loan loss provision	2,271,240	175,959	111,564	2,558,762	2,583,363
Participations	0	129,794	0	129,794	129,794
Derivative instruments	0	0	86,580	86,580	86,580
Financial assets held for sale				0	0
Financial assets total	**24,785,992**	**305,753**	**787,090**	**25,878,835**	**26,481,067**
Amounts owed to credit institutions	512,601	0	0	512,601	507,015
Amounts owed to customers	21,233,465	0	0	21,233,465	21,243,337
Debts evidenced by certificates	901,745	0	110,623	1,012,368	1,032,043
Lease liabilities	158,995	0	0	158,995	158,995
Liabilities held for trading	0	0	79,764	79,764	79,764
Derivative instruments	0	0	447,218	447,218	447,218
Subordinated liabilities	609,330	0	0	609,330	612,820
Financial liabilities held for sale				0	0
Financial liabilities total	**23,416,136**	**0**	**637,605**	**24,053,741**	**24,081,191**

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
Lease liabilities	0	0	0	0	0
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**

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

Euro thousand	Level 1	Level 2	Level 3	Total
30 Jun 2019				
Loans and receivables credit institutions	0	0	904	904
Loans and receivables customers	0	0	530,358	530,358
Assets held for trading	1,291	56,394	0	57,685
Financial investments	182,006	29,962	75,555	287,522
Fair value through profit or loss	7,938	28,071	75,555	111,564
Fair value through OCI	174,067	1,891	0	175,959
Participations	0	0	128,321	128,321
Fair value through OCI - designated	0	0	128,321	128,321
Derivative instruments	0	86,580	0	86,580
Financial assets total	**183,297**	**172,935**	**735,138**	**1,091,370**
Debts evidenced by certificates	0	0	110,623	110,623
Liabilities held for trading	0	79,764	0	79,764
Derivative instruments	0	447,218	0	447,218
Financial liabilities total	**0**	**526,982**	**110,623**	**637,605**
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
Financial liabilities total	**0**	**455,284**	**106,575**	**561,859**

In the first half of 2019, financial instruments with a carrying amount of euro 685 thousand (2018: euro 1,186 thousand), measured at fair value Level 2 as at 31 December 2018, were reclassified as Level 1 financial instruments due to an increase in trading activity.

Furthermore, financial instruments with a carrying amount of euro 1,110 thousand (2018: euro 0 thousand), measured at fair value Level 1 as at 31 December 2018, were reclassified as Level 2 since funding is derived from external prices of liquid products and neither directly observable market data nor an active market exists for these issues.

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.

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 or 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.

Development of level 3 fair values of financial assets

Euro thousand	Loans and receivables credit institutions	Loans and receivables customers	Financial investments	Participations	Financial assets total	Debts evidenced by certificates	Financial liabilities total
As at 1 Jan 2018	37,366	715,740	74,890	116,214	944,210	104,827	104,827
Change in the scope of consolidation	-41,354	-37,686	0	0	-79,040	0	0
Currency translation	393	561	0	0	954	0	0
Reallocation to level 3	0	0	0	0	0	0	0
Additions	7,339	13,859	97	3	21,297	1,118	1,118
Disposals	-169	-71,559	0	-49	-71,777	0	0
Valuation							
Through profit or loss	-2,232	-17,179	2,257	0	-17,154	-1,077	-1,077
Through OCI	0	0	0	-6,315	-6,315	2,558	2,558
As at 30 Jun 2018	**1,343**	**603,736**	**77,243**	**109,854**	**792,175**	**107,426**	**107,426**
As at 1 Jan 2019	1,072	576,017	75,101	107,543	759,734	106,575	106,575
Change in the scope of consolidation	0	0	0	0	0	0	0
Currency translation	0	0	0	0	0	0	0
Reallocation to level 3	0	0	0	0	0	0	0
Additions	0	7,218	112	22	7,352	0	0
Disposals	-170	-60,370	0	-1,963	-62,503	-207	-207
Valuation							
Through profit or loss	2	7,493	342	0	7,837	4,908	4,908
Through OCI	0	0	0	22,719	22,719	-653	-653
As at 30 Jun 2019	**904**	**530,358**	**75,555**	**128,321**	**735,138**	**110,623**	**110,623**

The valuations shown in the table above are included in the item result from financial investments (income statement) or fair value reserve (other comprehensive income). The valuations recorded in the income statement include financial assets still held at the reporting date in the amount of euro -12,456 thousand (2018: euro -11,556 thousand).

During valuation of loans and receivables, the cash flows of the 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 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 30 Jun 2019 financial investments include participation certificates with a carrying amount of euro 75,555 thousand (31 Dec 2018: euro 75,101 thousand) which are allocated to level 3 of the fair value hierarchy. They are not traded on an 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

30 Jun 2019 Euro thousand	Positive change in fair value	Negative change in fair value
Change in maturity + 1 year	0	-4,453
Change in markup +/- 100 BP	1,136	-1,087
Change in redemption - 5 %	0	-3,652

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

8) Number of staff

Number of staff employed during the business year

	Average number of staff		Number of staff at end of period	
	1-6/2019	1-6/2018	30 Jun 2019	31 Dec 2018
Domestic	3,659	3,936	3,593	3,740
Abroad	13	41	0	38
Total number of staff	**3,672**	**3,977**	**3,593**	**3,778**

	Average number of staff		Number of staff at end of period	
	1-6/2019	1-6/2018	30 Jun 2019	31 Dec 2018
Employees	3,633	3,924	3,556	3,734
Workers	39	52	37	44
Total number of staff	**3,672**	**3,977**	**3,593**	**3,778**

9) Branches

	30 Jun 2019	31 Dec 2018
Domestic	279	303
Abroad	0	1
Total number of branches	**279**	**304**

10) 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
30 Jun 2019				
Loans and receivables customers	31,291	12,932	7,100	0
Fixed-income securities	0	0	0	526,293
Amounts owed to customers	10,057	1,121	62,448	0
Provisions	0	1	8	0
Contingent liabilities arising from guarantees	1,623	0	17,125	0
Transactions	51,767	17,474	91,155	0
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

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. Information on related parties is limited to securities issued by the Republic of Austria that are held by companies included in the financial statements.

11) Segment reporting by business segments

1-6/2019 Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia
Net interest income	6,522	50,390	30,971	23,812	13,631
Risk provision	4,543	-8,853	-1,408	4,047	379
Net fee and comission income	-1,755	28,979	15,088	12,541	7,446
Net trading income	-2,830	109	20	18	-3
Result from financial investments	12,876	6,079	2,194	894	615
Other operating result	80,895	4,428	1,921	205	233
General administrative expenses	-58,421	-75,986	-40,775	-32,306	-18,603
Restructuring result	0	0	0	0	0
Result from companies measured at equity	0	50	85	0	0
Result before taxes	**41,829**	**5,197**	**8,096**	**9,210**	**3,699**
Income taxes	-4,888	3,141	-1,972	-1,135	-888
Result after taxes	**36,941**	**8,338**	**6,124**	**8,075**	**2,810**
30 Jun 2019					
Total assets	**6,885,516**	**6,602,258**	**3,482,326**	**2,739,626**	**1,431,629**
Loans and receivables customers	301,696	5,265,050	2,829,289	2,293,353	1,151,450
Companies measured at equity	15	40,794	7,230	4,577	5,742
Amounts owed to customers	811,726	5,340,303	2,986,996	1,874,116	1,249,957
Debts evidenced by certificates, including subordinated liabilities	1,275,725	113,773	16,925	11,321	29,334

1-6/2018 Euro thousand	CO	Vienna	Lower Austria	Styria	Carinthia
Net interest income	5,608	53,046	31,115	24,953	13,696
Risk provision	2,786	-3,302	-1,366	-2,132	-3,096
Net fee and comission income	-2,410	27,560	14,013	12,244	7,393
Net trading income	-261	125	-41	-11	-3
Result from financial investments	9,326	-2,748	-835	-828	-1,501
Other operating result	71,547	-2,303	847	10	196
General administrative expenses	-61,648	-77,267	-38,918	-31,062	-19,031
Restructuring result	75	-160	0	0	-140
Result from companies measured at equity	0	1,542	-19	0	0
Result before taxes	**25,022**	**-3,506**	**4,796**	**3,174**	**-2,487**
Income taxes	-4,625	4,916	-1,100	508	600
Result after taxes	**20,398**	**1,409**	**3,695**	**3,682**	**-1,887**
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

Upper Austria	Salzburg	Tyrol	Vorarlberg	Physicians	Consolidation	Total
19,478	24,546	22,682	12,200	6,378	58	210,667
-331	1,815	3,572	182	318	0	4,266
11,733	12,617	15,856	9,501	3,065	-17	115,054
33	-4	277	835	-4	-21	-1,571
1,675	1,650	-918	928	413	-1,835	24,572
715	16	437	44,004	300	-81,811	51,342
-30,675	-34,010	-34,749	-22,724	-10,942	83,640	-275,552
0	0	0	0	0	0	0
0	0	0	0	0	0	135
2,628	**6,630**	**7,158**	**44,926**	**-473**	**14**	**128,914**
-683	-1,455	-1,789	13	2,470	-8	-7,194
1,945	**5,175**	**5,368**	**44,939**	**1,997**	**7**	**121,720**
2,446,420	**2,827,294**	**3,337,876**	**1,935,493**	**998,596**	**-6,020,893**	**26,666,142**
1,828,920	2,215,702	2,740,893	1,577,660	753,397	-79,989	20,877,421
15,682	10,297	26	20	4,854	0	89,236
2,165,008	2,236,605	2,584,137	1,199,727	868,622	-83,733	21,233,465
23,634	57,262	49,592	63,987	12,768	-32,625	1,621,698

Upper Austria	Salzburg	Tyrol	Vorarlberg	Physicians	Consolidation	Total
19,952	24,819	23,148	14,104	6,339	1	216,780
-651	-1,117	5,512	-554	-351	0	-4,269
11,748	11,581	17,449	12,490	2,670	1,237	115,975
35	3	67	7	-193	-131	-403
38	-1,601	-38	-4,543	64	-5,518	-8,185
-233	54	-880	10,235	-62	-67,351	12,058
-29,608	-33,140	-34,122	-26,566	-10,838	67,780	-294,420
0	0	0	0	0	0	-225
0	0	0	0	0	0	1,523
1,281	**599**	**11,136**	**5,172**	**-2,372**	**-3,982**	**38,833**
-258	-27	-2,629	3,038	528	13	964
1,023	**572**	**8,507**	**8,211**	**-1,844**	**-3,969**	**39,798**
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

12) Subsequent events

No reportable events or development occured until the date of publication of the half-year report.

13) Quarterly financial data

Euro thousand	04-06/2019	01-03/2019	10-12/2018	07-09/2018	04-06/2018
Net interest income	105,190	105,477	92,793	110,259	114,397
Risk provision	-1,902	6,169	14,136	-3,554	-2,043
Net fee and commission income	57,302	57,753	61,831	55,649	56,833
Net trading income	-2,569	998	-912	637	-197
Result from financial investments	12,567	12,005	8,176	-3,067	-13,090
Other operating result	3,398	47,944	15,346	1,028	-10,304
General administrative expenses	-127,411	-148,141	-139,732	-134,006	-130,917
Restructuring result	-10	10	-3,945	0	-225
Result from companies measured at equity	92	43	9,900	101	176
Result for the period before taxes	**46,658**	**82,256**	**57,594**	**27,048**	**14,629**
Income taxes	-6,667	-527	-3,985	-5,255	-3,096
Result for the period after taxes	**39,990**	**81,730**	**53,608**	**21,793**	**11,533**

Result attributable to shareholders of the parent company (Consolidated net result)	**39,987**	**81,728**	**53,596**	**21,789**	**11,525**
Result attributable to non-controlling interest	3	2	12	4	7

Vienna, 27 August 2019

Gerald Fleischmann
Chairman of the Managing Board

Retail Branches, General Secretariat, Real Estate Financing, Communication/Marketing,
Front Office Service Center/Customer Service Center, Organisation & IT, HR Management, Private Banking/Treasury,
Transition „Adler" & Strategy, Corporate Financing, Sales Management
Area of responsibility Joint Managing Board: Compliance, Audit

Rainer Borns
Deputy Chairman of the Managing Board

Control, Financial Data Steering, Finance, Capital and Stakeholder Management,
Legal, VB Services for Banks Facilitymanagement
Area of responsibility Joint Managing Board: Compliance, Audit

Thomas Uher
Deputy Chairman of the Managing Board

Digitalisation, Credit risk management, Risk controlling,
VB Services for Banks/Loan Processing & Handling
Area of responsibility Joint Managing Board: Compliance, Audit